



2014

# DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS SECOND HALF 2014

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# Director Sentiment Index

## *Table of contents*

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# 03-93

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03	Sample profile
04	Director Sentiment Index
07	Executive summary
10	Research findings
17	Summary of key indicators and headlines
22	<b><i>Detailed results</i></b>
24	<i>Economic outlook</i>
50	<i>Lifeblood of the economy: Credit availability</i>
56	<i>Infrastructure and Regulatory environment</i>
76	<i>Governance: Key issues for directors and boards</i>
85	<i>Shareholder relations</i>
88	<i>Environmental, Social and Governance issues</i>
91	<i>Directorships and diversity</i>

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## Second half 2014 sample profile

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

Fieldwork period: 29 September – 12 October 2014

Total respondents 501

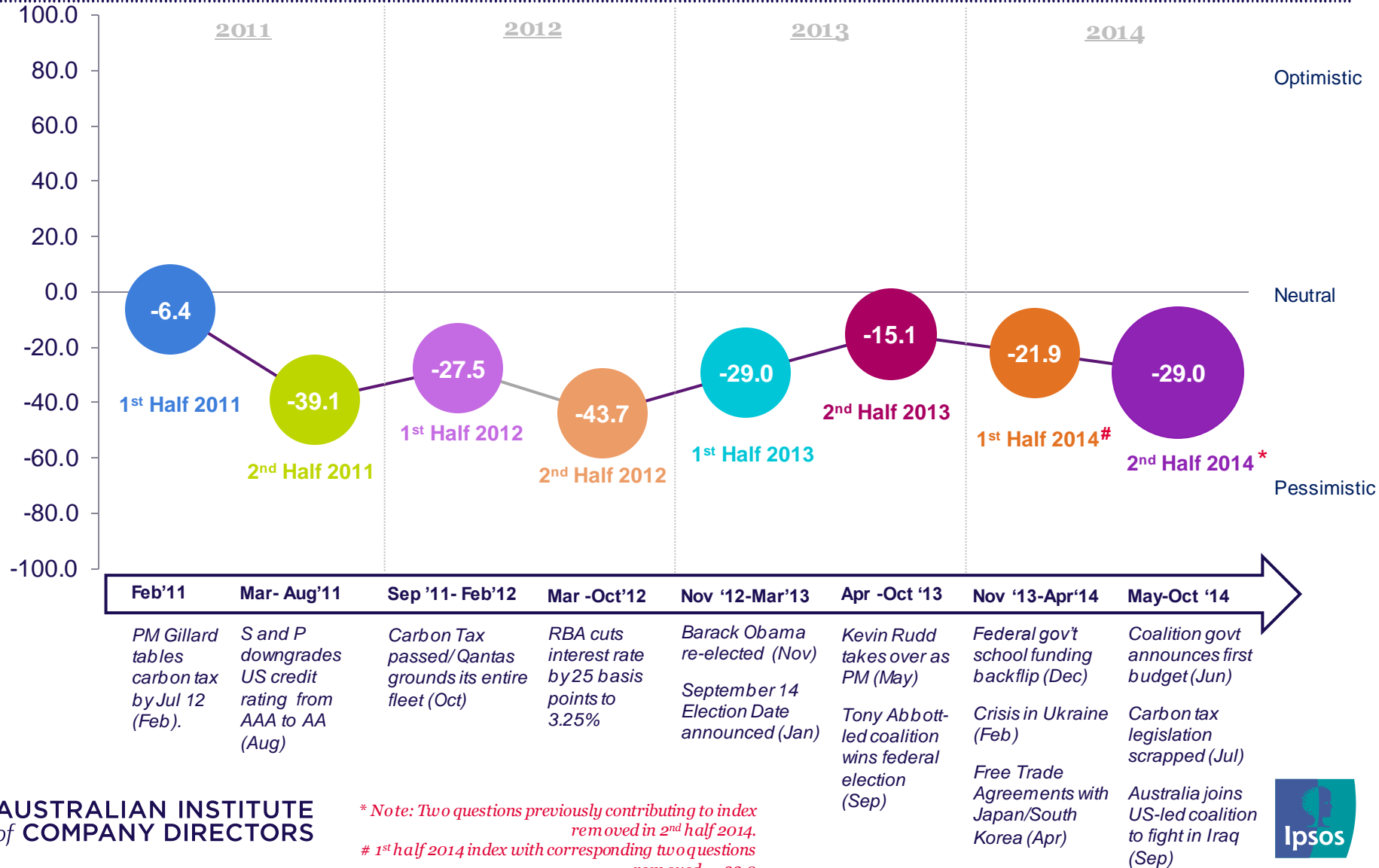
No. of current directorships	%
1	33 (34)
2	27 (30)
3 or more	39 (35)
Prefer not to say	1 (1)
Positions held on board(s)	
Executive Director	47 (46)
Non-Executive Director	60 (63)
Chairman	34 (31)
Other	6 (7)
Prefer not to say	1 (2)
Primary directorship company	
Publicly listed Australian entity	11 (11)
Private/non-listed Australian entity	53 (50)
Not-for profit entity	33 (37)
Prefer not to say	3 (2)

Primary directorship business sector(s)	%
Health and Community Services	22 (23)
Finance and Insurance	14 (16)
Property and Business Services	13 (13)
Personal and Other Services	9 (8)
Education	8 (9)
Manufacturing	8 (9)
Mining	8 (9)
Construction	6 (6)
Government Administration and Defence	6 (4)
Agriculture, Forestry and Fishing	5 (6)
Communication Services	5 (4)
Cultural and Entertainment industry	4 (3)
Energy	4 (4)
Retail Trade	4 (3)
Transport and Storage	4 (3)
Wholesale Trade	3 (2)
Accommodation, Cafes and Restaurants	2 (2)
Gender	
Male	78 (81)
Female	22 (19)

# Director Sentiment Index

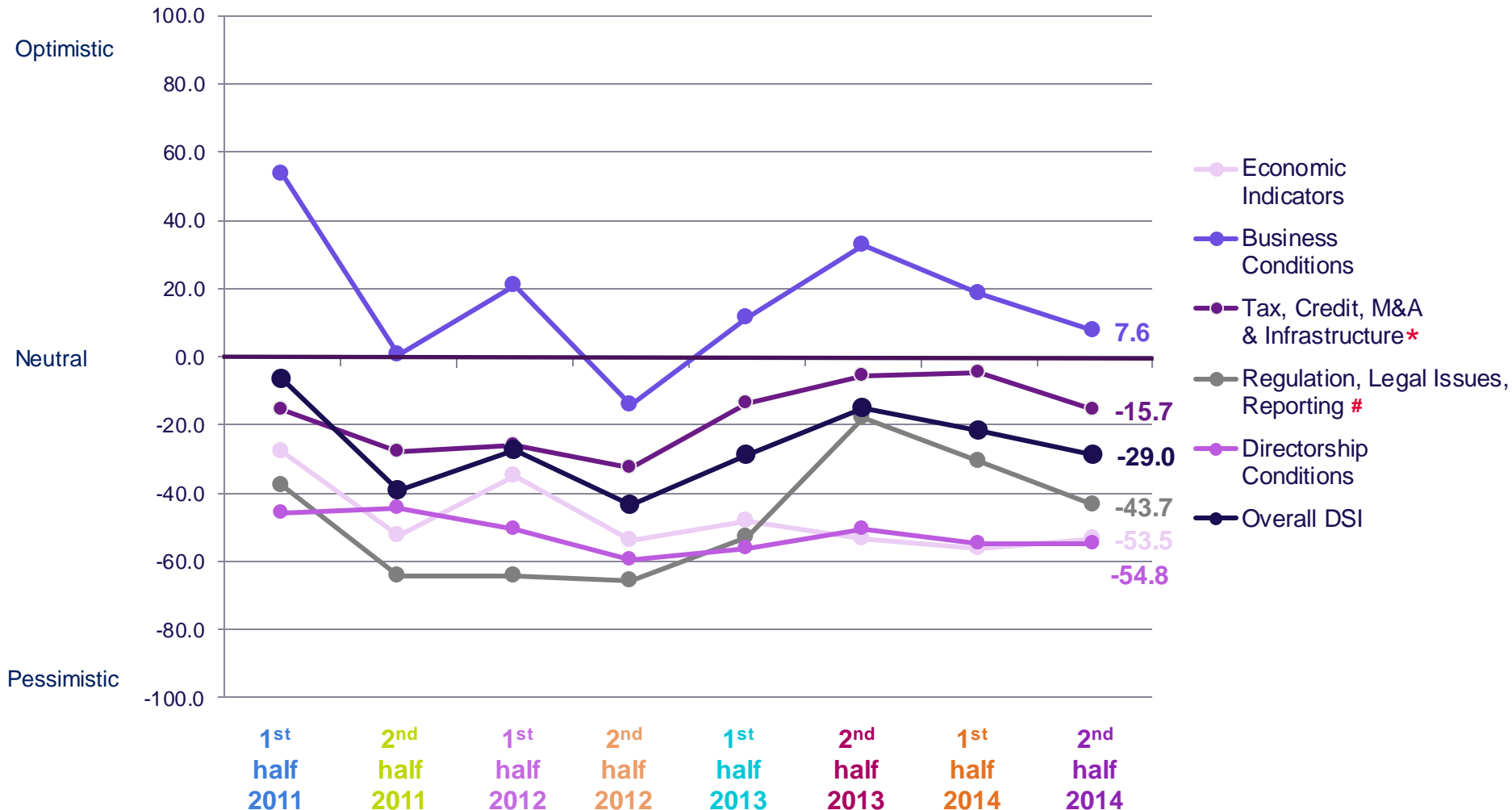
# Overall Director Sentiment Index

The overall sentiment in the 2<sup>nd</sup> half of 2014 is down 7.1 points on the last survey, a downward trend in the second half consistent with previous years, with the exception of 2013 which experienced a post-election uplift.



# Overall Director Sentiment Index by segment

*This survey finds sentiment has become more pessimistic across most Index segments, with the exception of economic indicators and directorship conditions. Business conditions remains the only positive segment, although it has fallen since the 1<sup>st</sup> half 2014 survey.*



# Executive Summary

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# Executive Summary 2<sup>nd</sup> Half 2014

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- Director sentiment has declined by 7.1 points since the last survey to continue a downward trend since the election in the 2<sup>nd</sup> half of 2013.
- Directors have become more pessimistic about the future health of the Australian economy, with the US and Asian economies expected to be stronger in the coming year. For the first time since the survey began, the US economy is expected to be stronger than Asia over the next 12 months.
- For the first time in the survey's history, sentiment has become negative regarding the ASX All Ordinaries index, with more directors expecting a fall in the index than those who expect a rise.
- Sentiment around the general business outlook has become more pessimistic compared to the last survey, though sentiment around directors' own sector remains neutral.
- Directors' sentiment regarding the current Federal Government's understanding of business has declined, with more directors disagreeing than agreeing that the government understands business.
- The majority of directors believe the Federal Government's performance is negatively affecting consumer confidence, while around half of directors would rate the government's first year in office as 'poor' or 'very poor'.
- The majority of directors perceive the balance of power in the senate as having a negative impact on business and consumer confidence, federal budget outcomes, foreign investment in Australia and major infrastructure projects.
- Low productivity growth is again considered to be the biggest economic challenge facing Australian business, followed by global economic uncertainty, low consumer confidence and balance of power issues in the senate.



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# Executive Summary 2<sup>nd</sup> Half 2014

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- Sentiment has become less pessimistic regarding levels of 'red-tape' in the past 12 months. However, there is increased pessimism around levels of 'red-tape' in the next year.
- Productivity growth is now regarded as the biggest priority for the government to address in the short term, ahead of taxation reform and infrastructure. This is the first survey in which infrastructure has not been the top concern.
- General economic conditions/concerns is still identified as the biggest impediment to productivity growth, followed by 'red-tape'/regulation and workplace relations laws/regulations.
- Directors identify multinational tax arrangements as the biggest priority to address in any future comprehensive review of the taxation system. This is followed by state-based taxes and the GST.
- A majority of directors agree that government financial assistance should be given to research and development organisations, start-up industries and those industries with competitive advantage, as well as those facing increased competition from overseas and those operating in niche markets.
- Legislation and legal judgments continue to have a negative effect on directors' business decision making, and a majority of directors agree that there is a risk-averse decision making culture on Australian boards.
- A majority of directors claim the abolition of the Carbon Tax has not affected their business. A smaller proportion of directors felt the abolition had a positive effect on their business compared to the proportion who expected a positive impact in the previous survey.

# Research Findings

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# Research findings

## *The Economic Environment*

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### Health of economies

- Directors are increasingly pessimistic about the future health of the Australian economy. Most directors continue to rate the European economy as the weakest while the outlook for the future health of the US economy has significantly improved, and for the first time is more positive than the outlook for Asia.

### Economic challenges

- For the second survey in a row, directors regard low productivity growth as the biggest economic challenge facing Australian business, followed by global economic uncertainty and low consumer confidence

### Economic indicators

- The exchange rate is expected to further decline in the coming 12 months, as well as the level of wages growth, but directors expect inflation, the RBA official cash rate and the unemployment rate to increase.

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# Research findings

## *The Business Environment*

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### **Business growth**

- 40 per cent of directors claim the growth of their business has weakened in the last six months. Expectations for growth in the future remain optimistic.

### **Profits**

- Around 40 per cent of directors expect an increase in profits for their primary business in the second half of this year, compared to the same period last year and the current six months.

### **Business outlook**

- Confidence in business outlook has become more pessimistic. Almost one quarter of directors are optimistic about the general business outlook, while 30 per cent are pessimistic. Around 30 per cent are either optimistic or pessimistic about the outlook for their own sector.

### **Credit availability**

- In the last six months, credit availability for investment, asset purchases and working capital purposes has become more freely available. Predictions regarding credit availability over the coming year have become more 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**

- 35 per cent of directors believe the level of 'red-tape' has increased in the last 12 months, while more than a quarter of directors expect an increase in the coming year.
- Around 70 per cent of directors identify both 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. Almost 40 per cent believe this commitment has increased in the past 12 months.

### **Perception of the Federal Government**

- Directors now disagree that the Federal Government understands business, with more than 40 per cent indicating they disagree with this statement, although almost 40 per cent still agree.
- Negative sentiment has increased regarding the Federal Government's performance and its impact on business, with almost half of directors claiming the government's performance is affecting their business decision making negatively, and almost 75 per cent claiming it is negatively affecting consumer confidence.
- Almost half of directors would rate the coalition government's first year in office as 'poor' or 'very poor'.

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# Research findings

## *Infrastructure, Productivity and Taxation*

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### Infrastructure

- Infrastructure is no longer rated the number one priority for the Federal Government to address in the short term, for the first time in this study's history. Likewise, a decreased proportion of directors compared to the 1<sup>st</sup> half 2014 results believe that government spending on infrastructure is too low, although an overwhelming majority still holds this view.

### Productivity

- Productivity growth is now perceived to be the most urgent issue for the Federal Government to address in the short-term.
- General economic conditions were again identified as the top impediment to productivity growth (74 per cent) followed by 'red-tape'/regulation (53 per cent), and workplace relations laws and regulations (42 per cent).

### Taxation

- Sentiment remains pessimistic regarding the level of corporate and personal taxation in Australia, with almost 70 per cent of directors believing the level of personal taxation is too high. Directors identify multinational tax arrangements as the top priority for reform in any future comprehensive review of the current taxation system.

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# Research findings

## *Legal and Reporting Issues*

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### **Director liability**

- 40 per cent of directors continue to believe that legislation on director liability has a negative impact on their business decision making, and almost half believe it has a negative impact on their willingness to accept new board appointments.
- Pessimism remains regarding the impact of legal judgments on director liability, with almost half of directors maintaining that legal judgments negatively impact their willingness to accept new board appointments.
- 70 per cent of directors agree that there is a risk-averse decision-making culture on Australian boards, with more than 60 per cent of directors claiming that the risk of personal liability frequently or occasionally causes them to be overly cautious in their business decision making.

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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 non-listed and private company directors has declined since the 1<sup>st</sup> half of 2014.

### **AGM System**

- Sentiment remains unchanged regarding the functionality of the present AGM system, with more than 35 per cent of directors agreeing the current system is working well.

### **Carbon tax**

- Almost 30 per cent of directors believe that abolishing the Carbon Tax has had a positive effect on their business, although 65 per cent of directors believe that the abolition has had no effect on their business.



# 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 2014 net balance	1 <sup>st</sup> Half 2014 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-41 ↓	-27
Health of the Asian economy	Weak/strong	2 ↓	12
Health of the European economy	Weak/strong	-65	-61
Health of the US economy	Weak/strong	19 ↑	-6
Inflation rate (Australia)	Lower/higher	26 ↓	38
Exchange rate (value of AUD versus USD)	Lower/higher	-82 ↓	-54
RBA cash rate	Lower/higher	31 ↓	48
Level of wages growth	Lower/higher	-6 ↓	10
Unemployment rate	Lower/higher	41 ↓	49

# Summary of key indicators

(2 of 4)

Indicator (expected change in coming 12 months, with the exception of *)	Scale	2 <sup>nd</sup> Half 2014 net balance	1 <sup>st</sup> Half 2014 net balance
<b>Business conditions</b>			
Growth of primary directorship business	Weak/strong	15 ↓	24
Change in business investment levels	Decrease/increase	8 ↓	14
Change in business staffing levels/labour demand	Decrease/increase	-1 ↓	8
Change in level of business exports	Decrease/increase	11	12
Change in level of outsourcing	Decrease/increase	20	23
Expectations of profits for Jan-Jun 2015 actual versus forecast*	Below/up	8 ↓	14
Confidence in general business outlook*	Pessimistic/opt	-7 ↓	0
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	0	1
<b>Directorship conditions</b>			
Impact of directors' liability on willingness to serve on a board*	Negatively/positively	-50	-53
Impact of compliance requirements on willingness to serve on a board*	Negatively/positively	-41	-41
Impact of remuneration on willingness to serve on a board*	Negatively/positively	2	-4
Impact of contribution to economy/society on willingness to serve on a board*	Negatively/positively	78 ↓	87

# Summary of key indicators

(3 of 4)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	2 <sup>nd</sup> Half 2014 net balance	1 <sup>st</sup> Half 2014 net balance
<b>Tax, credit, M&amp;A</b>			
Credit availability for investment purposes	Constrained/available	11 ↑	6
Credit availability for asset purchases	Constrained/available	20 ↑	14
Credit availability for working capital	Constrained/available	11 ↑	5
Expected change in ASX All Ordinaries index	Fall/rise	-4 ↓	42
Expected change in level of mergers and acquisitions	Fall/rise	59 ↓	65
Perception of current level of corporate taxation*	High/low	-27	-31
Perception of current level of personal taxation*	High/low	-62 ↓	-50
<b>Infrastructure</b>			
Perception of level of government spending on infrastructure*	Low/high	-79 ↑	-88
<b>Regulation, legal issues, reporting</b>			
Agreement with 'Federal Government understands business'*	Disagree/agree	-4 ↓	16
Expected change in level of 'red-tape' in coming 12 months	Increase/decrease	-3 ↓	18

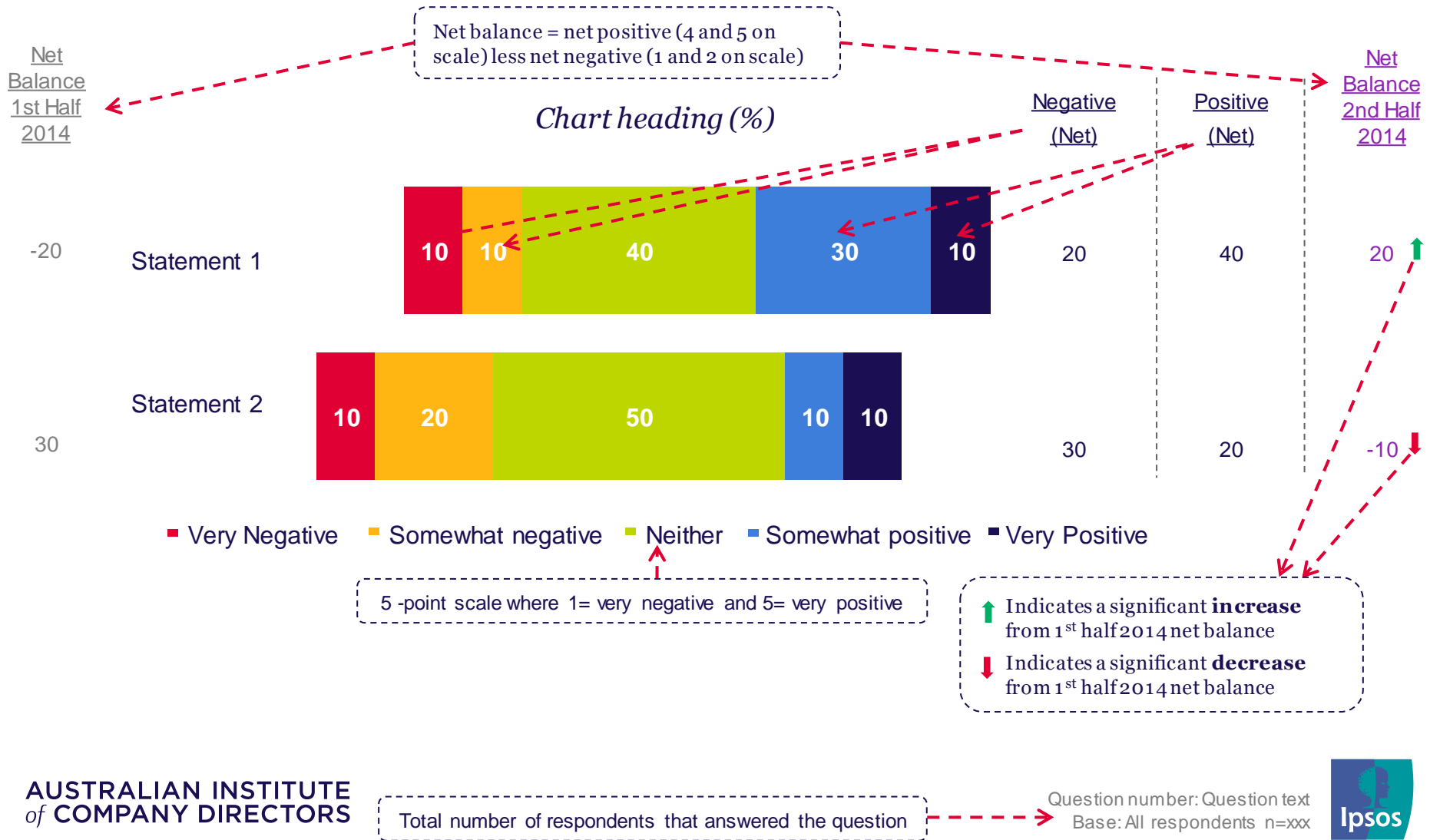
# Summary of key indicators

(4 of 4)

Indicator	Scale	2 <sup>nd</sup> Half 2014 net balance	1 <sup>st</sup> Half 2014 net balance
<b>Regulation, legal issues</b>			
How is the current Federal Government's performance affecting your business decision making?	Negatively/Positively	-37 ↓	-14
How is the current Federal Government's performance affecting consumer confidence?	Negatively/Positively	-60 ↓	-21
Perception of governance regulations	Onerous/weak	-58 ↓	-52
How is legislation affecting your business decision-making?	Negatively/positively	-31 ↓	-24
How is legislation affecting your willingness to continue on a board?	Negatively/positively	-33	-35
How is legislation affecting your willingness to accept new board appointments?	Negatively/positively	-46	-47
Extent legal judgments affect your business decision-making	Negatively/positively	-31 ↓	-25
Extent legal judgments affect your willingness to continue on a board	Negatively/positively	-35	-36
Extent legal judgments affect your willingness to accept new board appointments	Negatively/positively	-44	-44
Adequacy of business directorships and officers' insurance	Inadequate/adequate	1 ↓	4
Adequacy of public company remuneration reports	Inadequate/adequate	-23	-22
Priority of the reform of laws and regulations governing public company remuneration *	Low priority/high priority	30	29
Functionality of International Financial Reporting Standards (IFRS)	Dysfunctional/functional	0 ↑	-5

# Detailed Results

# Explanation of charts – example only



# Economic Outlook



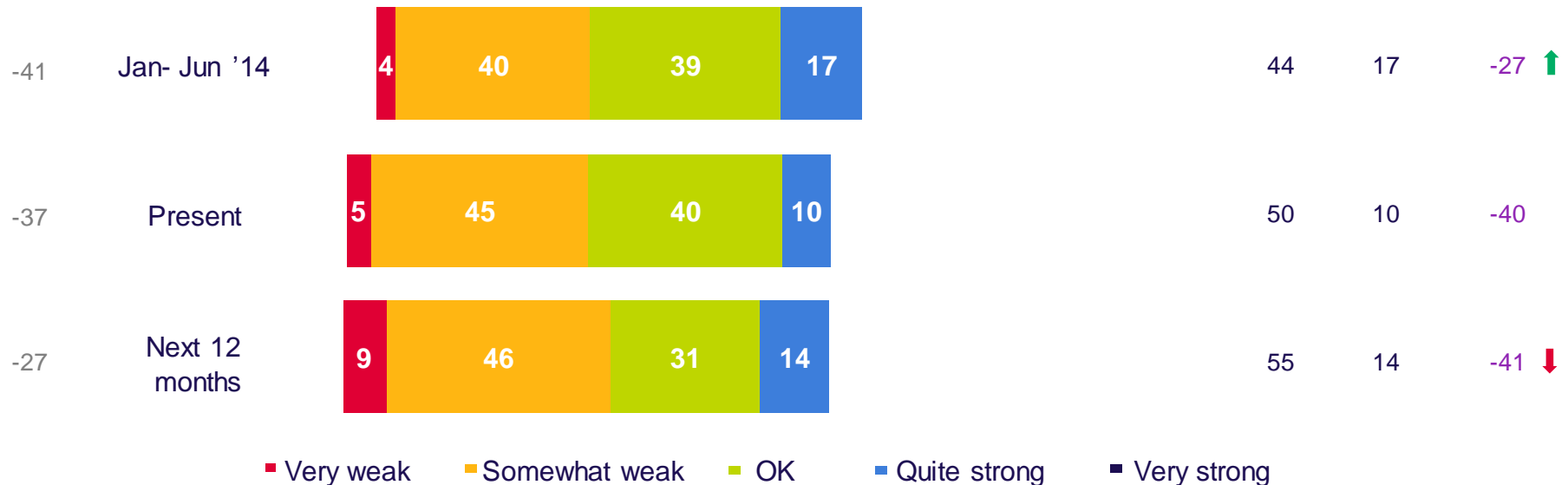
# Health of economies: summary

*Pessimistic outlook remains regarding the Australian and European economies. Directors perceive the US economy as stronger than Australia, and expect the US to be stronger than Asia in the next 12 months.*

<i>Health of economies</i>		Survey	Australian	Asian	US	European
<i>Mean score (on a 5-pt scale, where 1 is 'Very Weak' and 5 is 'Very Strong')</i>						
Past six months	(Jul-Dec'13)	1 <sup>st</sup> Half 2014	2.5	3.2	2.3	1.8
	(Jan-Jun'14)	2 <sup>nd</sup> Half 2014	2.7	3.2	2.6	1.9
Present		1 <sup>st</sup> Half 2014	2.6	3.1	2.6	2.0
		2 <sup>nd</sup> Half 2014	2.6	3.0	2.9	2.0
Next 12 months		1 <sup>st</sup> Half 2014	2.7	3.1	2.9	2.3
		2 <sup>nd</sup> Half 2014	2.5	3.0	3.2	2.2

*Pessimistic view remains regarding the health of the Australian economy. More than 40 per cent of directors perceived our economy as weak in the past 6 months, while half see it as weak at present. Future outlook has become more pessimistic than the 1<sup>st</sup> half of 2014, with 55 per cent of directors expecting it to be weak over the next year.*

Net  
Balance  
1<sup>st</sup> Half  
2014



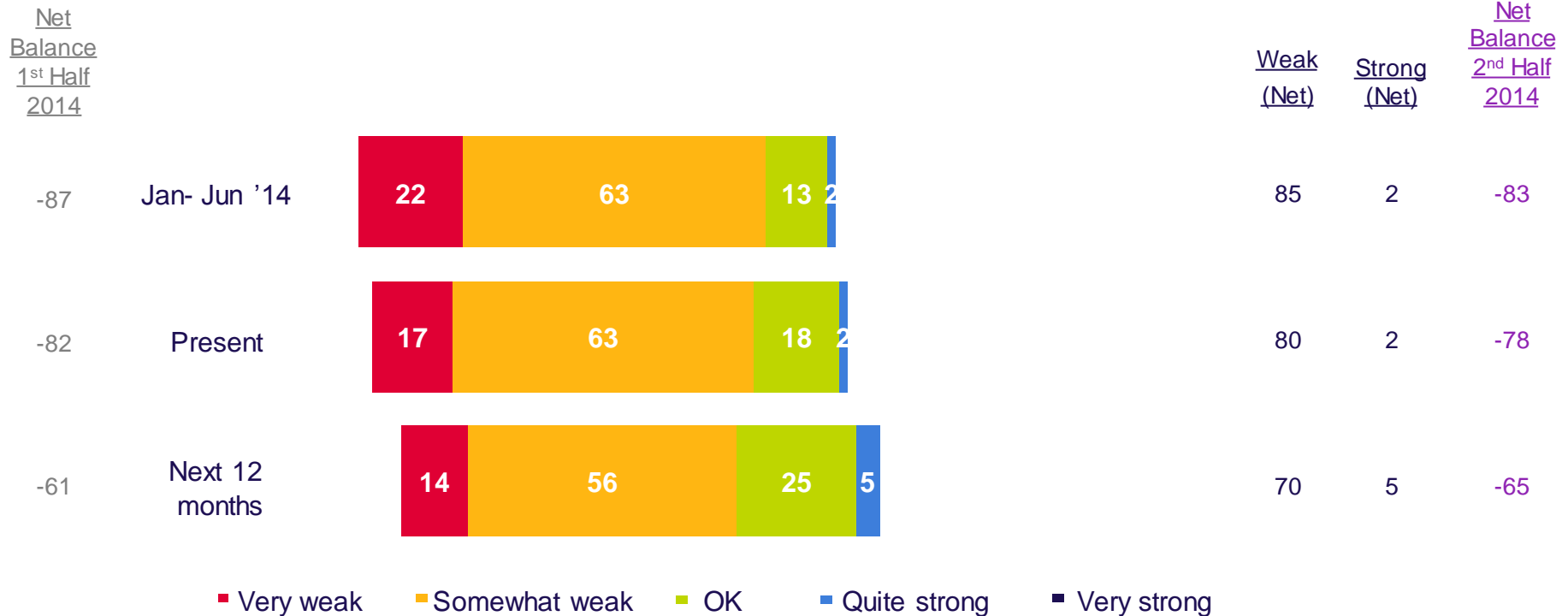
*Current and future sentiment regarding the health of the Asian economy remains optimistic, although less strongly than in the 1<sup>st</sup> half of 2014. 35 per cent of directors believe the Asian economy was strong for the past 6 months, while less than 30 per cent believe it is presently strong and will remain so in the coming year.*

[illegible]

# Health of the European economy

*Sentiment regarding the European economy has remained pessimistic. 80 per cent of directors continue to view the European economy as weak at present, and 70 per cent expect it to remain weak over the next 12 months.*

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



*The sentiment around the US economy has become more optimistic. Although half of directors perceived the US as weak for the past 6 months and almost 30 per cent perceive it as presently weak, almost 40 per cent of directors expect it to be strong over the coming year.*

Net  
Balance  
1<sup>st</sup> Half  
2014

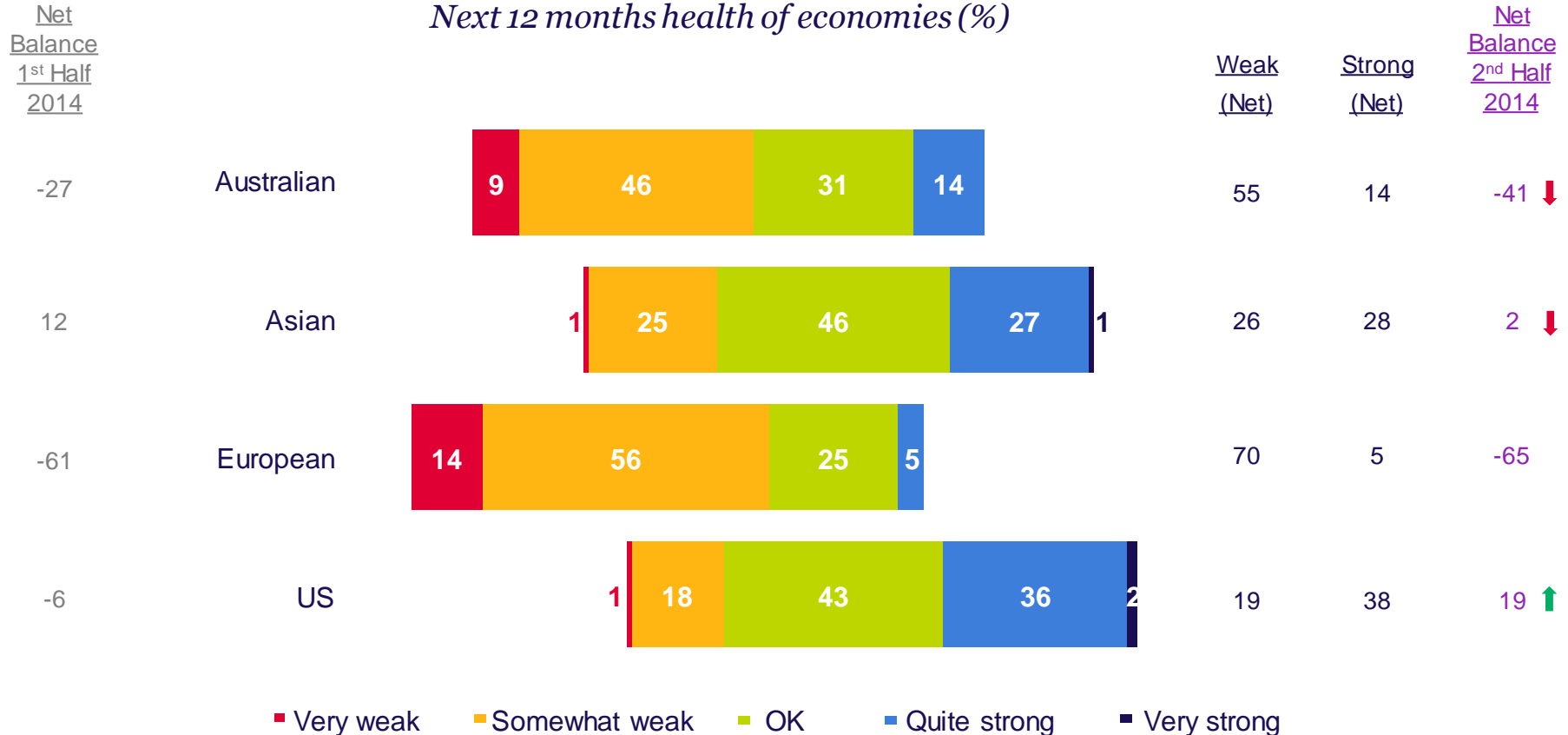
Weak  
(Net)

Net  
Balance  
2<sup>nd</sup> Half  
2014



# Next 12 months health of economies: summary

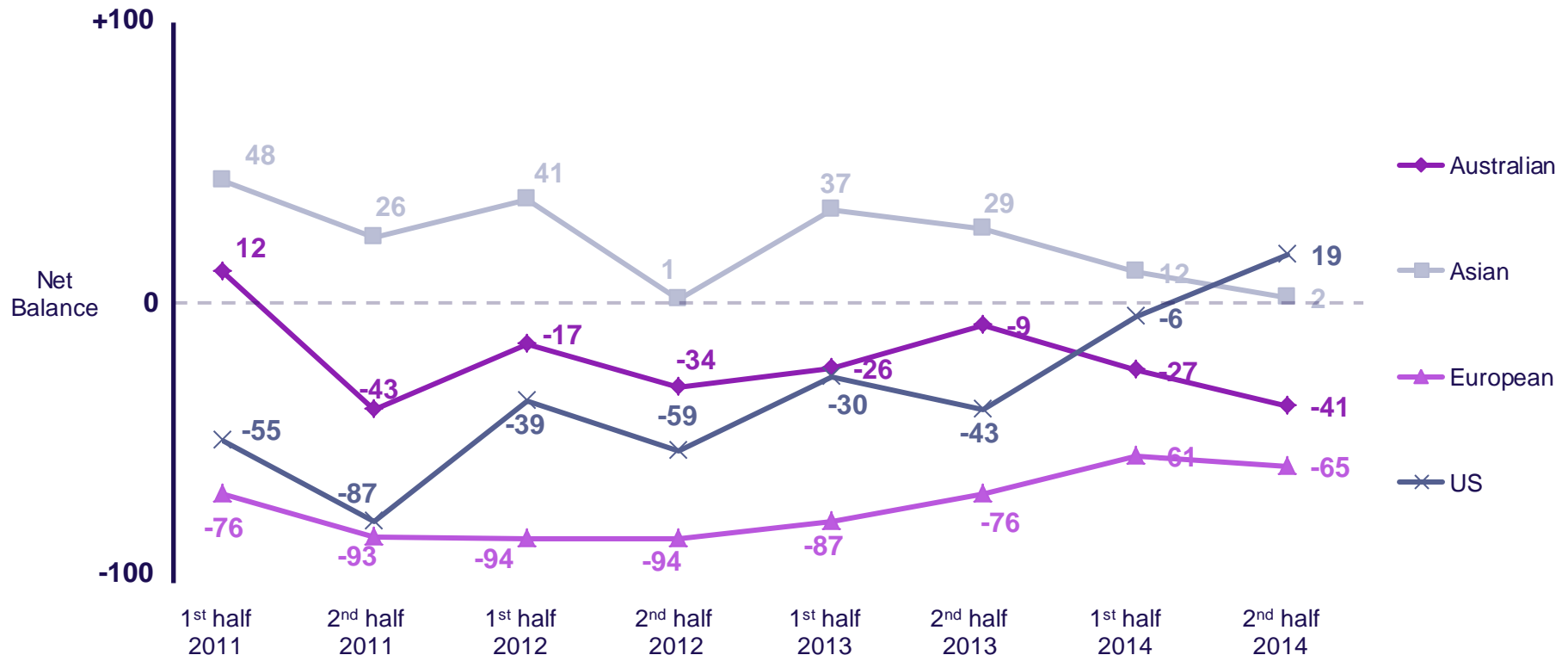
Sentiment is varied regarding the future health of world economies. The Asian and US economies are expected to be strong over the next 12 months, while the Australian and European economies are expected to be weak by more than half of directors.



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

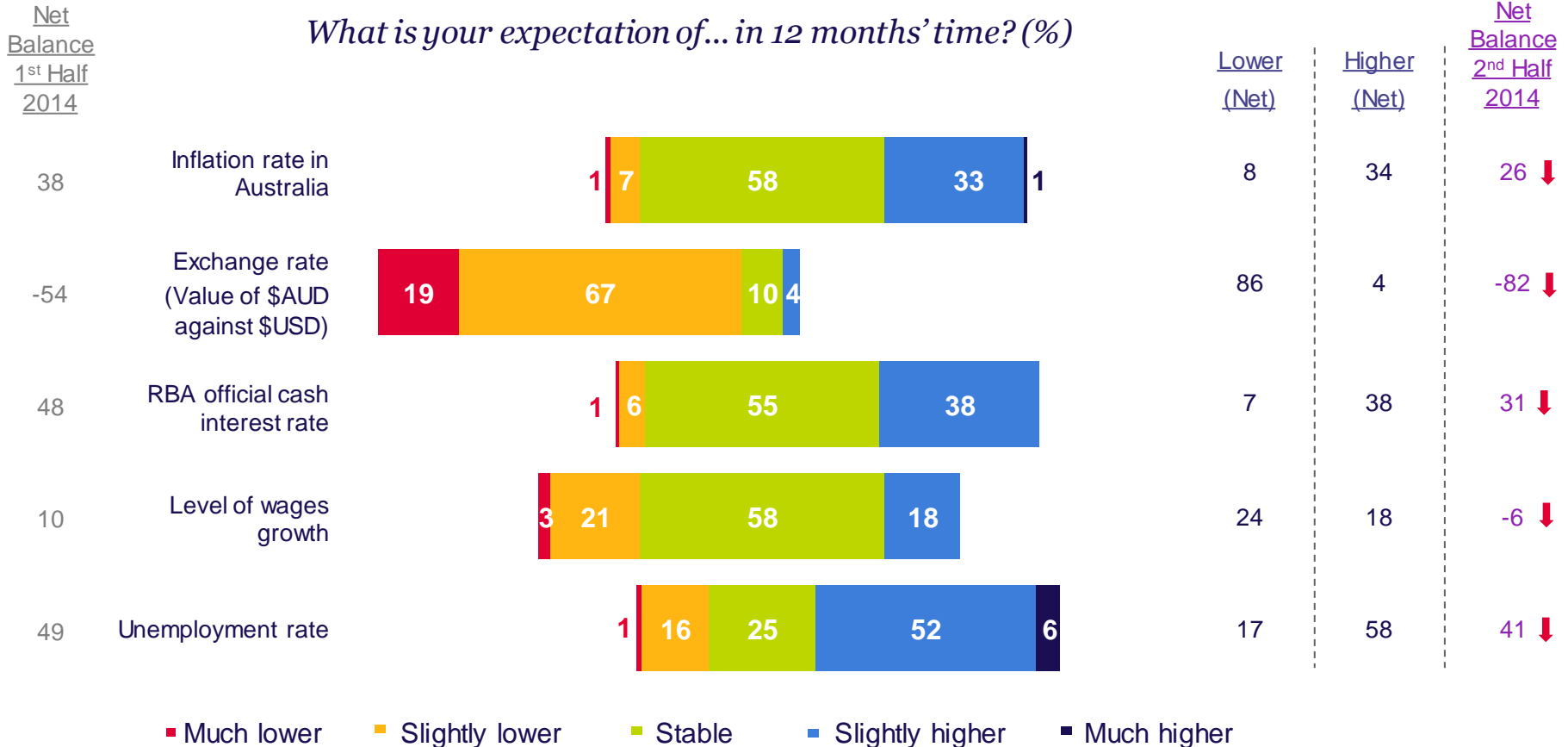
*For the first time since the start of the DSI (1<sup>st</sup> half 2011), the US economy is expected to be stronger than the Asian economy over the next year. Expectations of Asia and the US are both positive, but Asia is no longer expected by directors to be the strongest of world economies.*

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



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

*Sentiment regarding economic indicators is down from the 1<sup>st</sup> half 2014 results. More than 85 per cent of directors believe that the value of the Australian dollar will further decline, while almost 60 per cent still expect a rise in unemployment. More than 30 per cent also expect the inflation rate and RBA official cash rate to increase.*

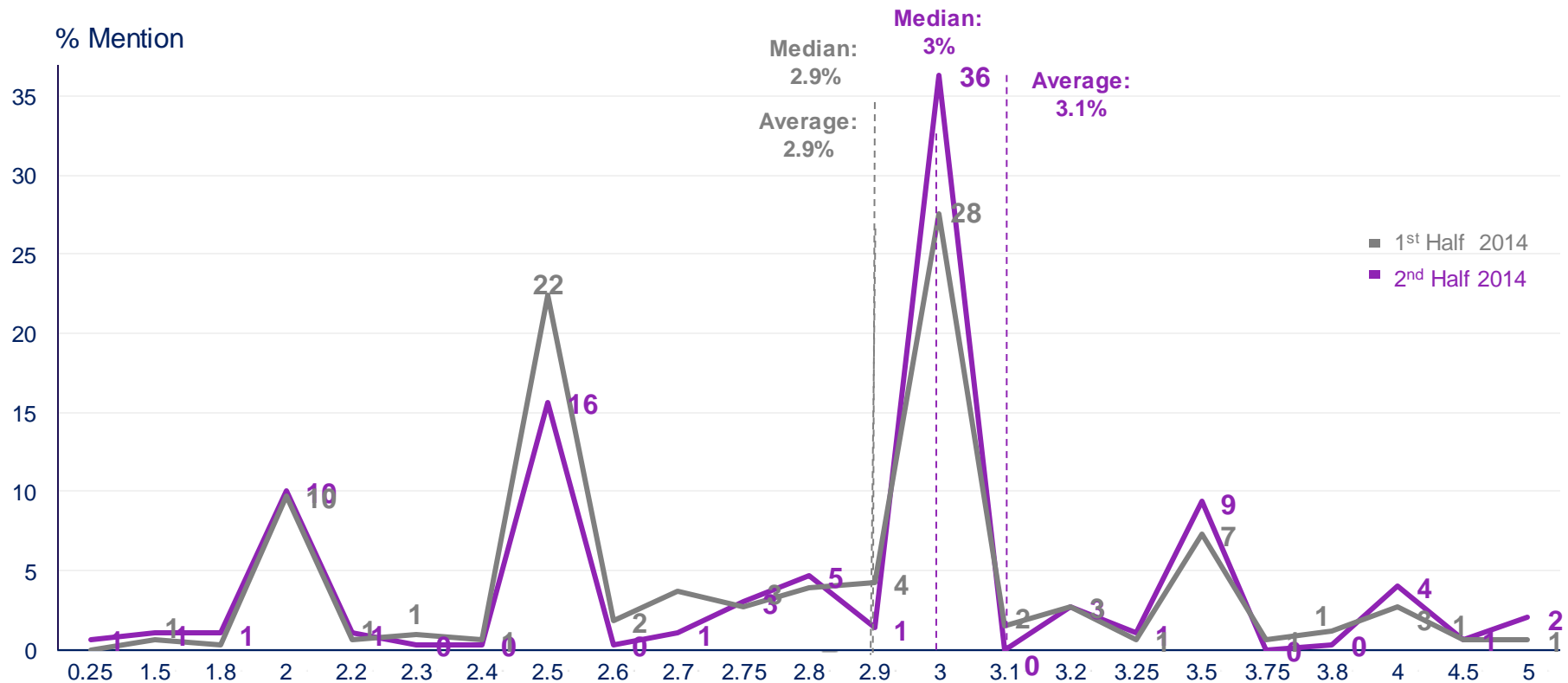




## Economic indicators – Australian inflation rate in next 12 months

Estimations of the Australian inflation rate in the coming 12 months are slightly higher than the previous survey results, at an average of 3.1 per cent, with estimates clustering around 2, 2.5 and 3 per cent. The actual inflation rate during survey fieldwork was 3.0 per cent\*.

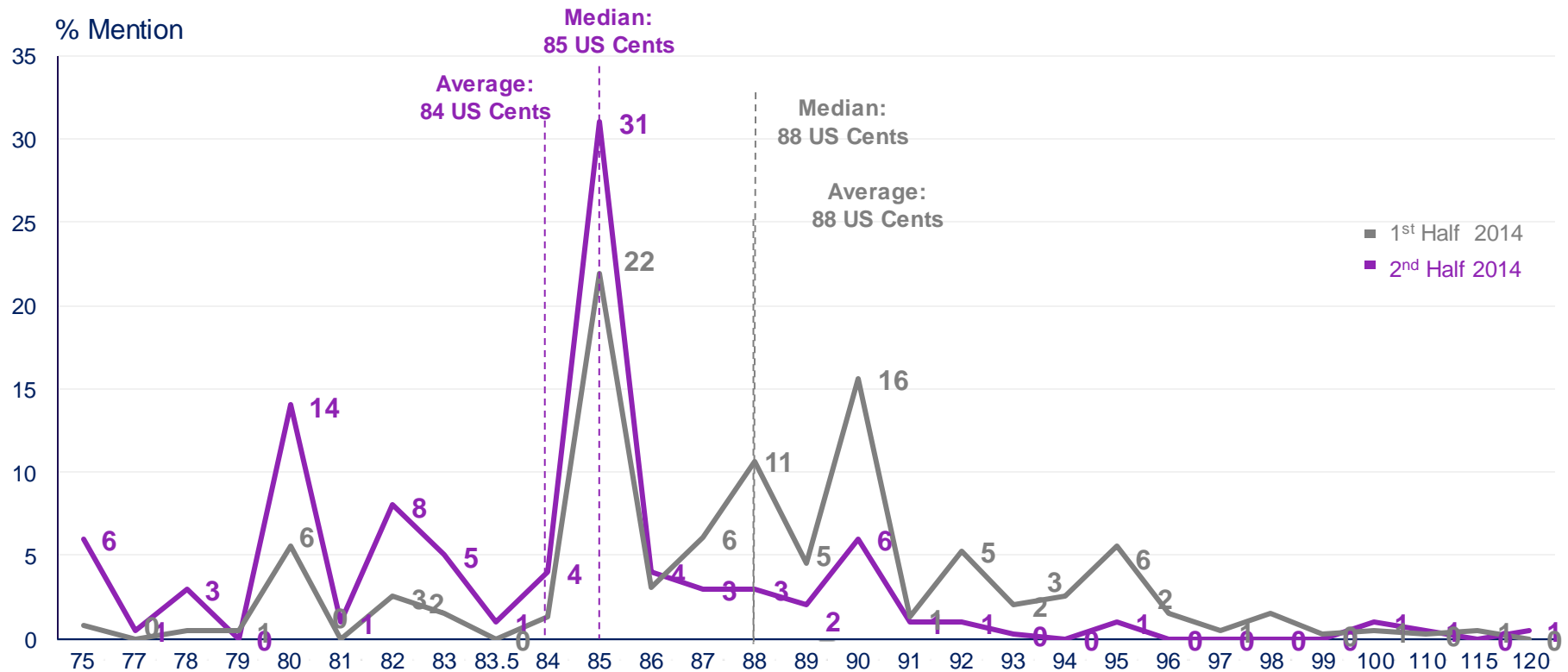
Nominate a numeric value for “the inflation rate in Australia in 12 months’ time” (%)



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

Estimations of the exchange rate for the next 12 months are lower, at an average of 84 US cents, with estimates clustering around 80, 82 and 85 US cents. The average rate during survey fieldwork was 88 US cents\*.

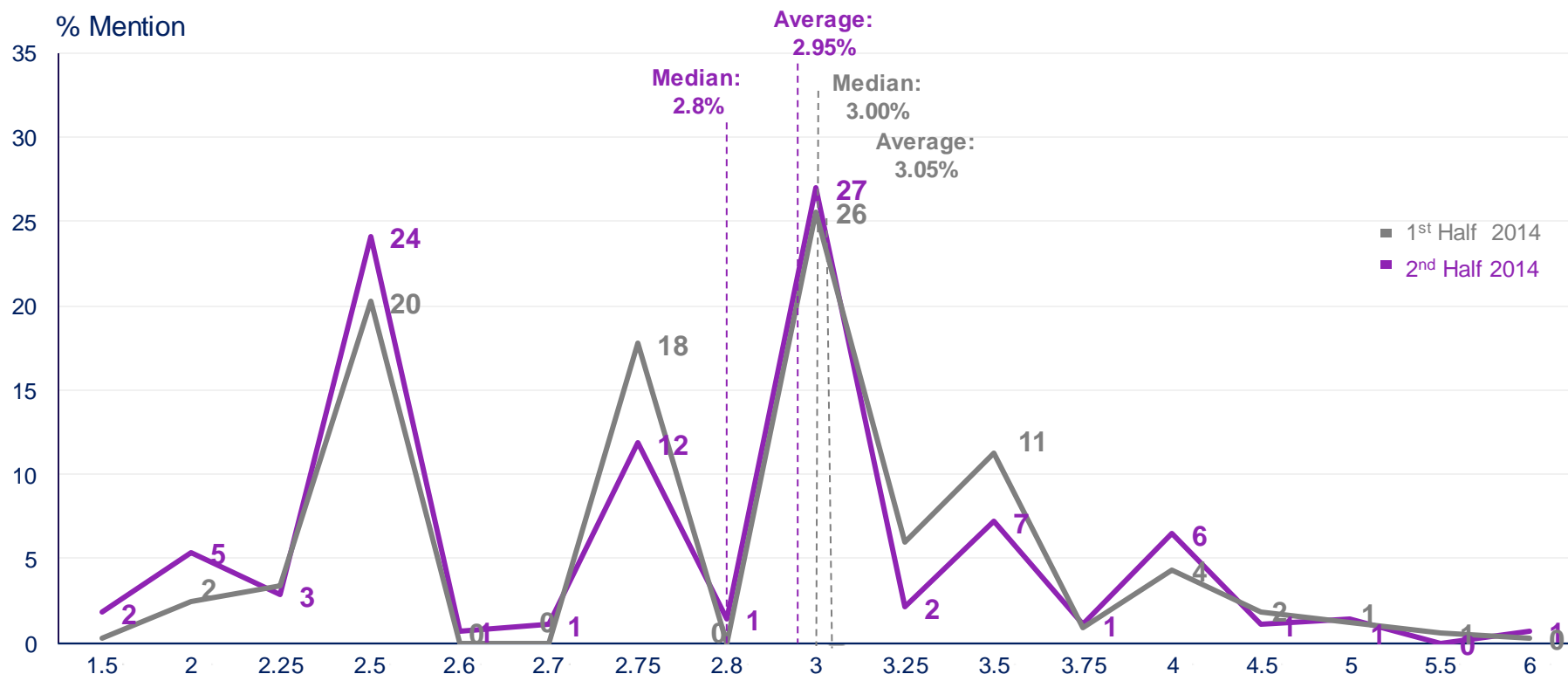
Nominate a numeric value for “the AUD/ USD exchange rate in 12 months’ time”  
(1\$A = how many US cents)



# 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 slightly lower, at an average of 2.95 per cent, with estimates clustering around 2.5, 2.75 and 3 per cent. The actual interest rate during survey fieldwork was 2.50 per cent\*.

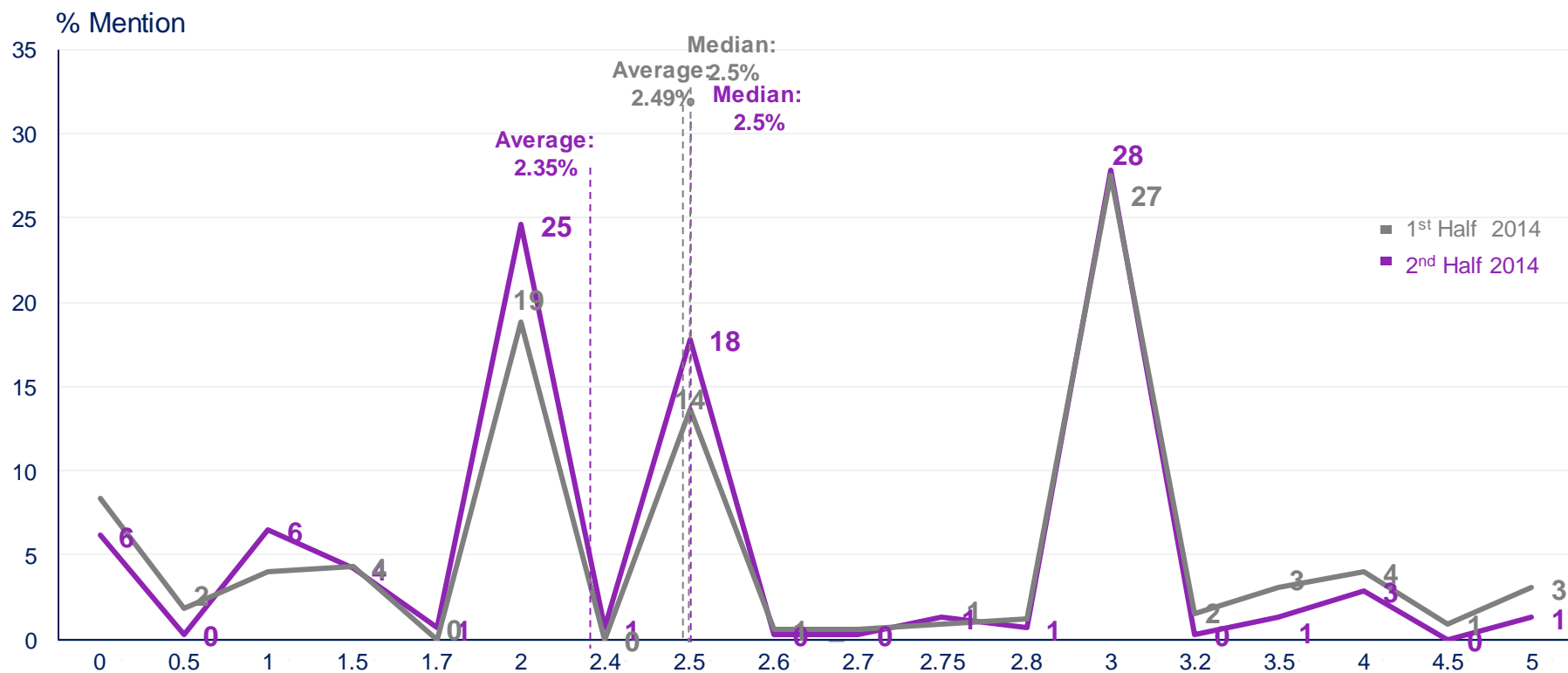
Nominate a numeric value for “the RBA official cash interest rate in 12 months’ time” (%)



# 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 2.35 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 2.4 per cent\*.

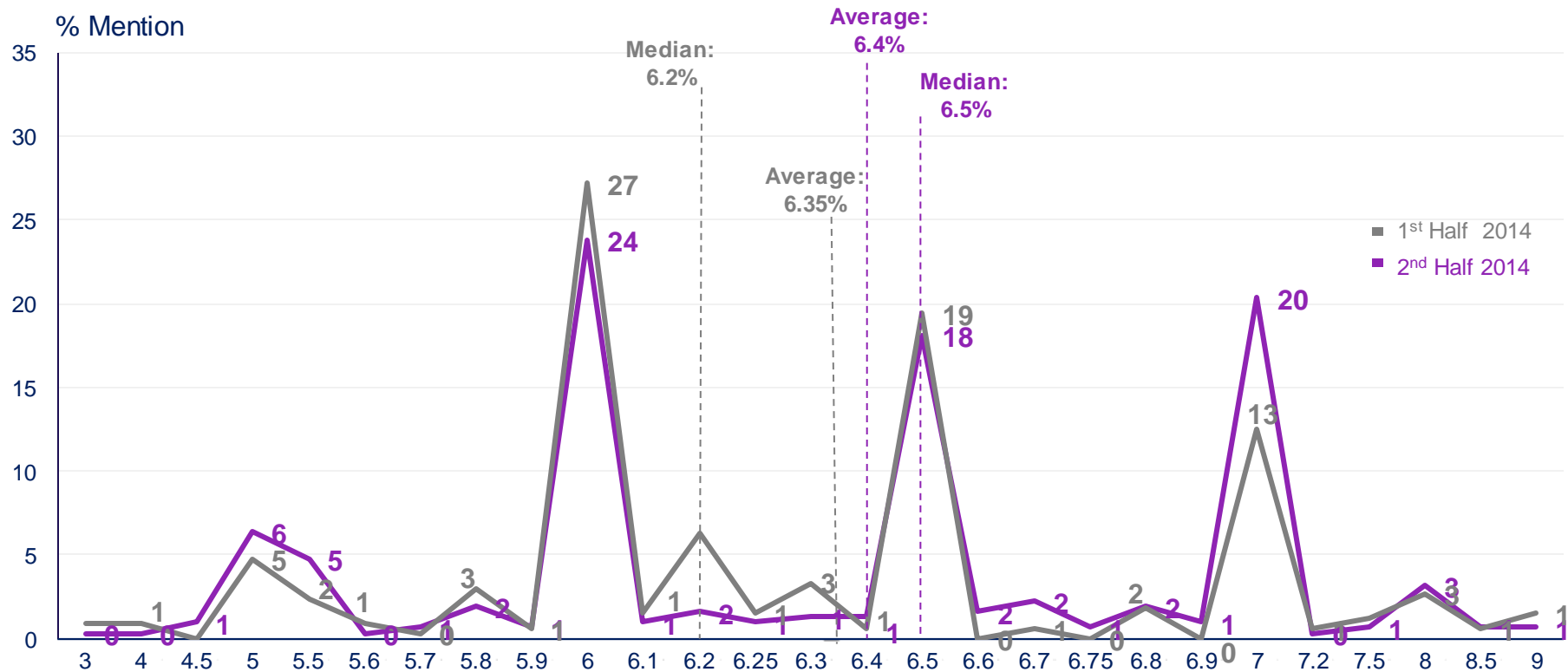
Nominate a numeric value for “the rate of wages growth in 12 months’ time” (%)



# Economic indicators – unemployment rate in next 12 months

The average expected unemployment rate in the coming year is higher at 6.4 per cent, with estimates clustering around 6 per cent, 6.5 per cent and 7 per cent. The known unemployment rate during survey fieldwork was 6.1 per cent\*.

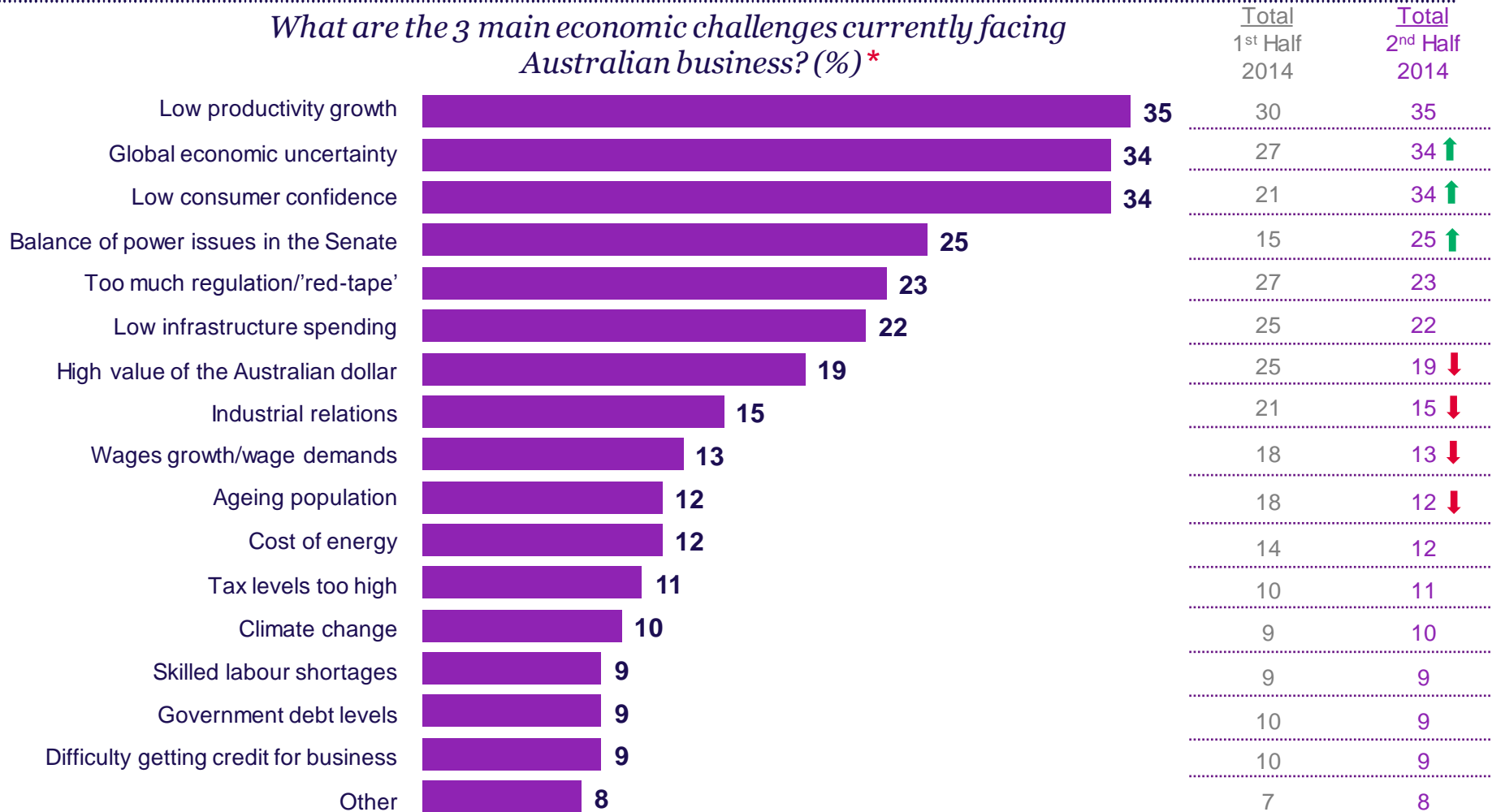
Nominate a numeric value for “the unemployment rate in 12 months’ time” (%)



# Main current economic challenges (Top 3)

*In line with the previous survey results, low productivity growth is viewed by directors as the biggest economic challenge facing Australian business, followed by global economic uncertainty, while low consumer confidence has climbed significantly to third place.*

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

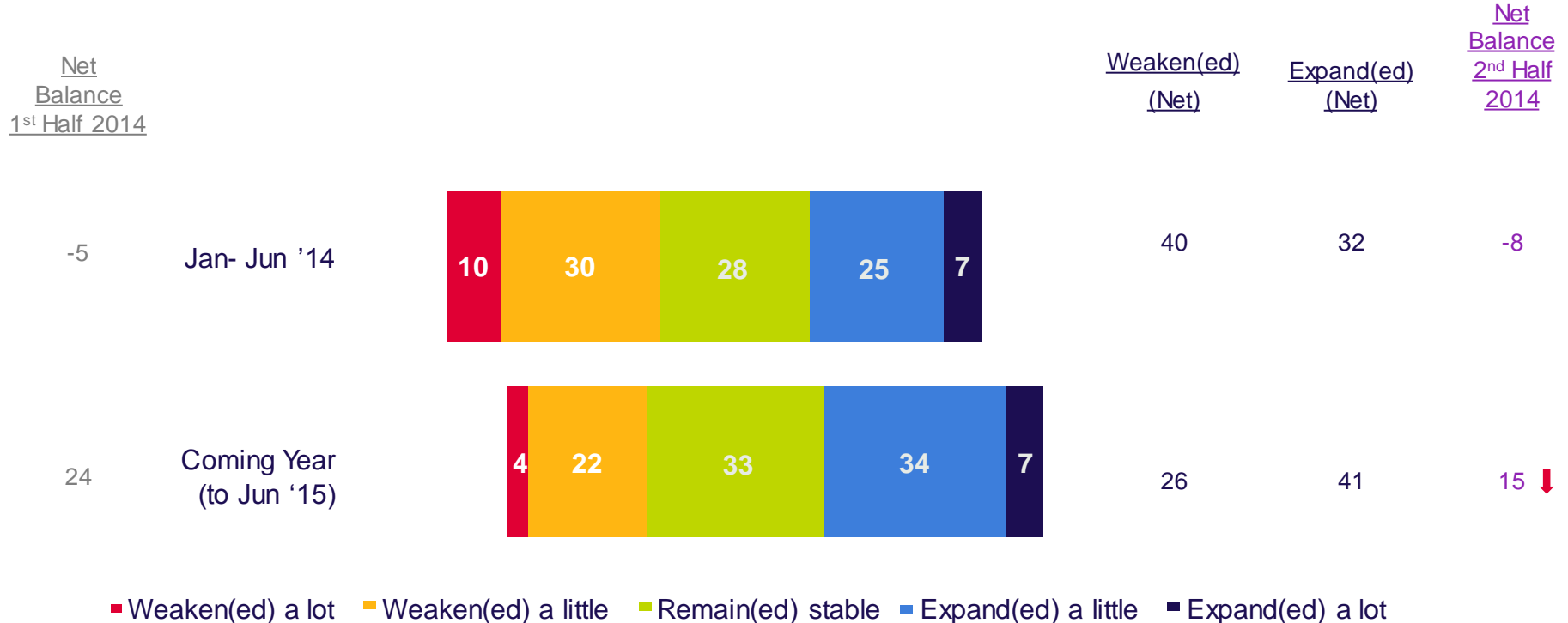


\* Note: one statement removed for 2nd half 2014

# Growth of the business (primary directorship company)

*In line with the previous survey results, 40 per cent of directors reported that business growth weakened in January-June 2014, while more than 30 per cent reported growth. Future projections remain optimistic, although less so than in the 1<sup>st</sup> half 2014 results, with more than 40 per cent of directors expecting growth in the coming year.*

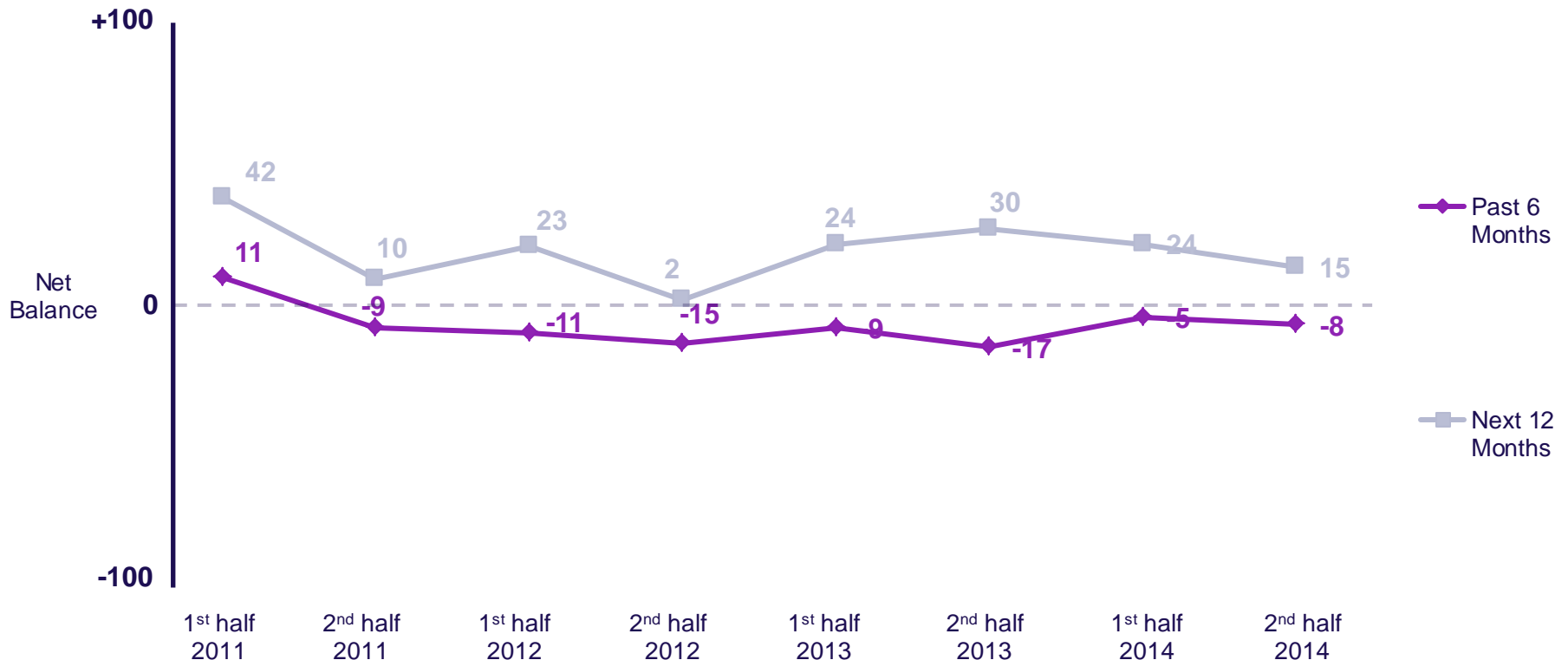
## Growth of the business – past and future (%)



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

Since the 2<sup>nd</sup> half of 2011, directors have consistently reported that their business contracted over the six months leading up to each survey. Directors have remained optimistic, however, about the future growth of their business, though this has been on a downward trend since the 2<sup>nd</sup> half of 2013.

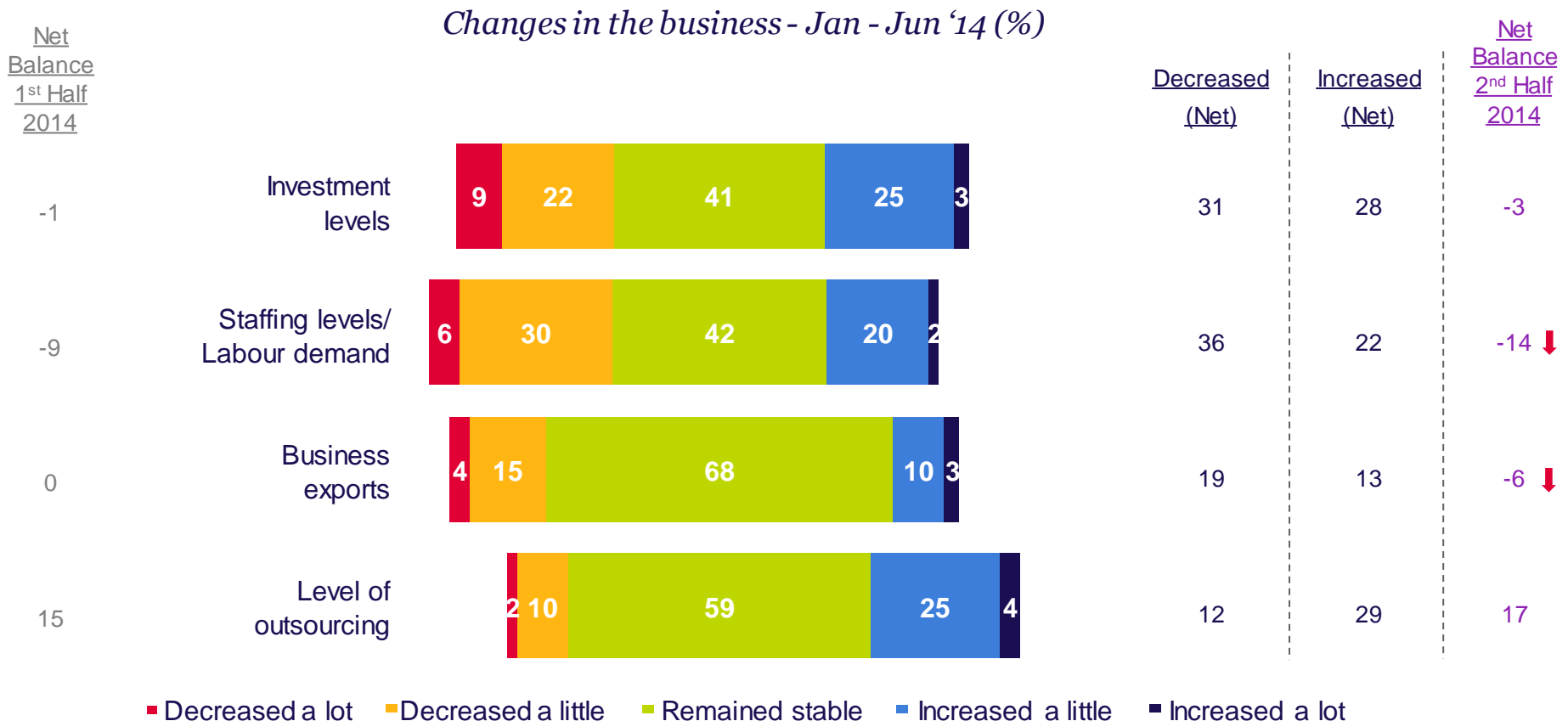
*Growth of business (past 6 months and next 12 months) – semi-annual trend  
(net balance)*





# Changes in the business – Jan-Jun '14

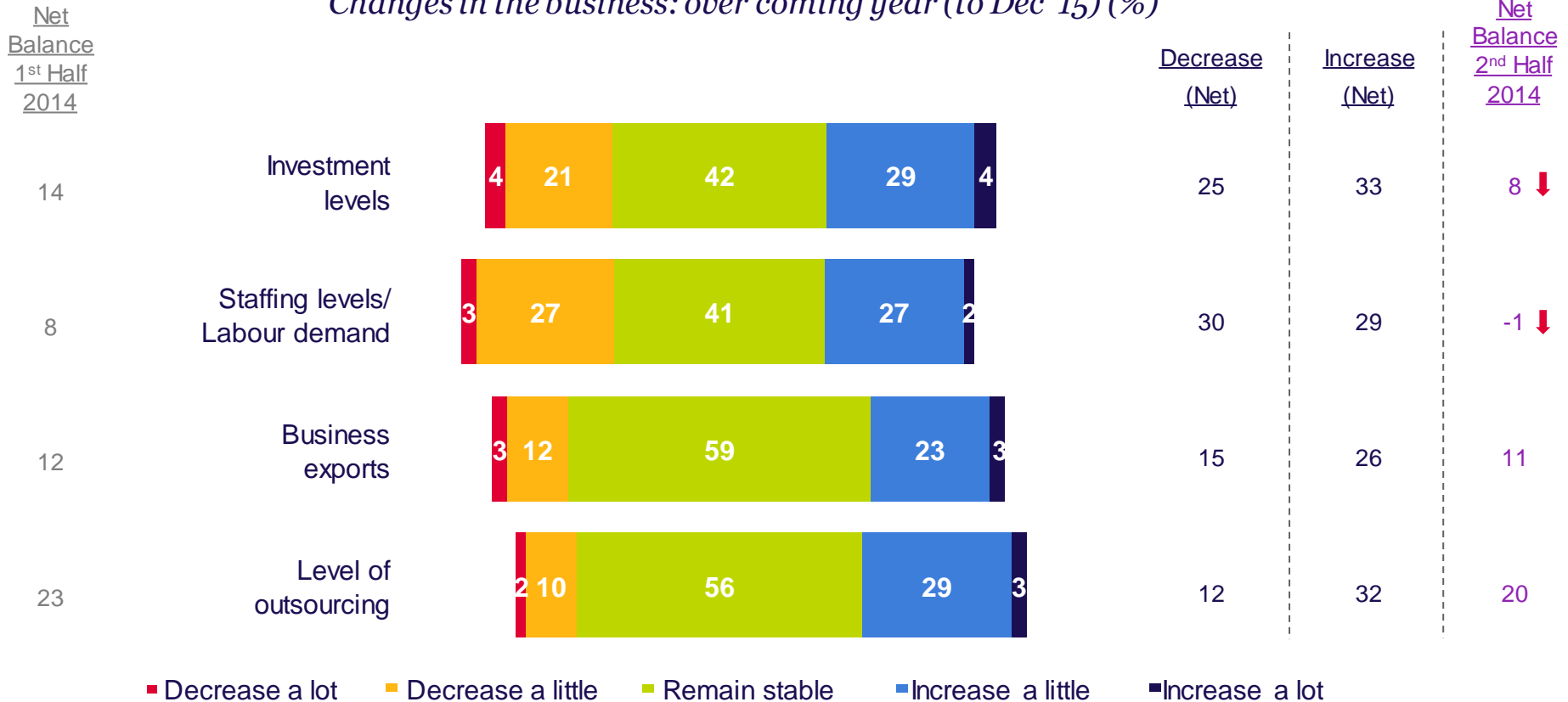
*A substantial proportion of directors have experienced stability across four facets of business in the last six months, although more than 35 per cent of directors report that staffing levels and labour demand have decreased.*



# Changes in the business – coming year (to Jun '15)

Expectations of growth in the next 12 months across four facets of business are mostly stable, although directors are less optimistic about investment levels, with 25 per cent now expecting a decrease.

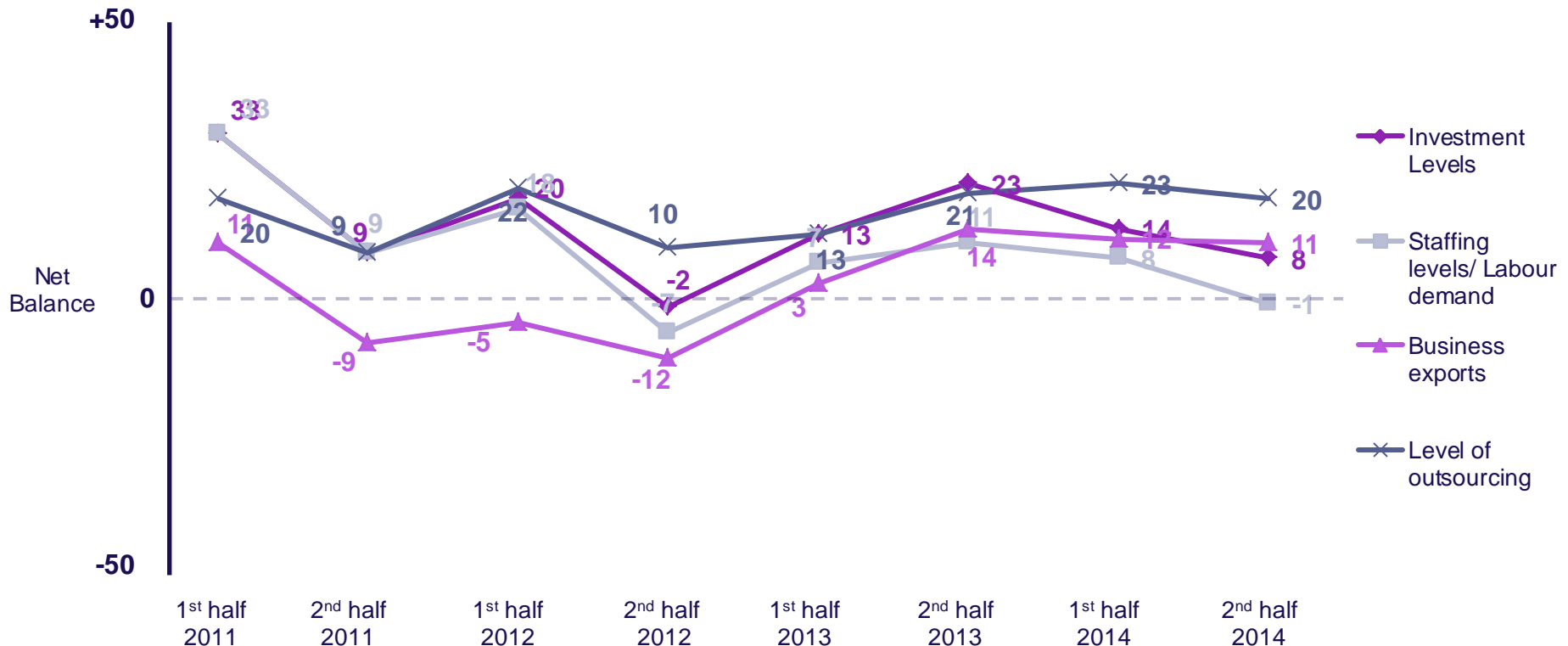
## Changes in the business: over coming year (to Dec '15) (%)



# 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 around investment levels and staffing levels/labour demand has decreased since the last 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, followed by a change in economic conditions, in line with the 1<sup>st</sup> half 2014 results.

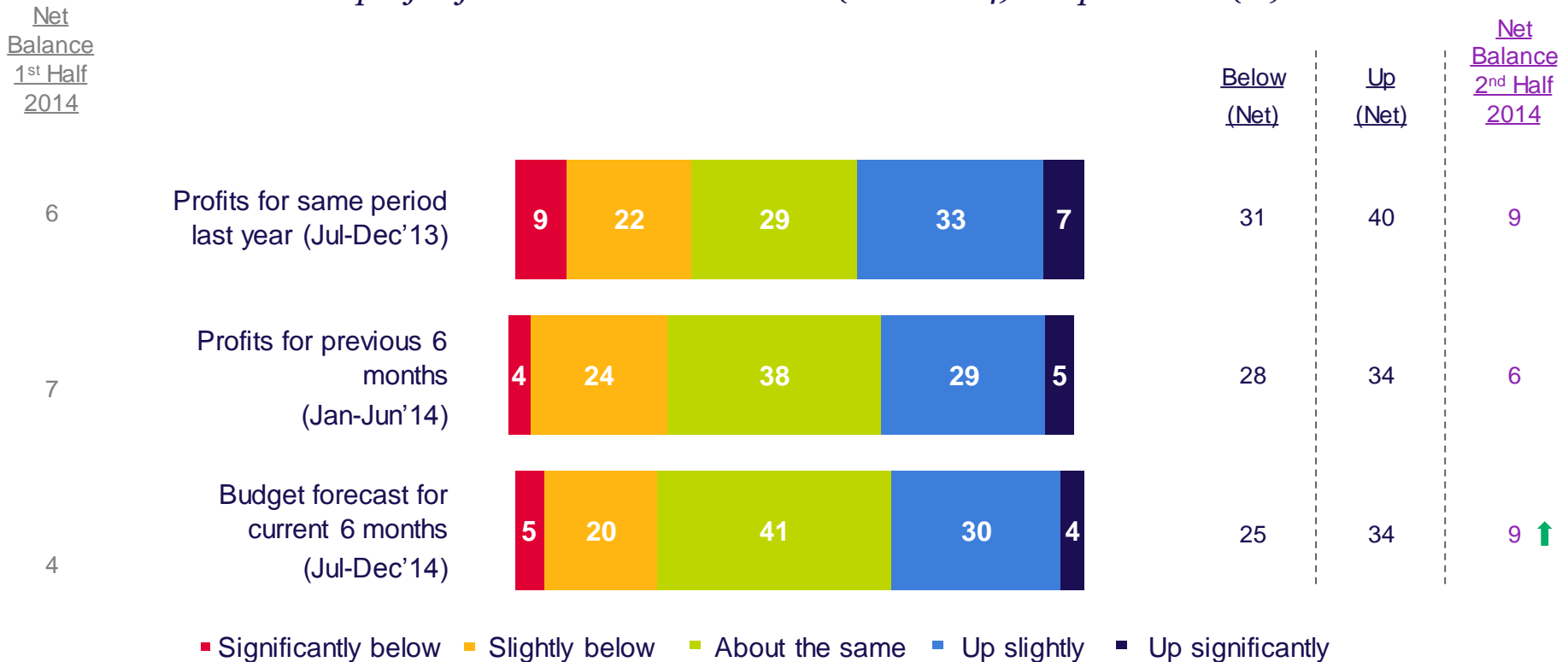
## Main reason for expected change in staffing levels/labour demand (%)

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	1 <sup>st</sup> Half 2014	52	44	58
	2 <sup>nd</sup> Half 2014	50	41 ↓	59
Changed economic conditions	1 <sup>st</sup> Half 2014	29	38	23
	2 <sup>nd</sup> Half 2014	32	46 ↑	17 ↓
Workplace laws	1 <sup>st</sup> Half 2014	3	4	2
	2 <sup>nd</sup> Half 2014	3	3	3
Changed wage levels	1 <sup>st</sup> Half 2014	4	5	2
	2 <sup>nd</sup> Half 2014	2	3	1
Parental leave laws	1 <sup>st</sup> Half 2014	1	1	1
	2 <sup>nd</sup> Half 2014	0 ↓	0 ↓	1
Other	1 <sup>st</sup> Half 2014	11	8	14
	2 <sup>nd</sup> Half 2014	14	7	20 ↑

# Profits for current six months compared to...

*In line with the 1<sup>st</sup> half 2014 results, directors are slightly optimistic about actual profits for the current 6 months, with 40 per cent expecting an increase in profits compared to the same period last year, while more than 30 per cent expect profits to be up on the previous six months and the current budget forecast.*

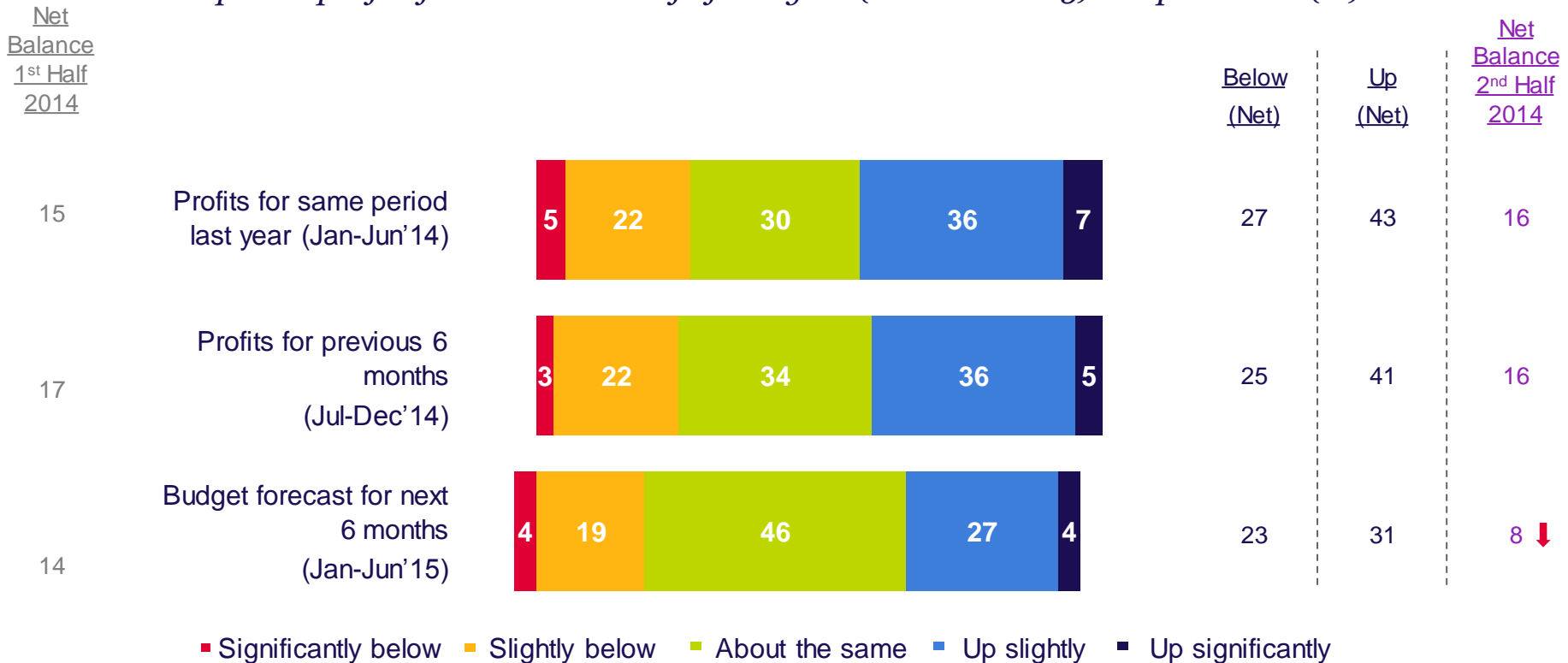
## Actual profits for the current six months (Jul-Dec'14) compared to... (%)



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

*Expectations of profits for the second half of the year to June 2015 are in line with the previous survey's results, with more than 40 per cent of directors still expecting an increase in profits for the second half of the year compared to the same period last year and the current six months. More than 30 per cent expect profits to be up on the budget forecast.*

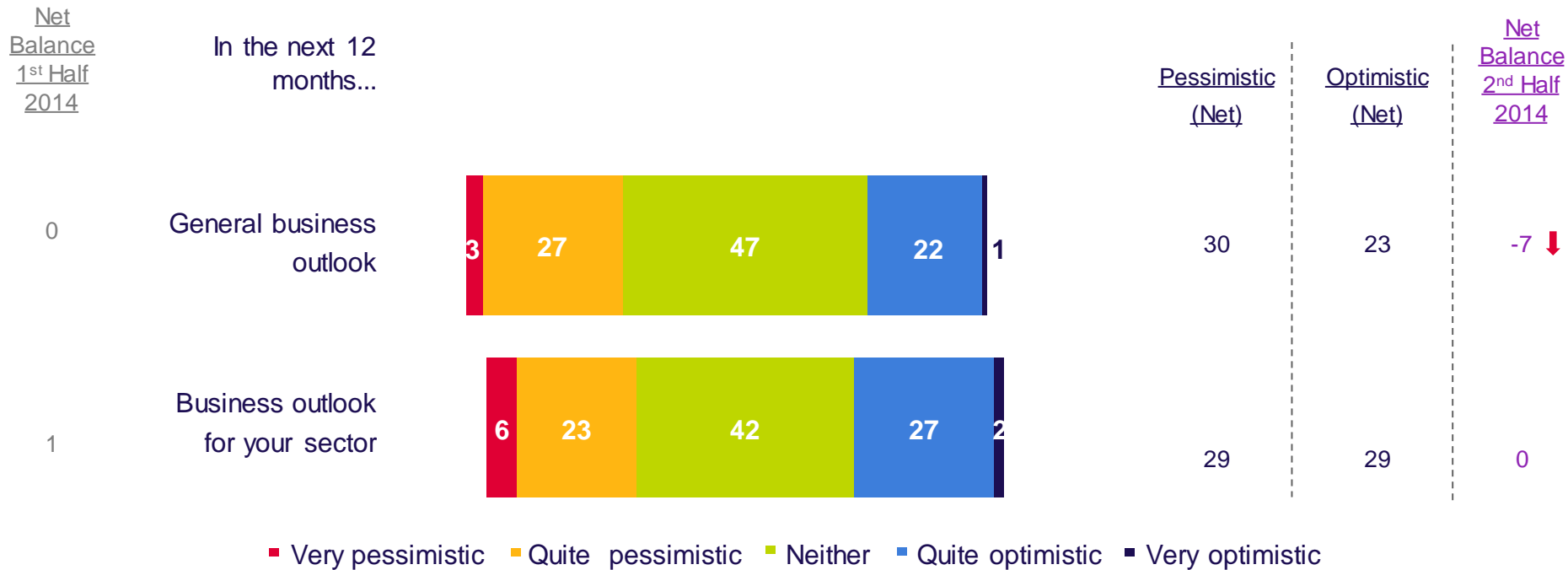
## Expected profits for the second half of this year (Jan–Jun 2015) compared to... (%)



# Confidence in business outlook – next 12 months

Directors have become more pessimistic about the general business outlook compared to the previous survey's results, with 30 per cent of directors indicating they are pessimistic about the general business outlook, and an equal proportion indicating they are pessimistic and optimistic regarding the outlook for their own sector.

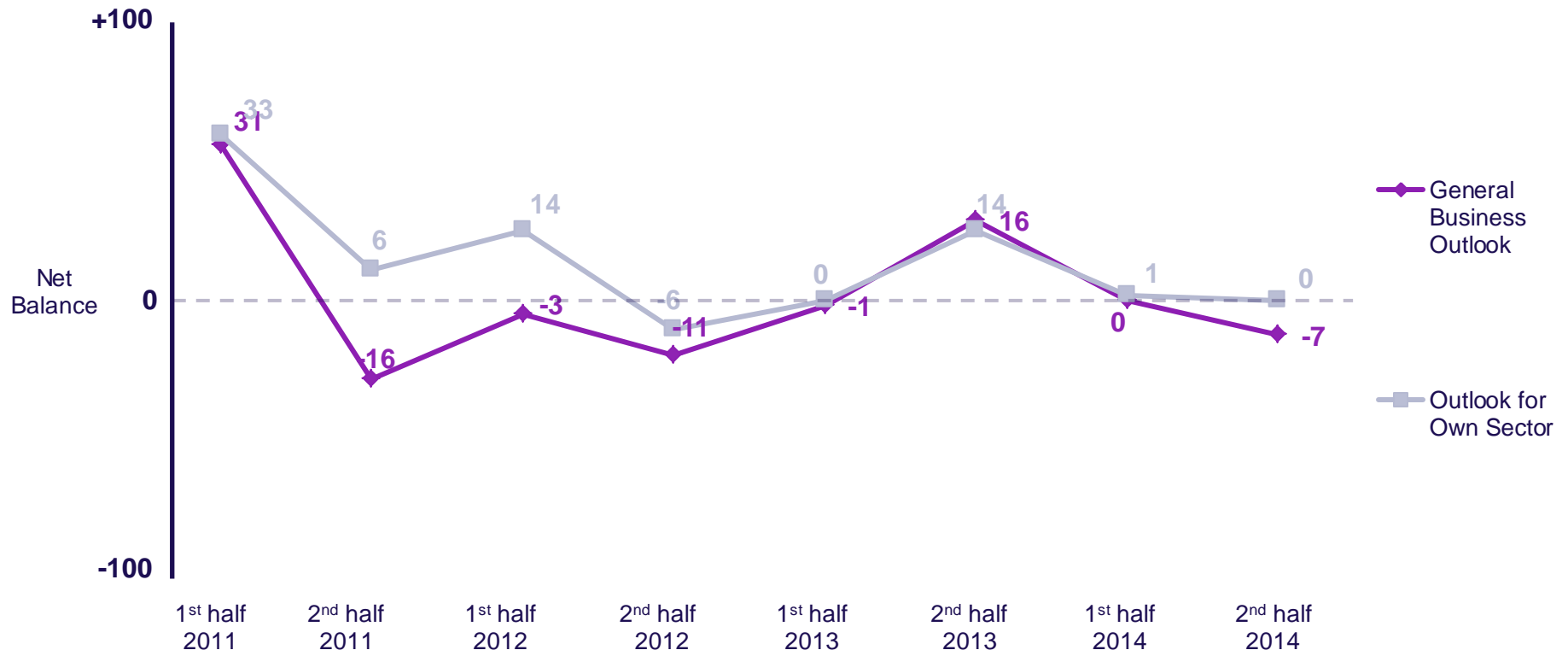
## Confidence in business outlook – general and sector – next 12 months (%)



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

*In the 2<sup>nd</sup> half of 2014, confidence levels have fallen to their lowest level since the 2<sup>nd</sup> half of 2012.*

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

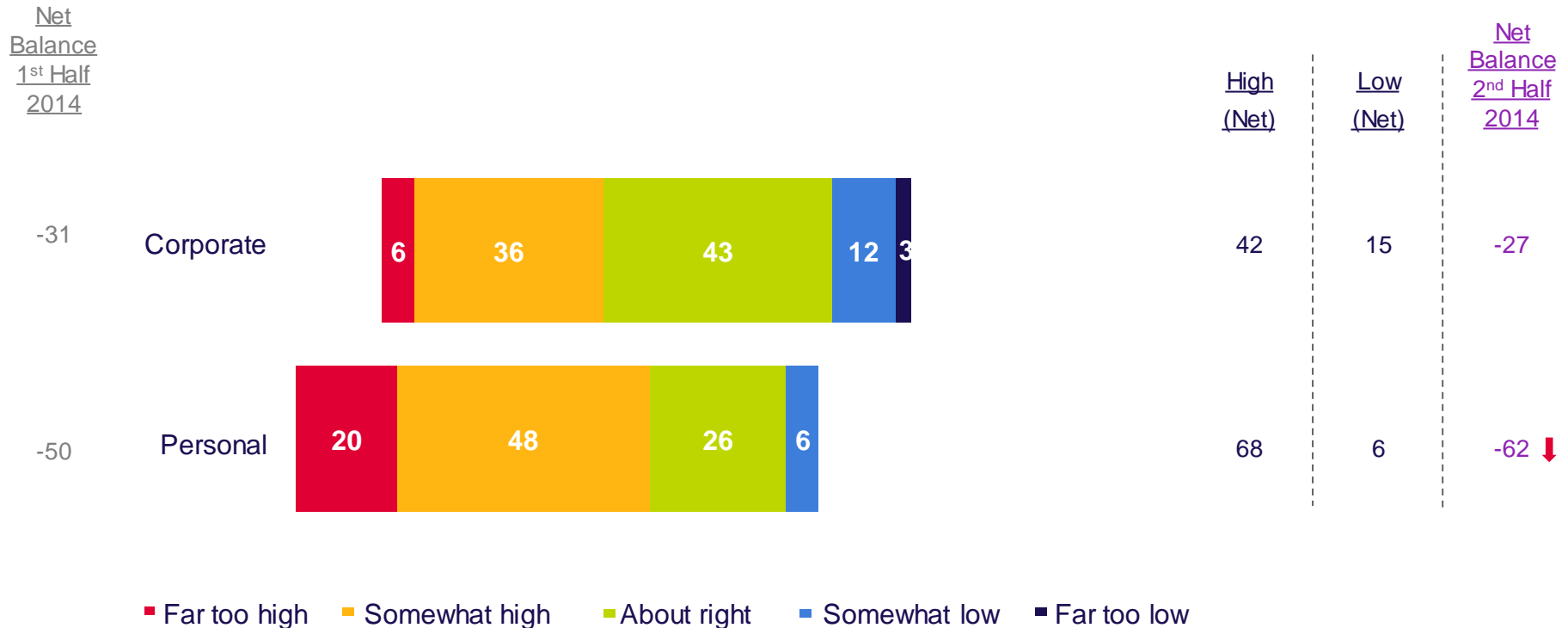




# Level of taxation in Australia

Directors are slightly more pessimistic regarding the level of personal taxation in Australia, with almost 70 per cent of directors maintaining the belief that personal taxation is too high. In line with the previous survey results, around 40 per cent of directors believe that the level of corporate taxation is too high.

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



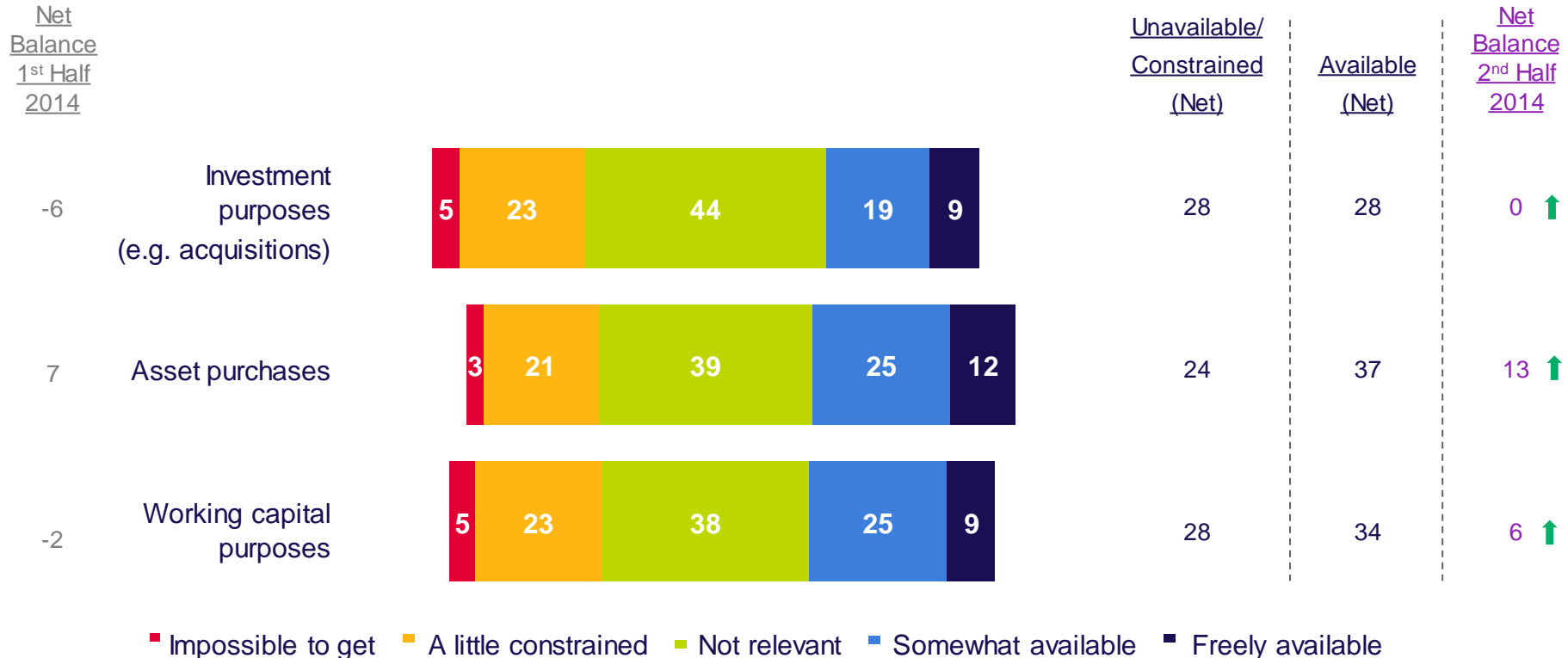
# Lifeblood of the Economy

## *Credit Availability*

# Credit availability for business – Jan-Jun'14

Directors are slightly more positive regarding credit availability over the past six months, compared to the previous survey results. Credit for asset purchases and working capital purposes were viewed as somewhat or freely available, while an equal proportion of directors saw credit for investment purposes as available and unavailable.

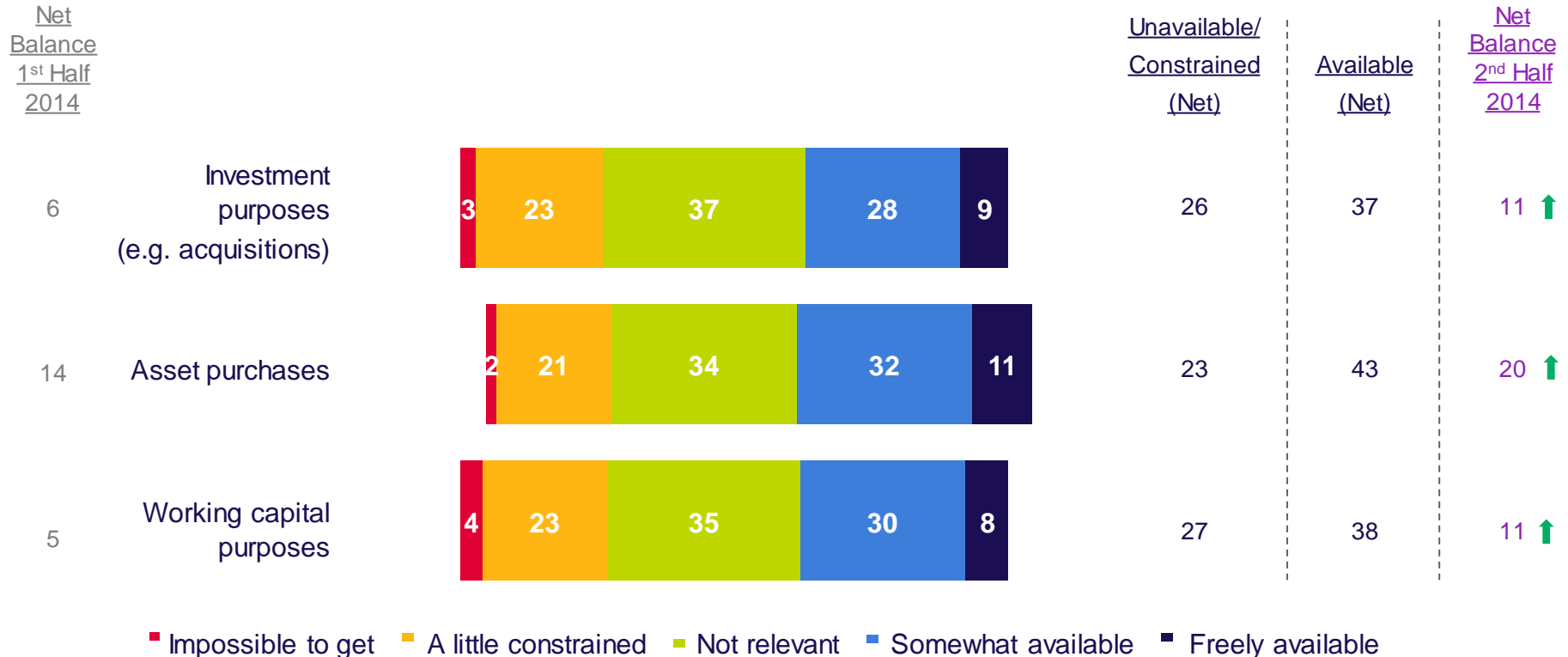
## Credit availability for business – Jan-Jun'14 (%)



# Credit availability for business – next 12 months

Expectations of credit availability in the future have also become more positive, with more than 40 per cent of directors now predicting that credit for asset purchases will be somewhat or freely available over the coming year, and more than 35 per cent expecting the same regarding credit for investment purposes and working capital purposes.

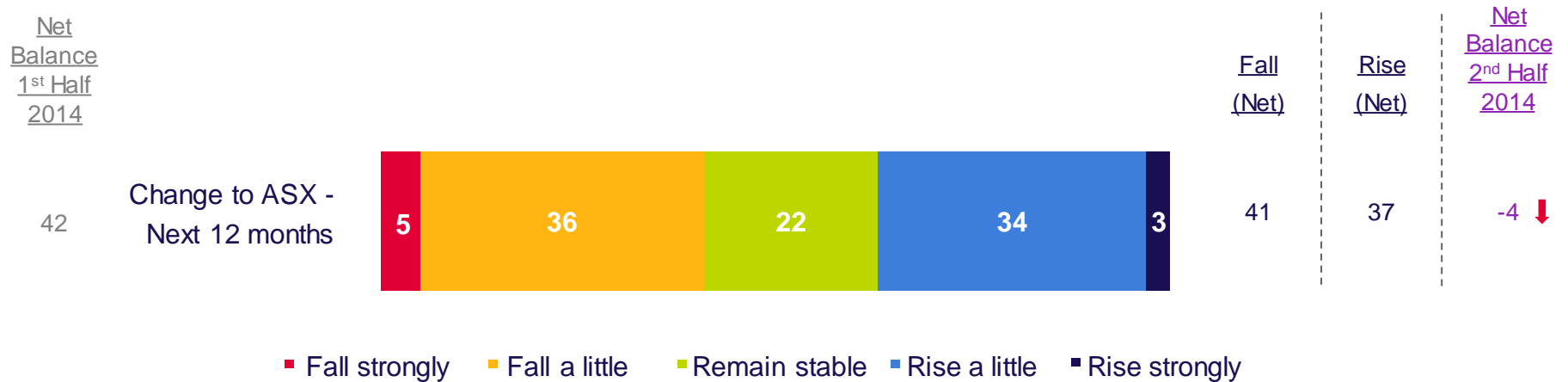
## Credit availability for business - next 12 months (%)



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

Sentiment regarding the ASX All Ordinaries Index has become pessimistic in the 2<sup>nd</sup> half of 2014, with around 40 per cent of directors expecting the index to fall in the next 12 months.

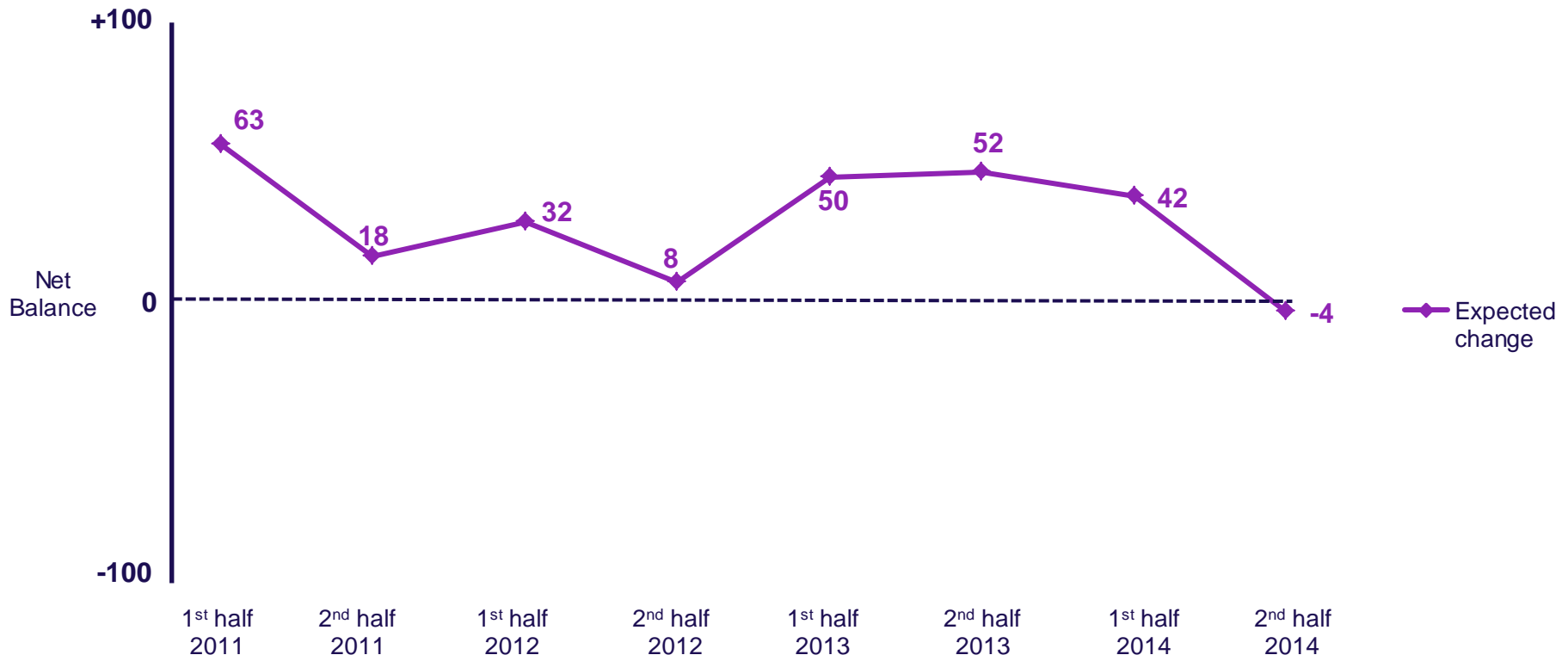
## Expected change to ASX All Ordinaries index – next 12 months (%)



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

For the first time since the inception of the study, sentiment regarding the ASX All Ordinaries index over the coming year is negative. Directors had been consistently optimistic regarding the change to the ASX All Ordinaries index over the coming year since the 1<sup>st</sup> survey in 2011.

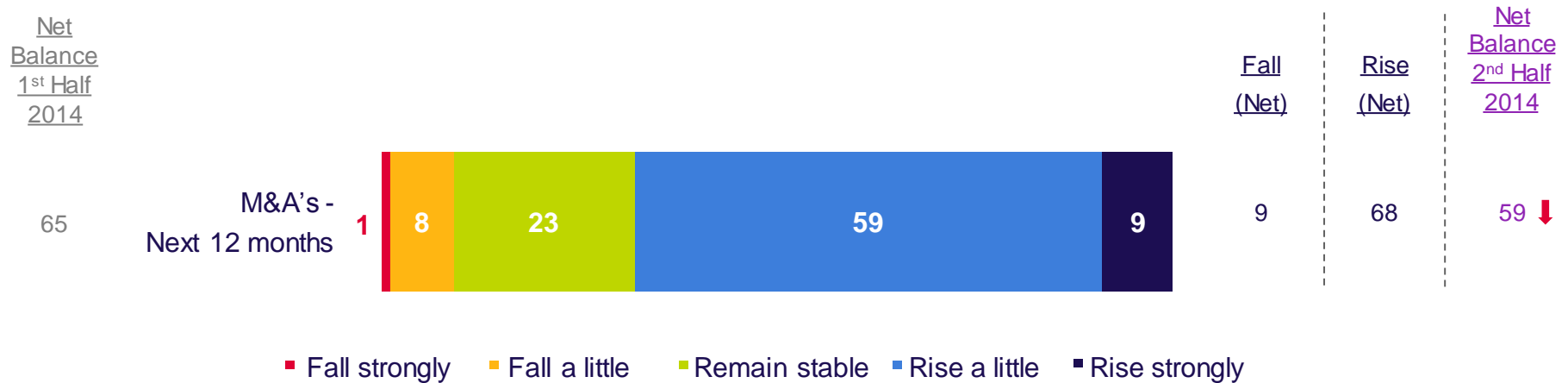
### Expected change to ASX All Ordinaries index: next 12 months – semi-annual trend (net balance)



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

Almost 70 per cent of directors expect a rise in the level of mergers and acquisitions over the coming year, a slight decrease from the previous survey's results.

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



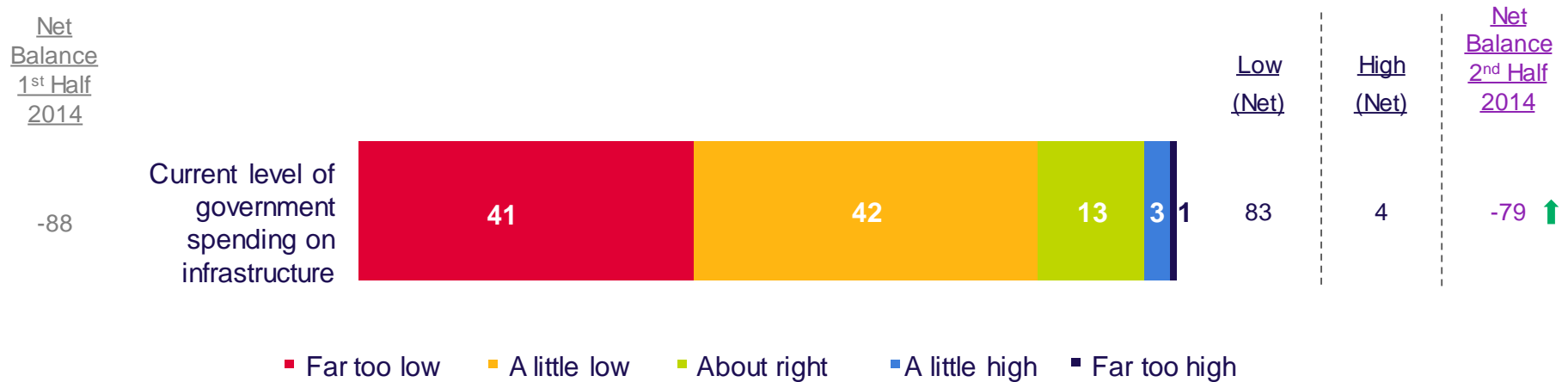
# Infrastructure and Regulatory Environment



# Current level of government spending on infrastructure

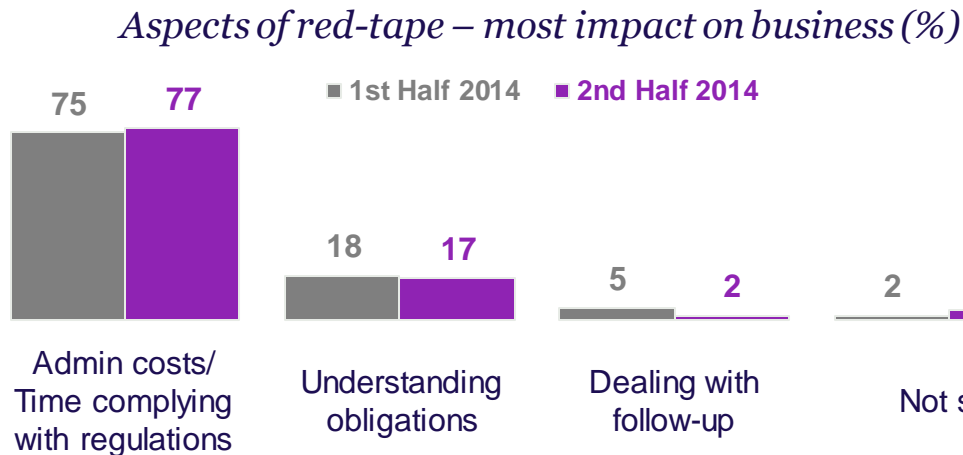
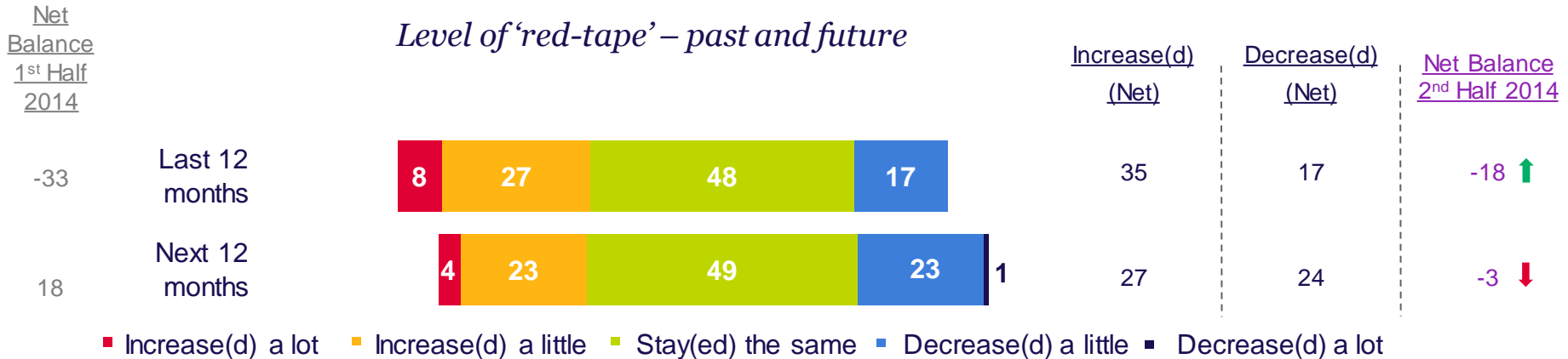
Sentiment regarding the level of government spending on infrastructure is less pessimistic compared to the 1<sup>st</sup> half 2014 results, although more than 80 per cent of directors maintain the belief that government spending on infrastructure is too low.

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



# Level of 'red-tape'

Directors have become more pessimistic regarding the level of 'red-tape' in the next 12 months, with more than 25 per cent expecting an increase. 35 per cent of directors also experienced an increase in 'red-tape' in the past 12 months. More than 75 per cent of directors identify administrative costs and the time associated with compliance as having the greatest impact on their business.

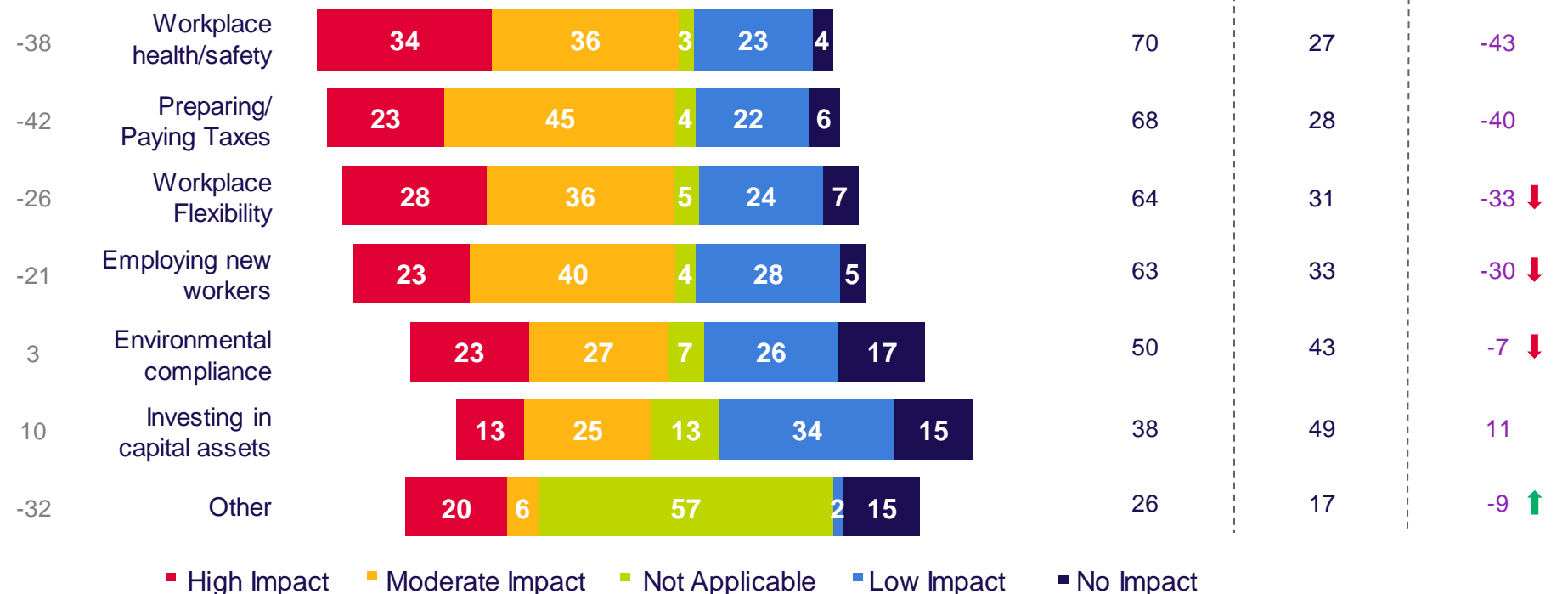


# Impact of 'red-tape' on business productivity

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

Net  
Balance  
1<sup>st</sup> Half  
2014

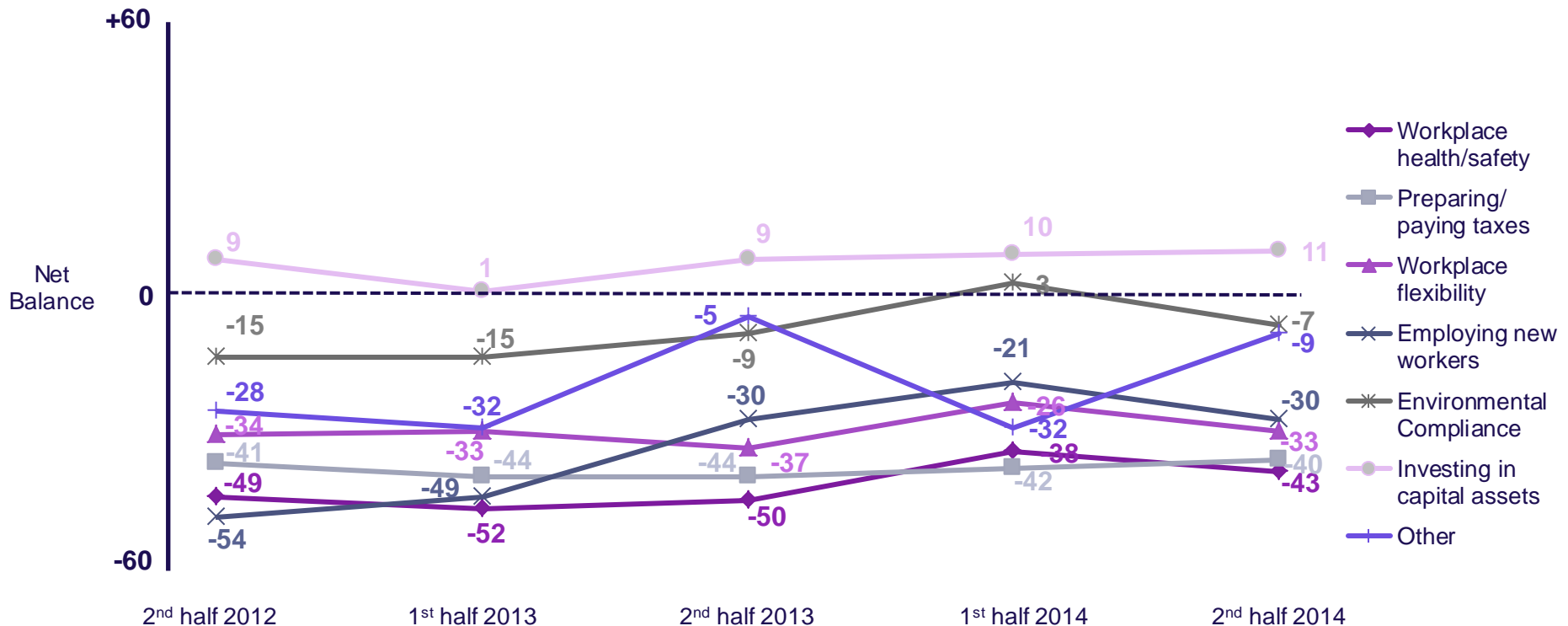
## Impact of 'red-tape' on the productivity of your business in...



# 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 and preparing/paying taxes.

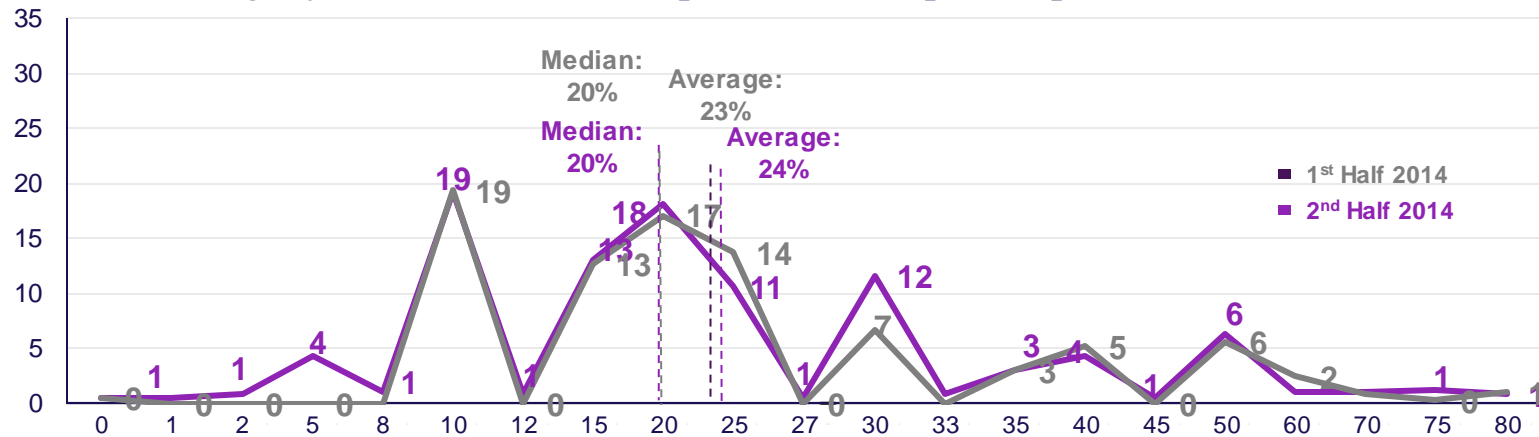
Impact of 'red-tape' on the productivity of your business in... – semi-annual trend (net balance)



# 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 remain pessimistic about the change in percentage commitment over the past 12 months, with around 40 per cent believing this commitment percentage has increased, in line with the previous survey results.

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



Net  
Balance  
1st Half  
2014

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

-38



Increased  
(Net)

Decreased  
(Net)

Net Balance  
2nd Half 2014

39

4

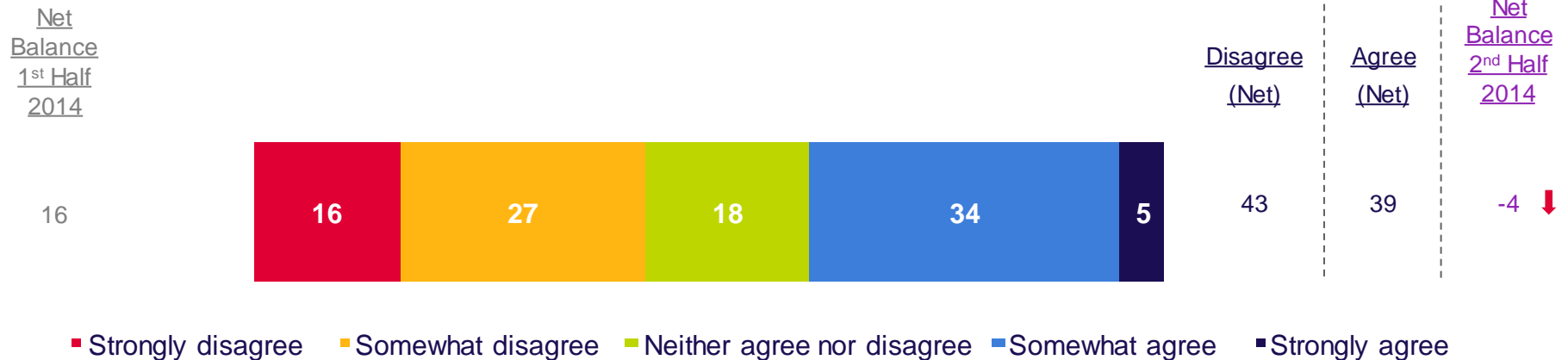
-35

■ Increased a lot ■ Increased a little ■ Stayed the same ■ Decreased a little ■ Decreased a lot

# Federal government understanding of business

Directors have become pessimistic about the Federal Government's understanding of business, with more than 40 per cent of directors disagreeing that the current Federal Government understands business.

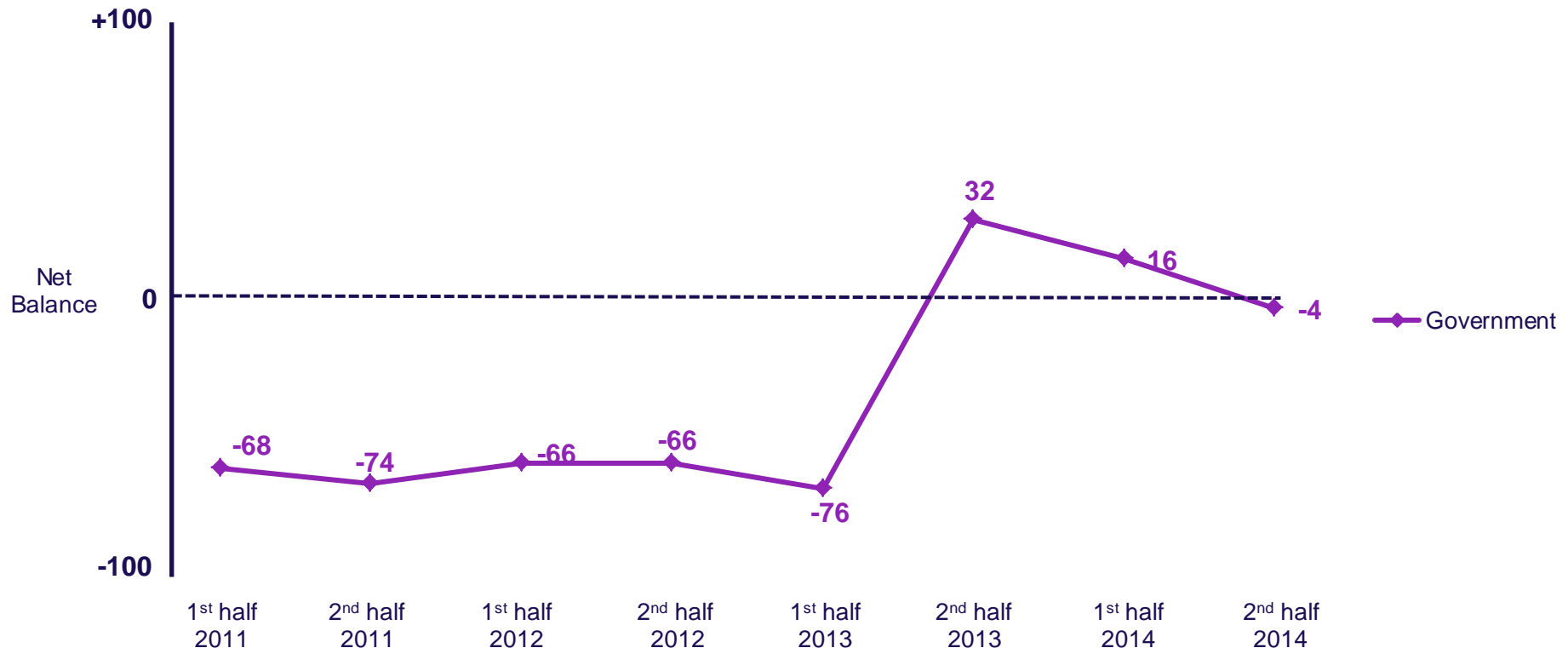
Does the current federal government understand business? (%)



# Federal government understanding of business – semi-annual trend

*The sentiment regarding the Federal Government's understanding of business has declined in the two surveys since the coalition was elected, with a majority of directors disagreeing that the coalition government understands business for the first time.*

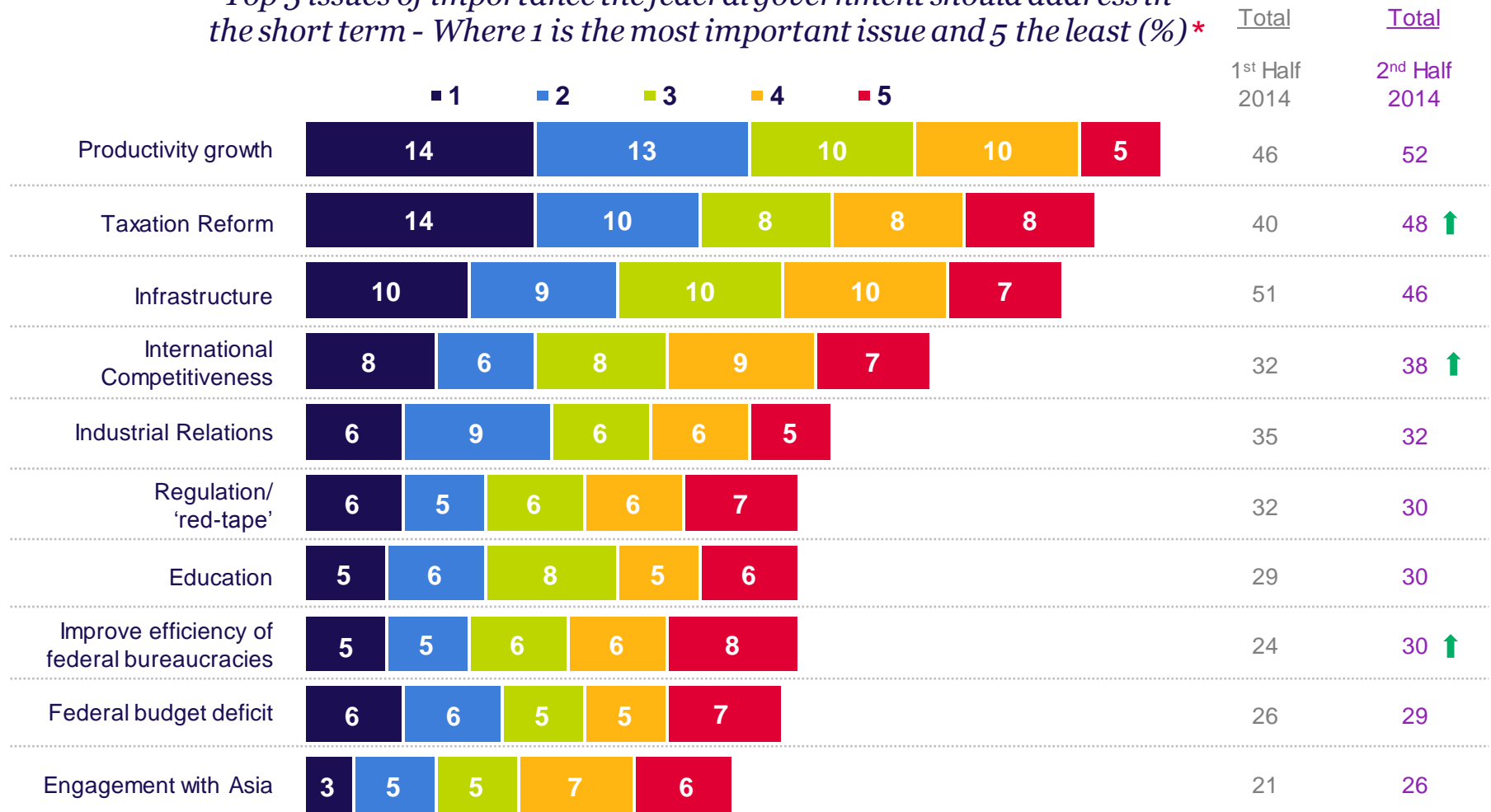
*Does the current federal government understand business? – semi-annual trend (net balance)*



# Issues federal government should address in short term (part 1)

*For the first time, infrastructure is no longer rated by directors as the top priority the Federal Government should address in the short term. The top short-term priority is now considered to be productivity growth, followed by taxation reform, with infrastructure now ranked third.*

*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 (%)* \*



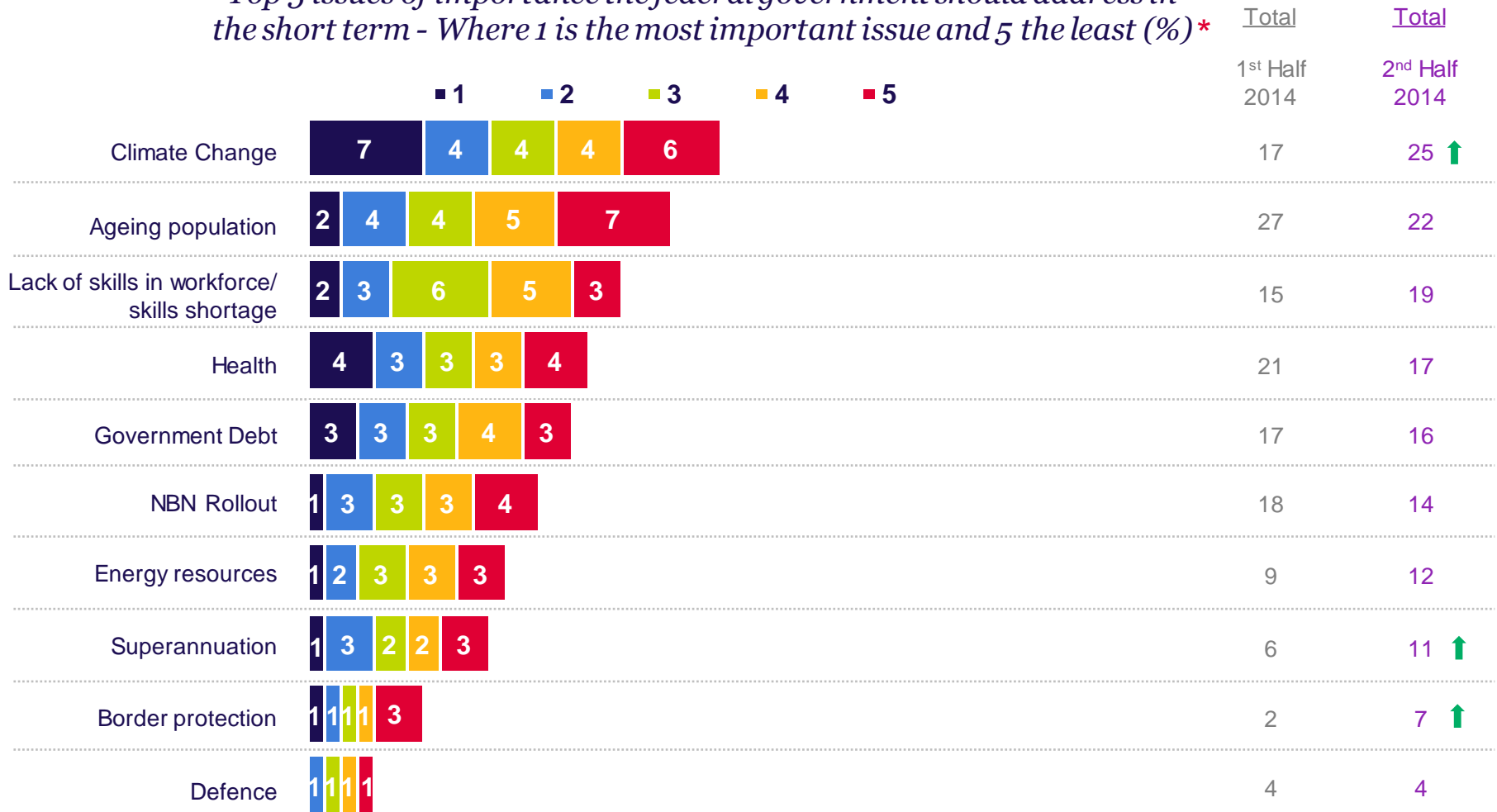
\* Note: Two statements removed for 2nd half 2014



# Issues federal government should address in short term (part 2)

*Defence is now rated by directors as the lowest short term priority for the Federal Government, followed by border protection, superannuation and energy resources.*

*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 (%)* \*

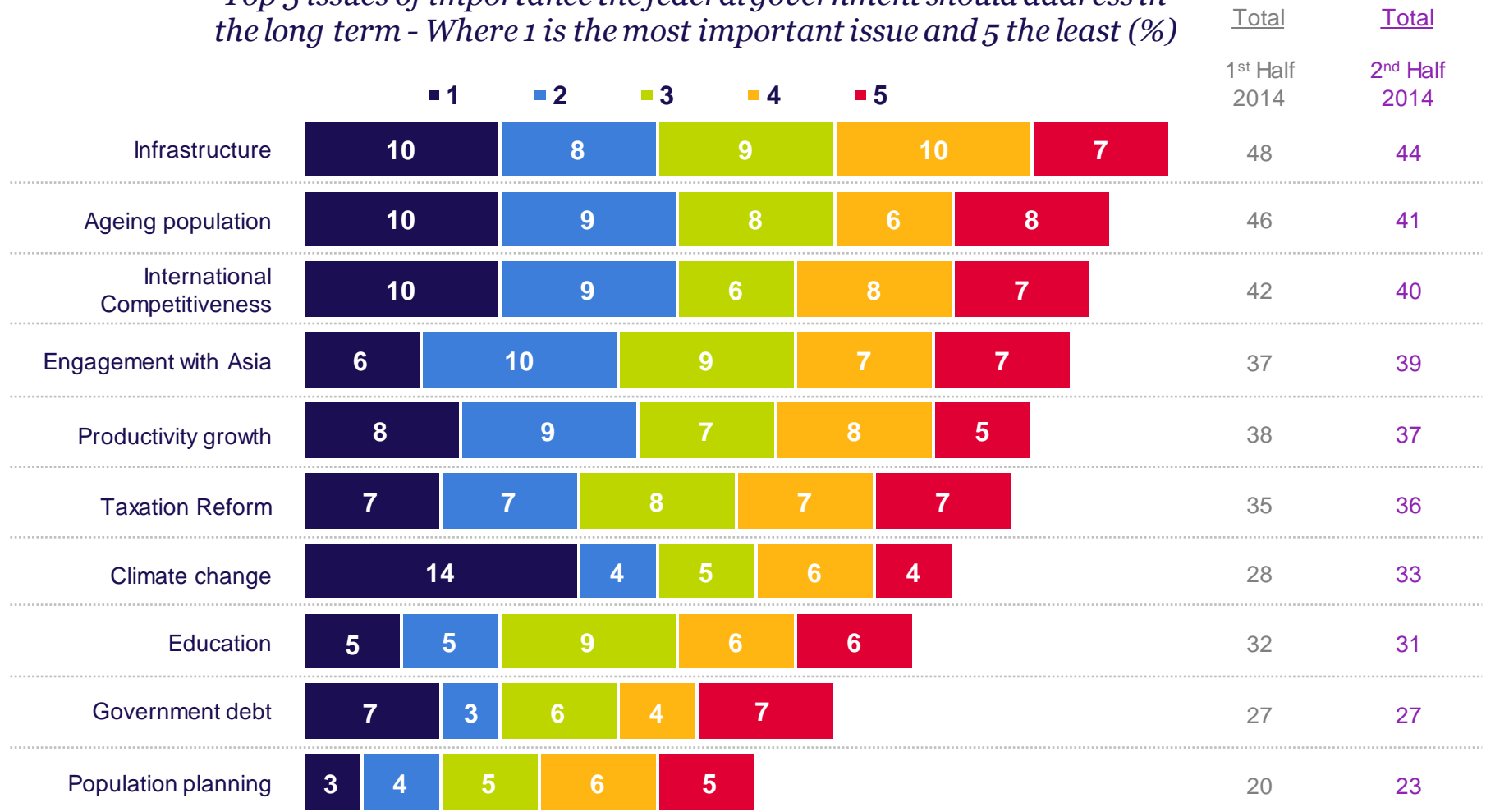


\* Note: Two statements removed for 2nd half 2014

# Issues federal government should address in long term (part 1)

*Infrastructure is rated by directors as the top long term priority. This is followed by the ageing population and international competitiveness. Infrastructure has remained the top long term priority since this question was first asked in the 2<sup>nd</sup> half of 2012.*

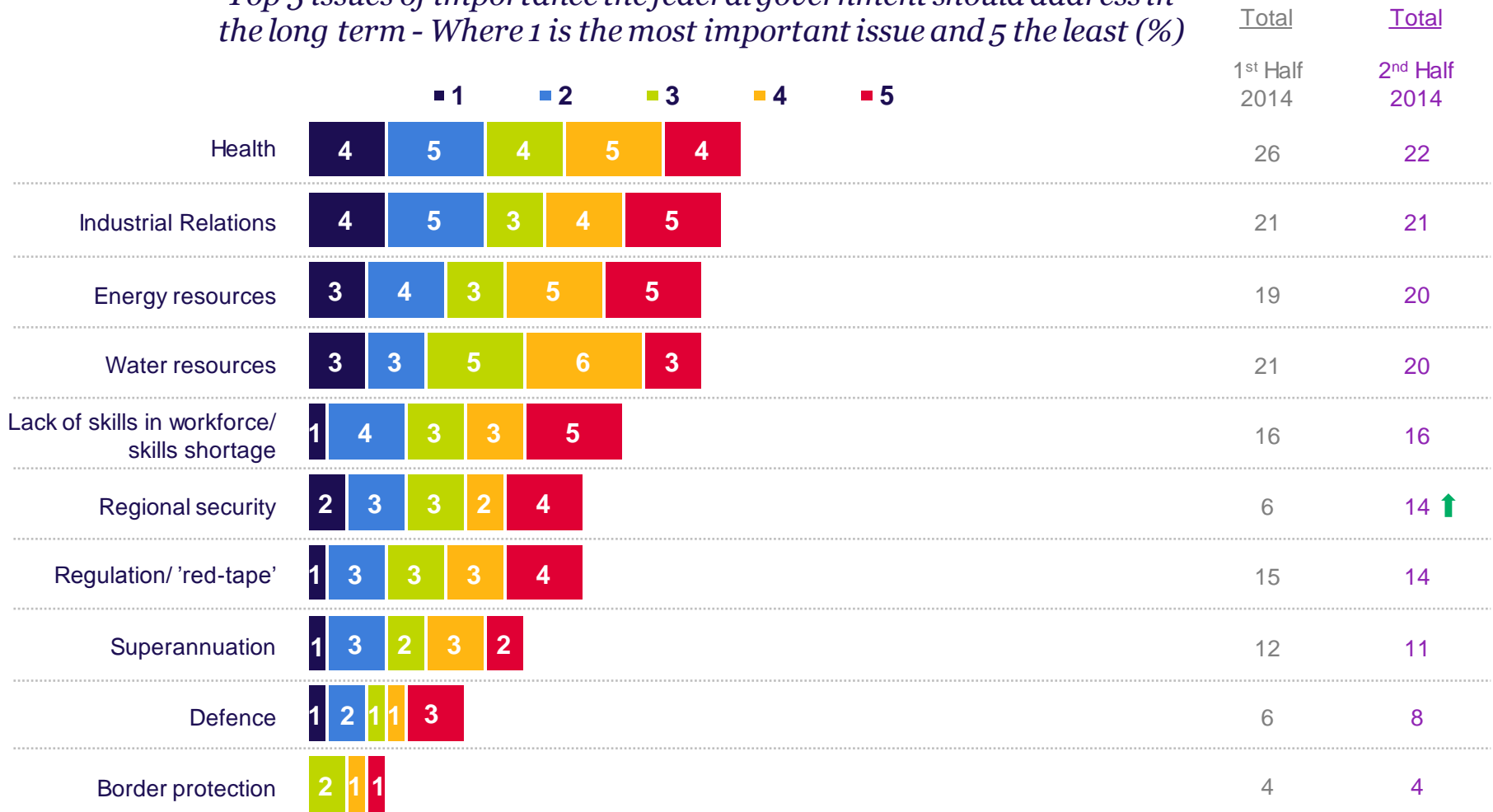
*Top 5 issues of importance the federal government should address in the long term - Where 1 is the most important issue and 5 the least (%)*



# Issues federal government should address in long term (part 2)

*Border protection is rated as the lowest long-term priority the Federal Government should address. This is followed by defence and superannuation.*

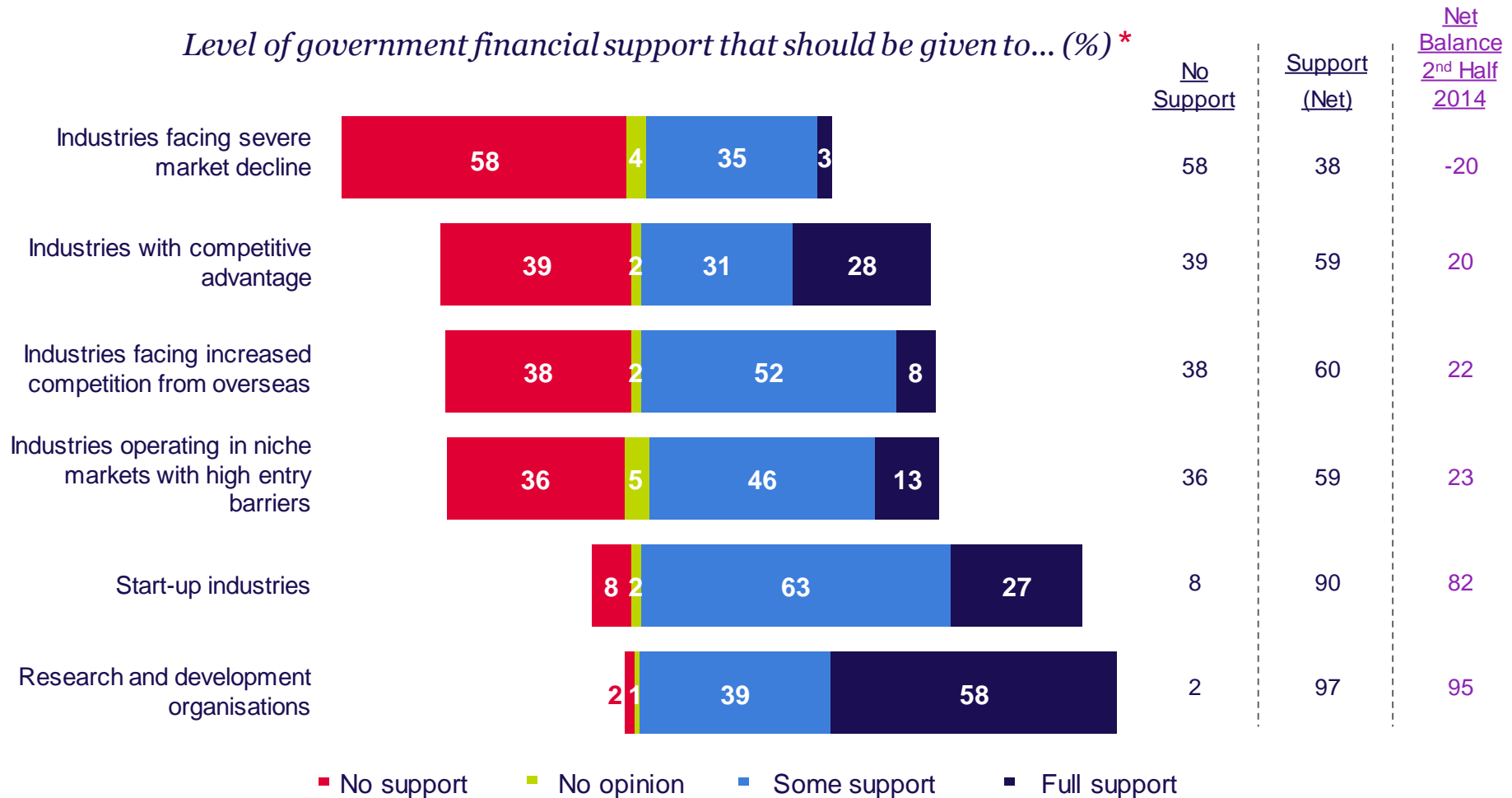
*Top 5 issues of importance the federal government should address in the long term - Where 1 is the most important issue and 5 the least (%)*



# Government financial support for industries

*Directors are broadly supportive of the government providing financial support to research and development organisations, start-up industries and those industries with competitive advantage, as well as those facing increased competition from overseas and those operating in niche markets.*

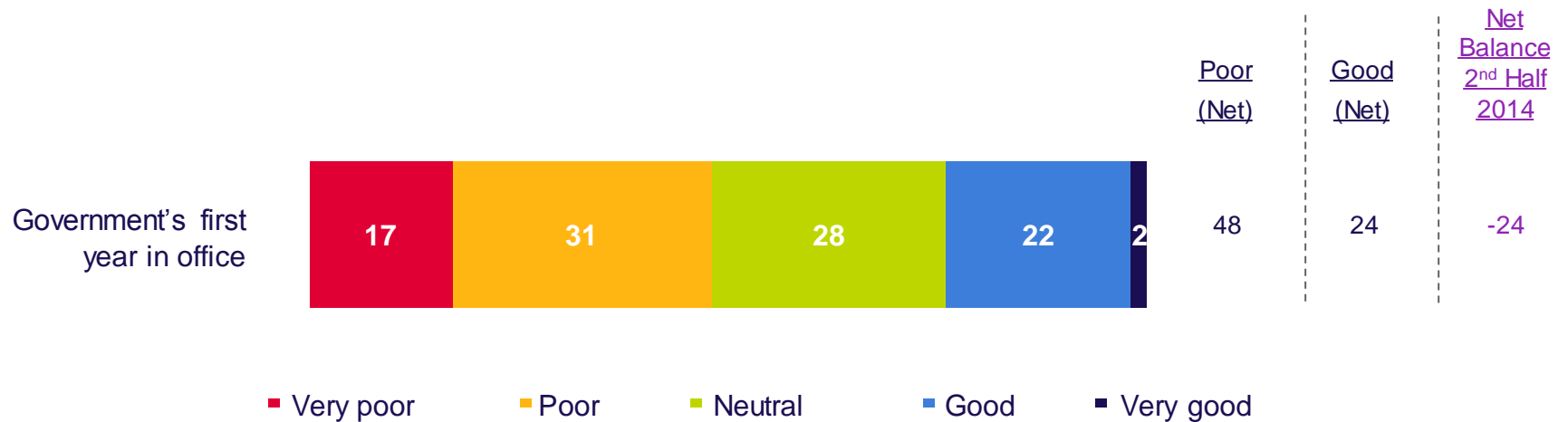
*Level of government financial support that should be given to... (%) \**



# The coalition government's first year in office

Almost half of directors would rate the Coalition Government's first year in office as 'poor' or 'very poor', while around 25 per cent would rate it positively.

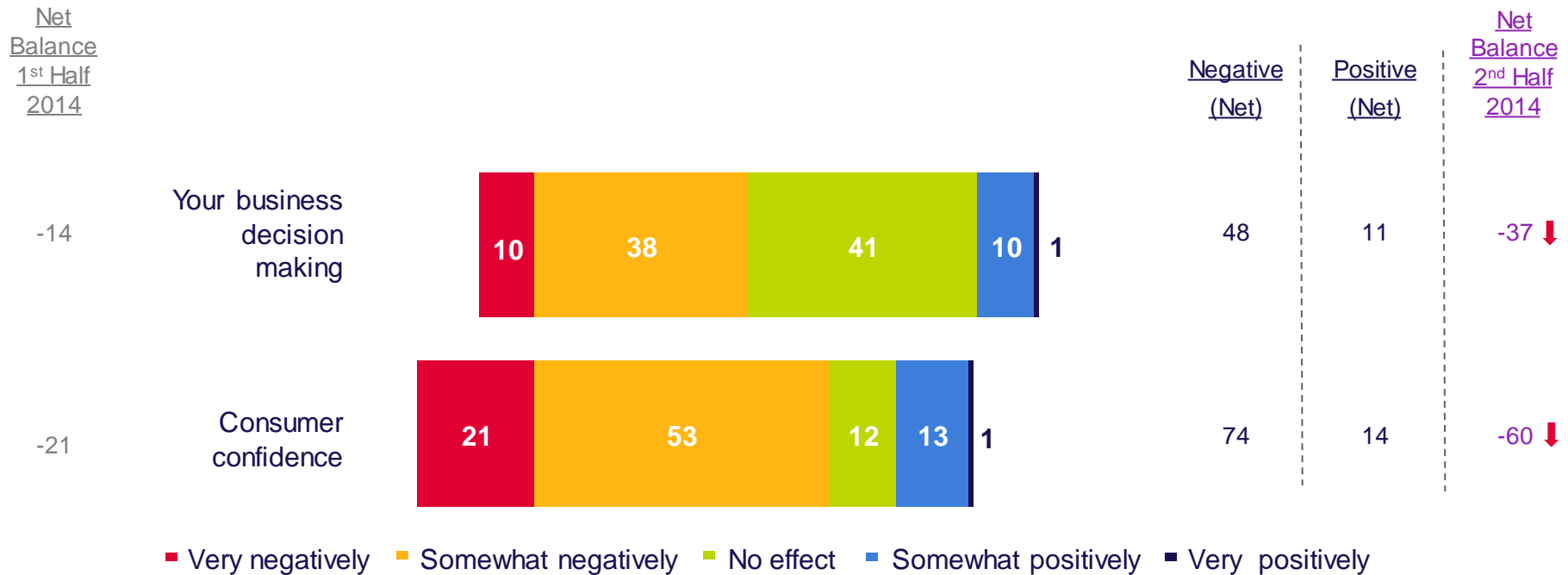
How would you rate the coalition government's first year in office? (%) \*



# Impact of federal government's performance on business

*Directors have become more pessimistic about the Federal Government's effect on business, with almost half of directors viewing the Federal Government's performance as having a negative effect on their business decision making and around 75 per cent viewing the Federal Government's performance as having a negative impact on consumer confidence.*

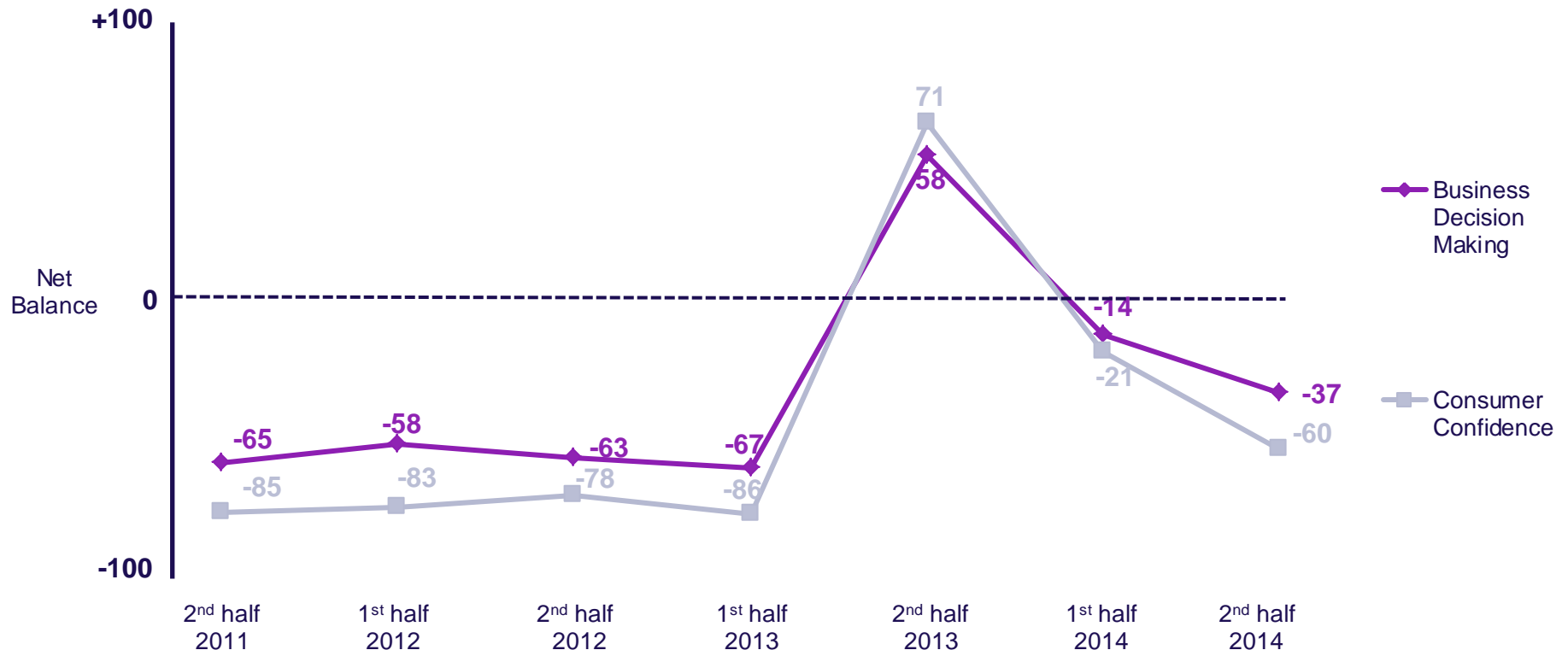
## Effect of current federal government's performance on...(%)



# Impact of federal government on business – semi-annual trend

*The effect of the Federal Government's performance on business decision making and consumer confidence has become increasingly pessimistic since the election at the end of 2013, although sentiment is more positive than under the Labor governments.*

*Federal government's performance affecting... – semi-annual trend (net balance) \**

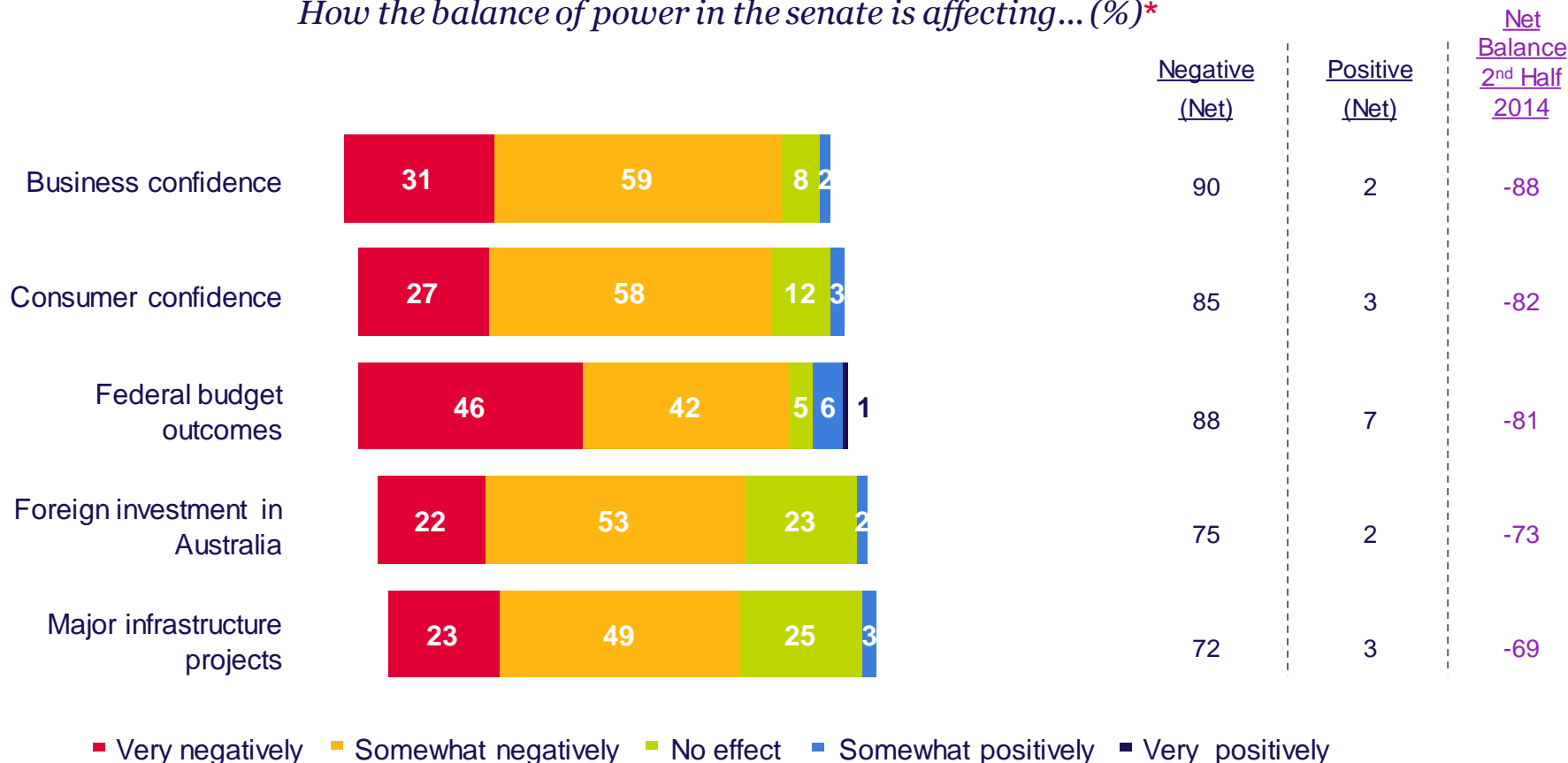


*\* Note: Question added in 2nd Half 2011, reworded in 2nd half 2013 due to recent Federal Election*

# Impact of the balance of power in the senate

*Almost all directors believe the balance of power in the senate is having a negative impact, with 90 per cent of directors perceiving the impact on business confidence as negative, and more than 80 per cent believing the same of consumer confidence and the federal budget outcomes.*

*How the balance of power in the senate is affecting... (%)\**

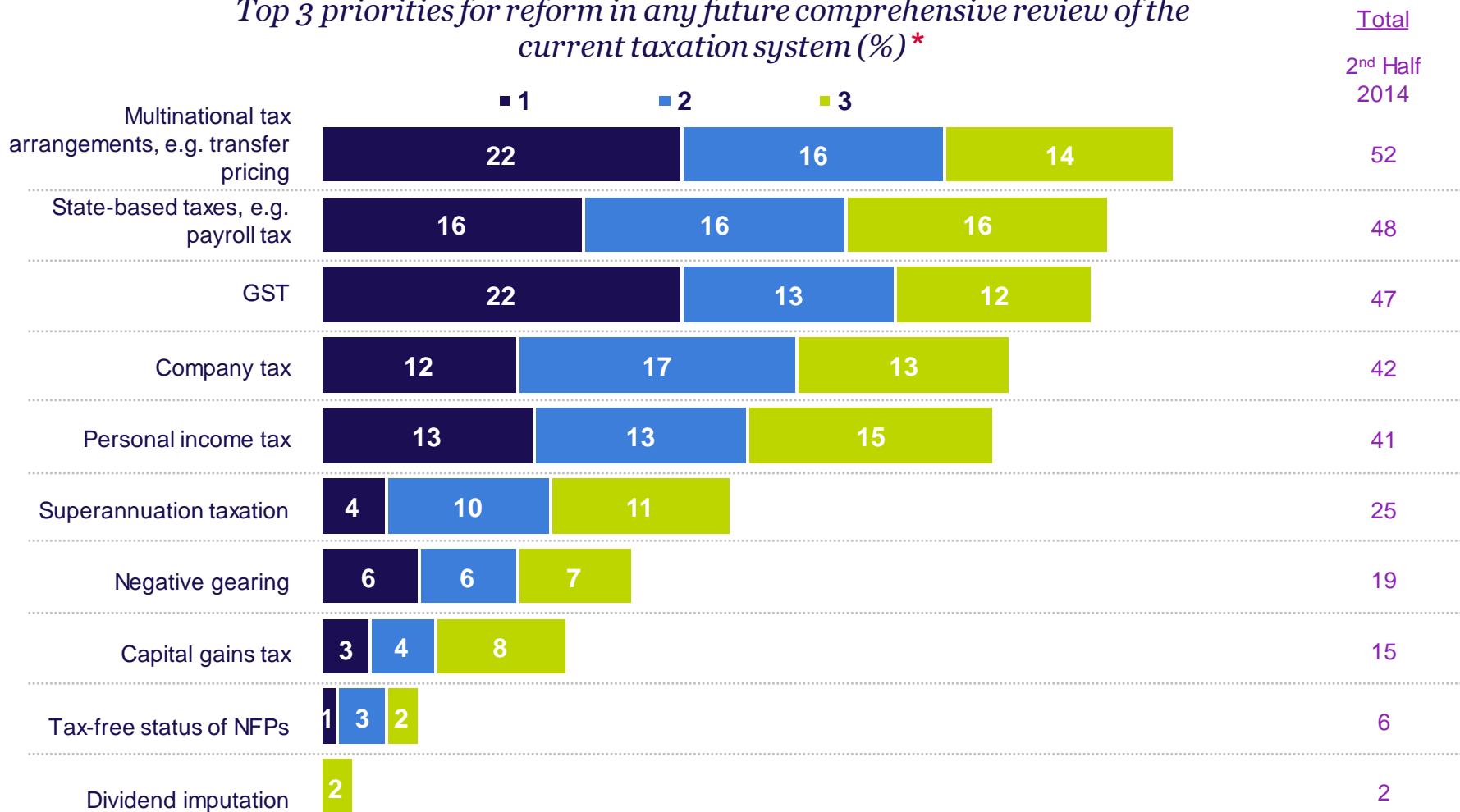




# Reform of taxation system

Directors rate multinational tax arrangements such as transfer pricing the top priority for reform in any comprehensive review of the current taxation system. This is followed by state-based taxes such as payroll tax, and the GST.

## Top 3 priorities for reform in any future comprehensive review of the current taxation system (%) \*

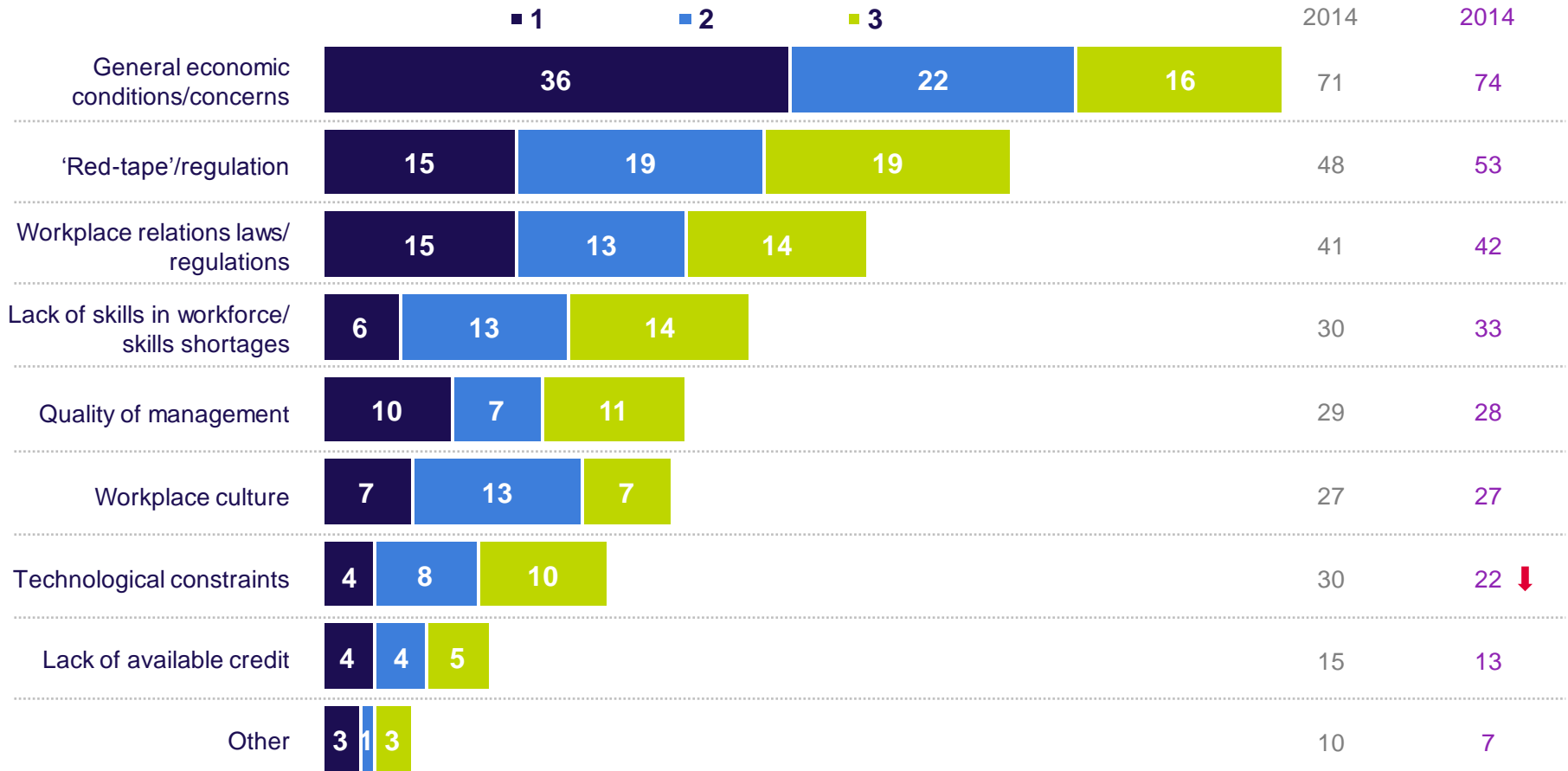


# Impediments to productivity growth

*In line with 1<sup>st</sup> half 2014 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 (%)*



## Priority of industrial relations reform

*Around half of directors would advise the government to pursue significant industrial relations reform following an electoral mandate. A lower proportion of directors believe industrial relations reform should take place in the current term of government, compared to the 1<sup>st</sup> half 2014 results.*

<i>Extent to which Federal Government should pursue industrial relations reform (%)</i>	<i>1<sup>st</sup> Half 2014</i>	<i>2<sup>nd</sup> Half 2014</i>
Significant reform in the next term of government, following an electoral mandate	41	49 ↑
Significant reform in the current term of government	36	27 ↓
No significant reform is required	23	24

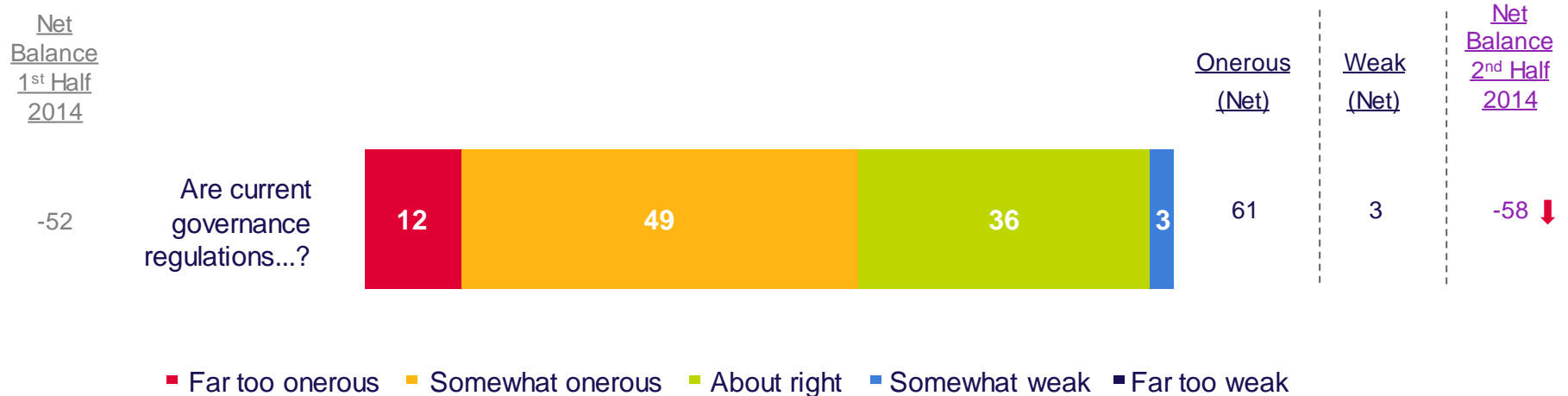
# Governance

## *Key issues for Directors and Boards*

# Current governance regulations under the corporations act

*More than 60 per cent of directors believe that current governance regulations under the Corporations Act are onerous, a sentiment that has become more pessimistic since the 1<sup>st</sup> half of 2014.*

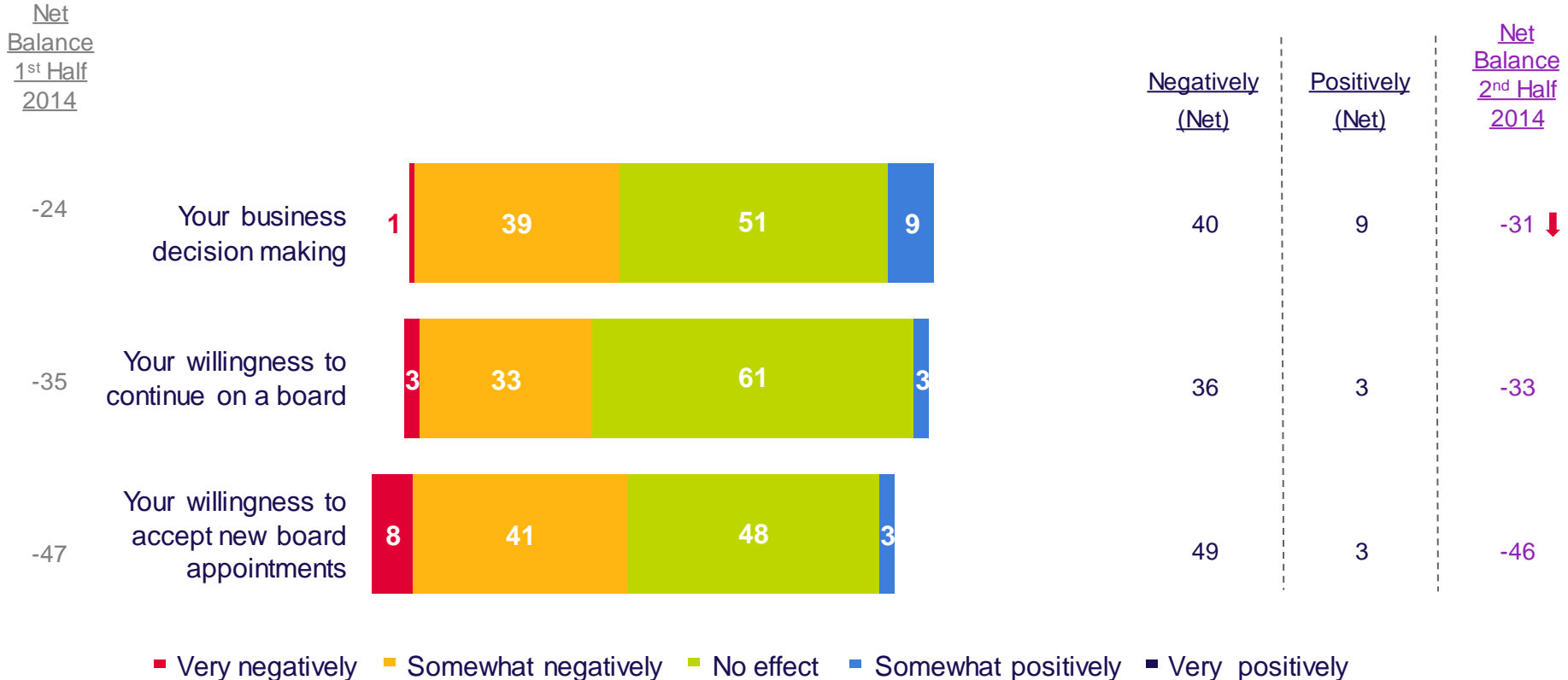
*Are current governance regulations...? (%)*



# Impact of legislation on director liability

40 per cent of directors believe that legislation on director liability has a negative impact on their business decision making. Around 35 per cent agree that director liability legislation negatively impacts their willingness to continue on a board, and around half agree that it negatively impacts their willingness to accept new board appointments.

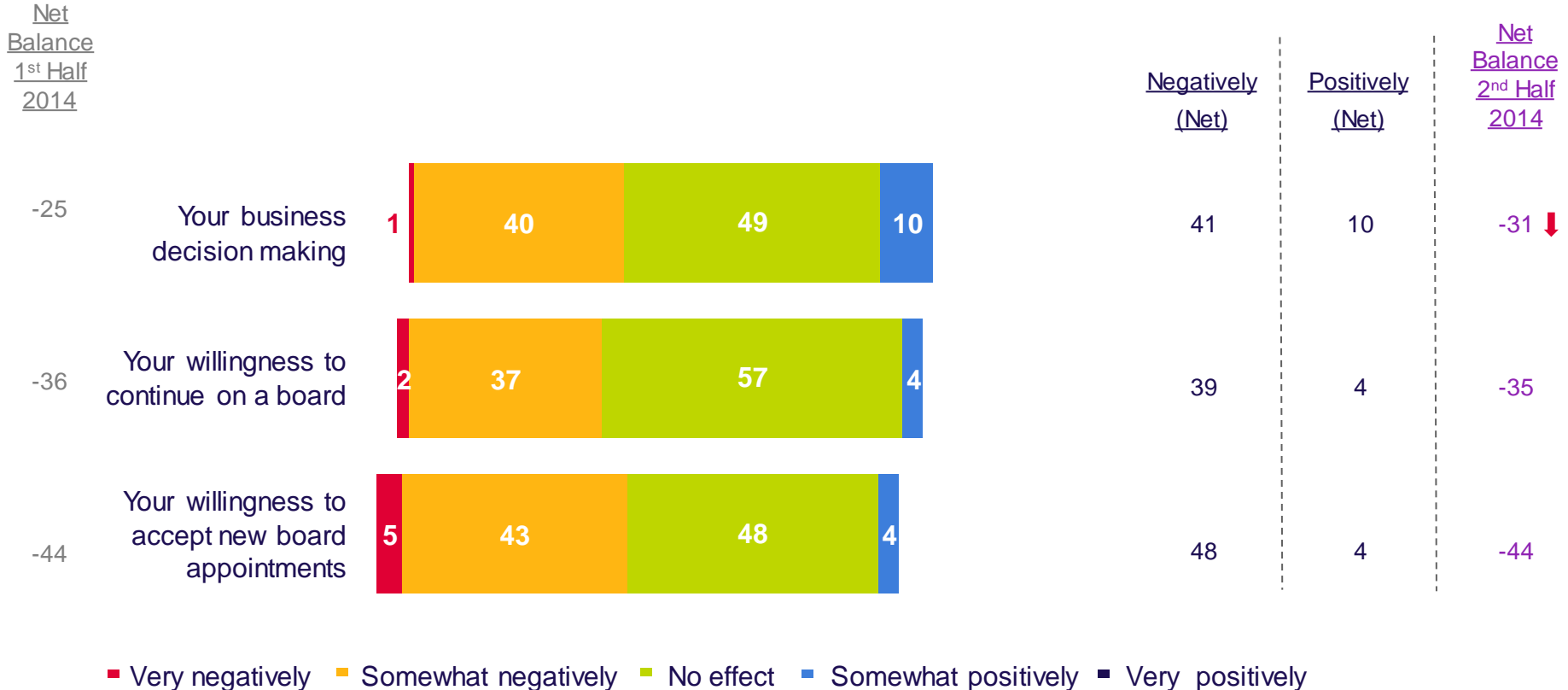
## How legislation on directors' liability is affecting...(%)



# Impact of legal judgments on director liability

Directors have become more pessimistic regarding the impact of legal judgments on their business decision making. Around 40 per cent of directors feel that legal judgments negatively affect their business decision making and willingness to continue on a board, and almost half feel that legal judgments negatively affect their willingness to accept new board appointments.

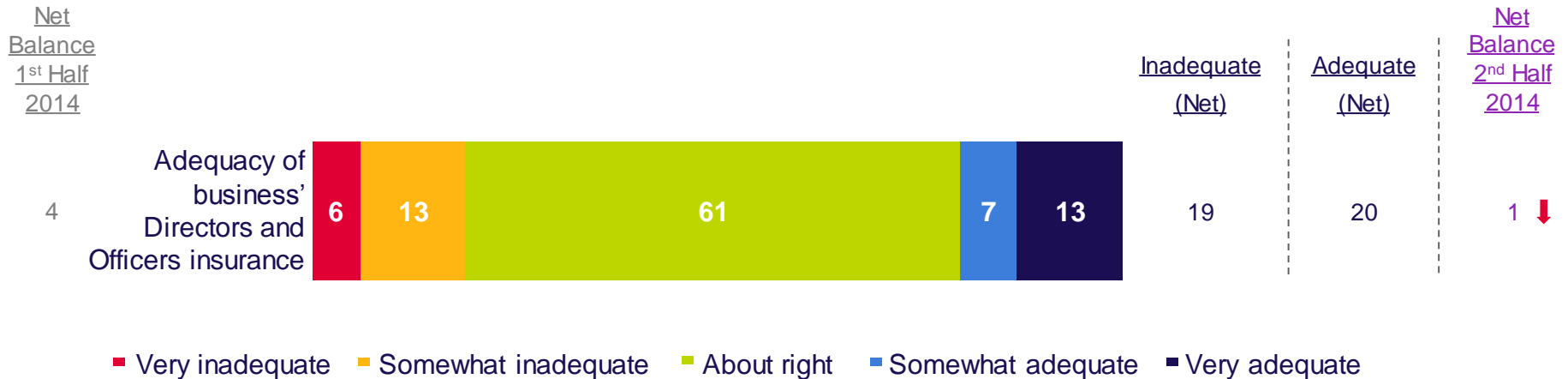
## How legal judgments affect... (%)



# 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 decrease from the 1<sup>st</sup> half 2014 results.

## Adequacy of business' directors and officers Insurance (%)





# Business decision making and risk aversion

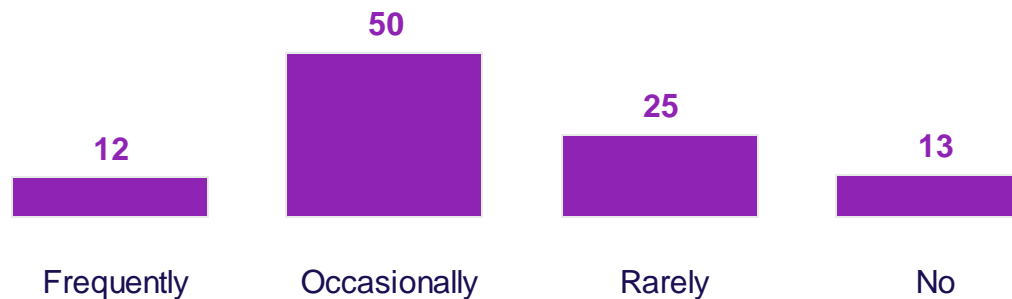
*Exactly 70 per cent of directors perceive there to be a risk-averse decision-making culture on Australian boards. More than 80 per cent of directors claim that the risk of personal liability has caused them to take an overly cautious approach in their business decision making at some point.*

*Is there a risk-averse decision-making culture on Australian boards? (%) \**



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

*Has the risk of personal liability caused you to take an overly cautious approach to business decision making? (%) \**



*\* Note: New questions asked in 2nd half 2014*

42. To what extent do you agree or disagree that there is a risk-averse decision-making culture on Australian boards?

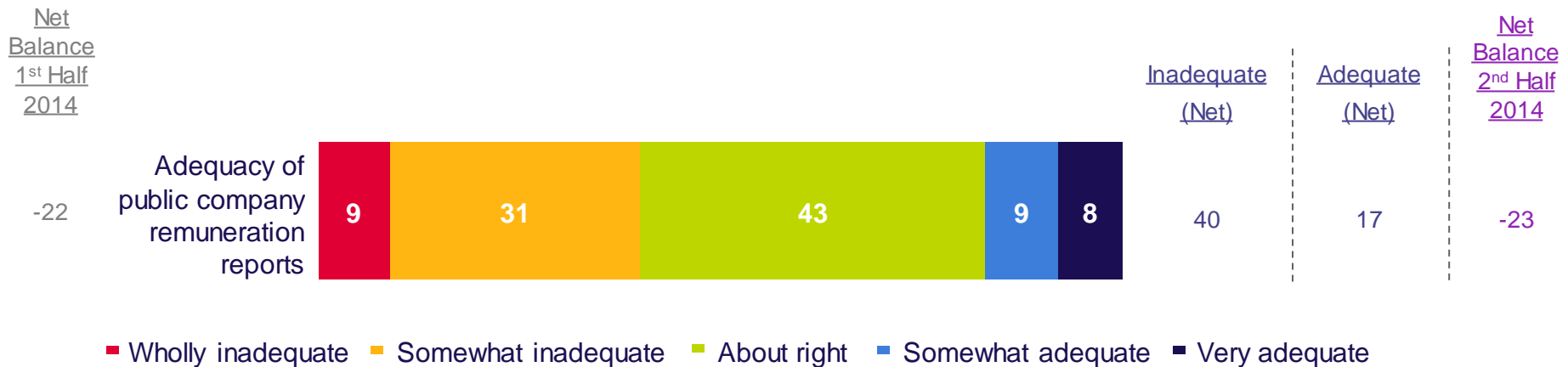
43. Has the risk of personal liability caused you, or a board of directors on which you sit, to take an overly cautious approach to business decision making?

Base: All respondents n=501

# Adequacy of public company remuneration reports

More than 40 per cent of directors perceive the adequacy of public company remuneration reports as about right, while 40 per cent of directors hold the view that they are inadequate. This is in line with the previous survey results.

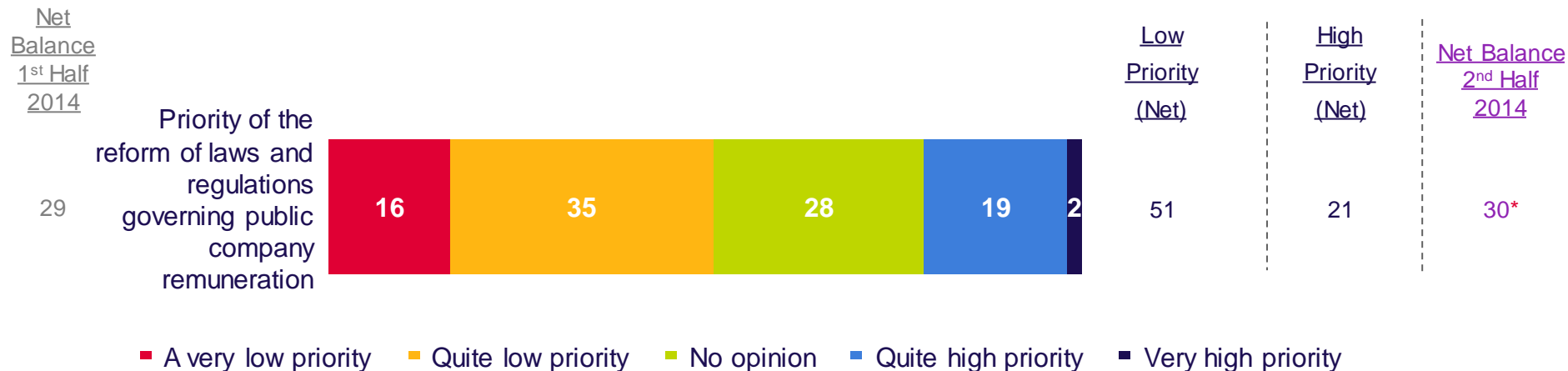
## Adequacy of public company remuneration reports (%)



# 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 (%)

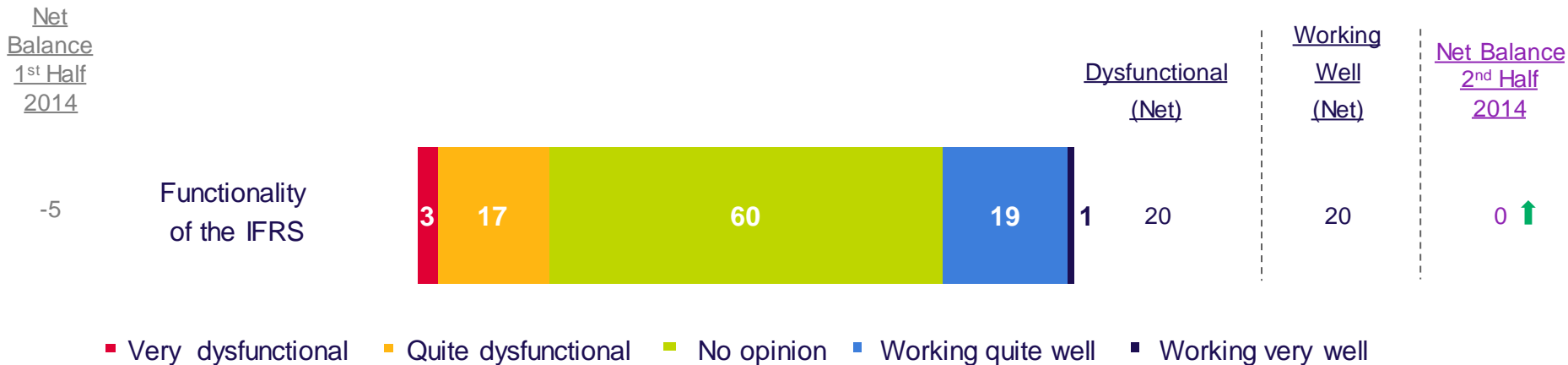


*\* Note: Net balance for priority of the reform of laws and regulations governing public company remuneration calculated in reverse*

# International Financial Reporting Standards (IFRS)

*Sentiment regarding the IFRS has improved slightly, with exactly 20 per cent of directors now perceiving the IFRS as dysfunctional, the same proportion that feels the IFRS is working well.*

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

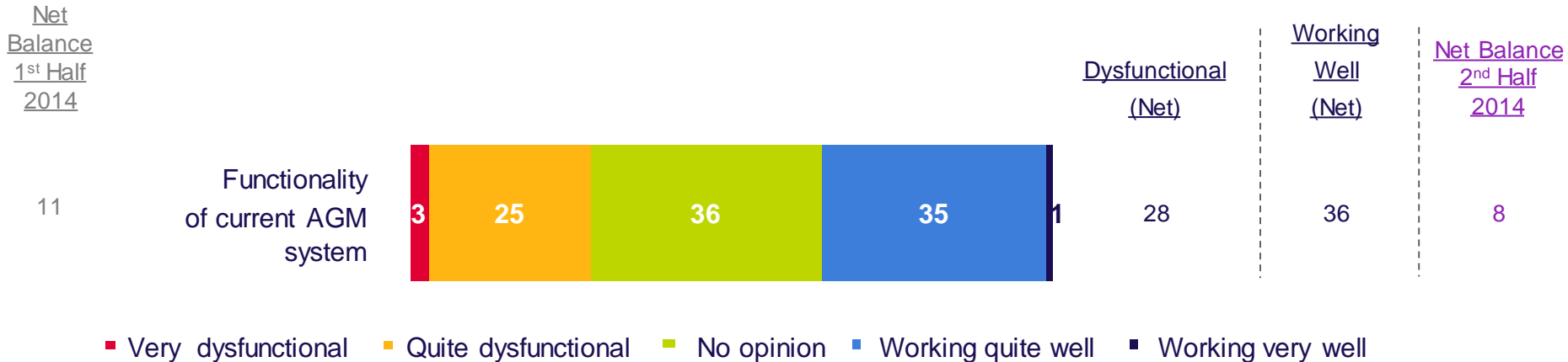


# Shareholder Relations

## Current AGM system

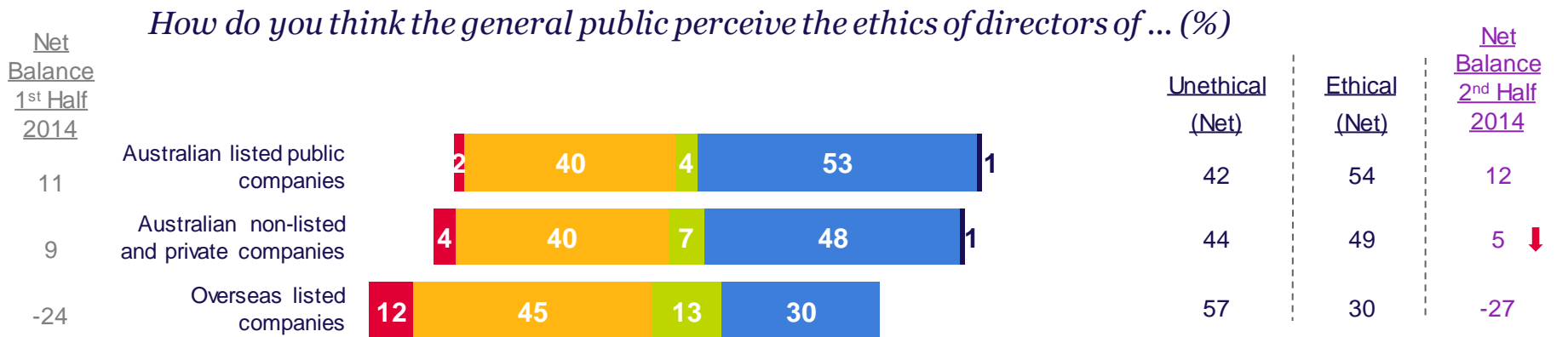
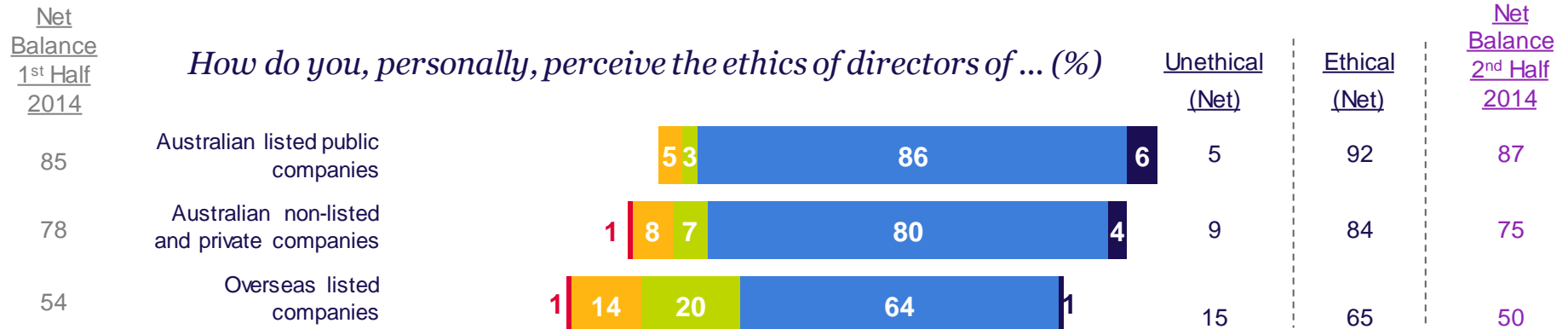
*Sentiment remains slightly positive regarding the current AGM system in the 2<sup>nd</sup> half 2014, with more than 35 per cent of directors of the opinion that the current AGM system is working well and less than 30 per cent perceiving the current AGM system as dysfunctional.*

### Functionality of the current AGM system (%)



# Personal and public perception of company directors' ethics

Most directors still perceive Australian companies as generally ethical and more so than overseas listed companies. Directors are less optimistic regarding the public perception of the ethics of Australian non-listed and private company directors, compared to the 1<sup>st</sup> half of 2014.



■ Totally unethical
 ■ Generally unethical
 ■ No opinion
 ■ Generally ethical
 ■ Totally ethical

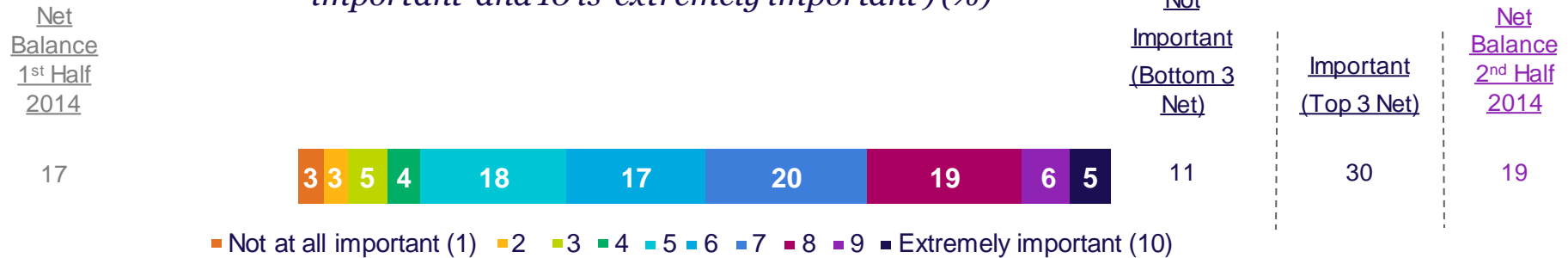
# Environmental, Social and Governance Issues



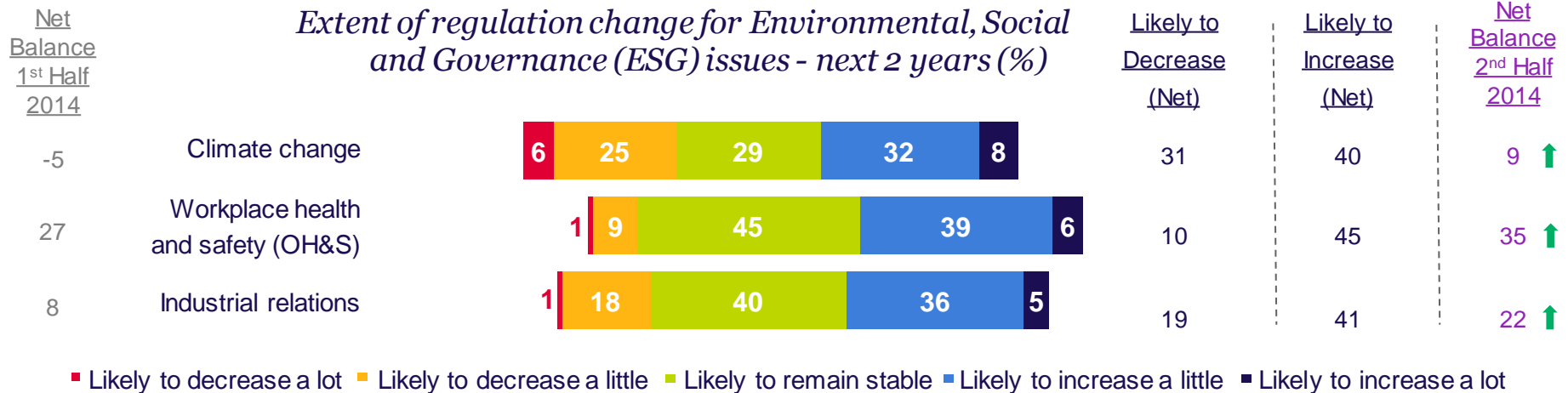
# Importance of ESG issues/extent of change - next 2 years

Exactly 30 per cent of directors perceive ESG issues to be very important, similar to the 1<sup>st</sup> half 2014 results. A higher proportion of directors believe that ESG regulations relating to climate change, workplace health and safety and industrial relations will increase over the next 2 years.

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



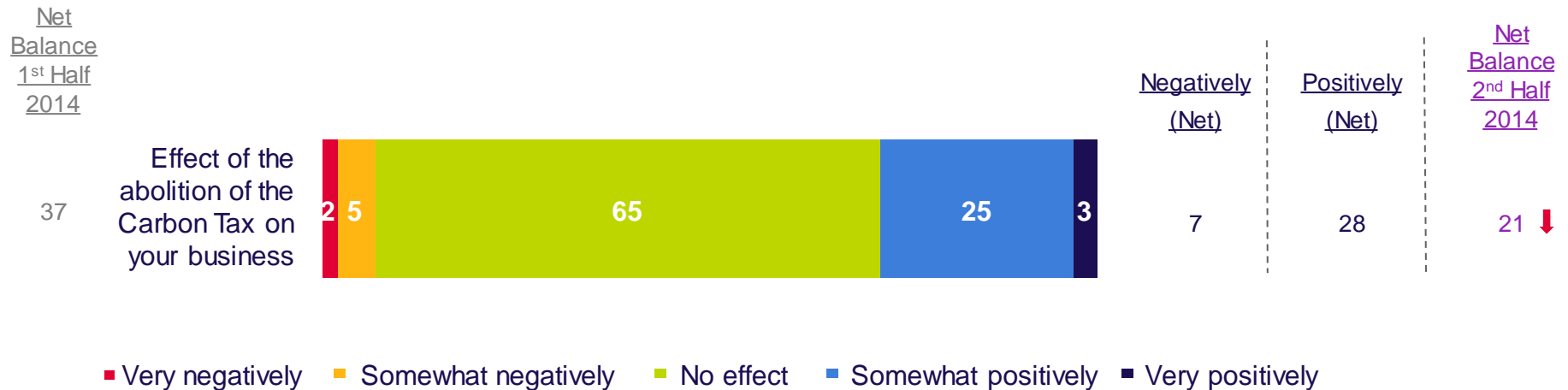
Extent of regulation change for Environmental, Social and Governance (ESG) issues - next 2 years (%)



## Perceived impact on business of abolishing carbon tax

Almost 30 per cent of directors believe the abolition of the carbon tax has affected their business positively. This is a smaller proportion than those who expected the abolition to affect their business positively in the 1<sup>st</sup> half of 2014.

*How has the abolition of the carbon tax affected your business? \**

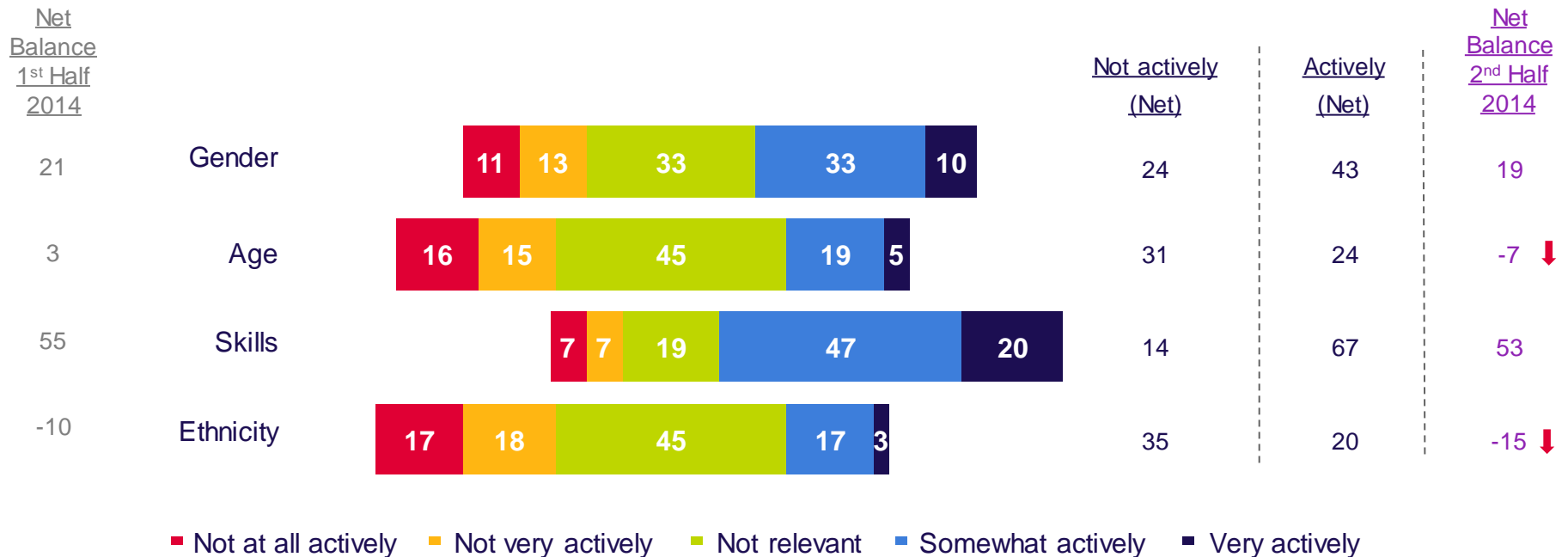


# Directorships and Diversity

# Board diversity: policy and efforts to increase

More than 65 per cent of directors state that their business is actively seeking to increase diversity of their board in terms of skills. A smaller proportion believe their business is actively trying to increase diversity in terms of age and ethnicity, compared to the 1<sup>st</sup> half 2014 results.

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 impact their willingness to serve on a board. 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, although this proportion has declined slightly since the previous survey.

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

