



2015

# DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS FIRST HALF 2015

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# Director Sentiment Index

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# First half 2015 sample profile

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

Fieldwork period: 17 March – 7 April 2015

Total respondents 540

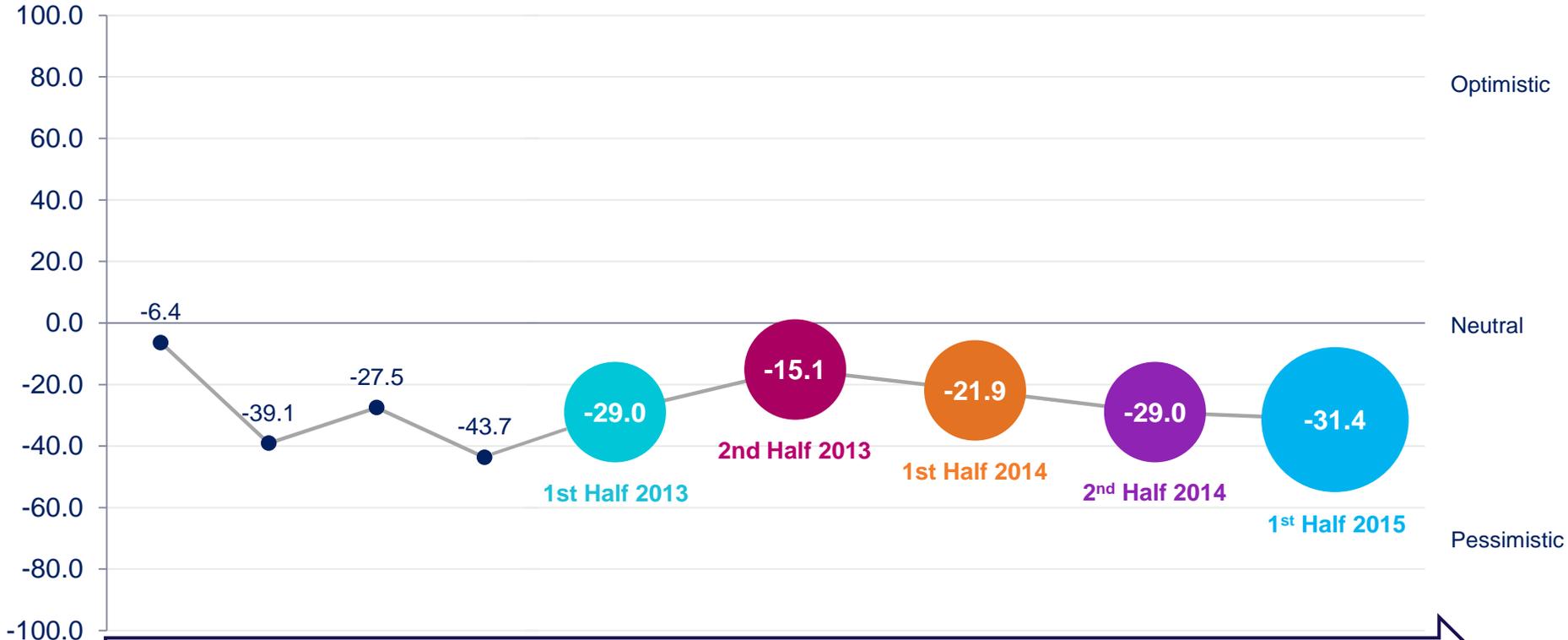
No. of current directorships	%
1	30 (33)
2	30 (27)
3 or more	39 (39)
Prefer not to say	1 (1)
Positions held on board(s)	
Executive Director	45 (47)
Non-Executive Director	67 (60)
Chairman	30 (34)
Other	8 (6)
Prefer not to say	1 (1)
Primary directorship company	
Publicly listed Australian entity	13 (11)
Private/non-listed Australian entity	50 (53)
Not-for profit entity	31 (33)
Overseas entity	5 (n/a)
Prefer not to say	1 (3)

Primary directorship business sector(s)	%
Health and Community Services	23 (22)
Finance and Insurance	17 (14)
Property and Business Services	11 (13)
Mining	10 (8)
Education	9 (8)
Construction	7 (6)
Agriculture, Forestry and Fishing	7 (5)
Personal and Other Services	7 (9)
Manufacturing	6 (8)
Energy	6 (4)
Retail Trade	5 (4)
Transport and Storage	5 (4)
Government Administration and Defence	5 (6)
Accommodation, Cafes and Restaurants	4 (2)
Communication Services	4 (5)
Cultural and Entertainment industry	4 (4)
Wholesale Trade	4 (3)
Gender	
Male	80 (78)
Female	20 (22)

# Director Sentiment Index

# Overall Director Sentiment Index

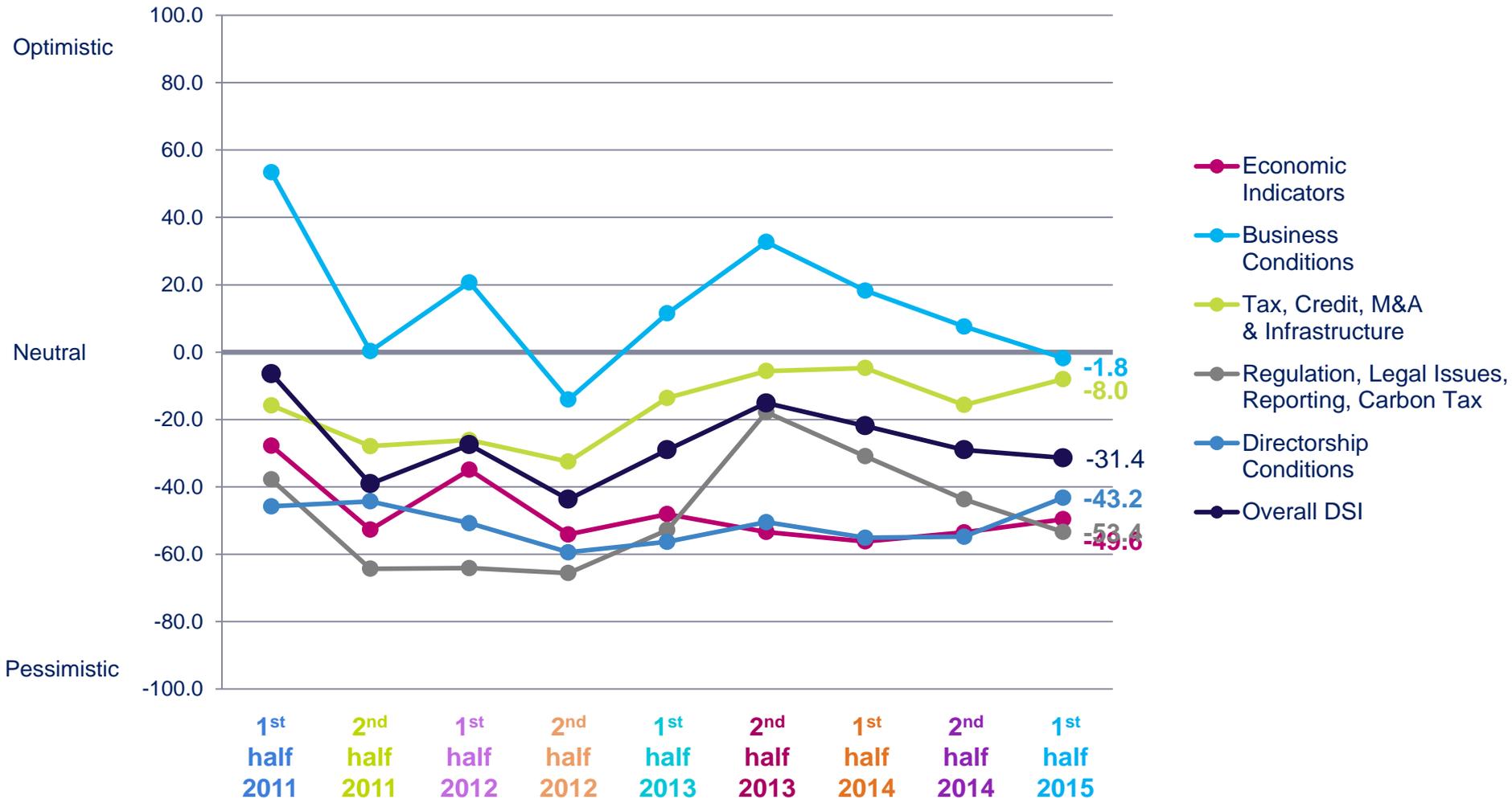
The overall sentiment in the 1<sup>st</sup> half of 2015 is down 2.4 points on the last survey, continuing a downward trend since 2<sup>nd</sup> Half 2013.



1/2011	2/2011	1/2012	2/2012	Nov'12-Mar'13	Apr-Oct'13	Nov'13-Apr'14	May-Oct'14	Nov'14-Apr'15
				Barack Obama re-elected (Nov)	Kevin Rudd takes over as PM (May)	Federal gov't school funding backflip (Dec)	Coalition gov't announces first budget (Jun)	Leadership spill (Feb)
				September 14 Election Date announced (Jan)	Tony Abbott-led coalition wins federal election (Sep)	Crisis in Ukraine (Feb)	Carbon tax legislation scrapped (Jul)	RBA official cash interest rate reduced to record low (Feb)
						Free Trade Agreements with Japan/South Korea (Apr)	Australia joins US-led coalition to fight in Iraq (Sep)	Oil and iron ore prices falling rapidly

# Overall Director Sentiment Index by segment

While sentiment has become more optimistic across Economic Indicators, Tax, Credit, M&A & Infrastructure, as well as on Director Conditions, a decline in Business Conditions and Regulation sentiment has resulted in the overall DSI decreasing slightly from the 2<sup>nd</sup> half 2014 survey.



# Executive Summary

# Executive Summary

## *Economic & Market Outlook*

### Health of economies

- Directors are increasingly pessimistic about the future health of the Australian economy, which they rate only slightly more positive than the European economy. Both economies continue a recent downward trend in expectations from directors. The outlook for the present and future health of the US economy continues to improve and remains above the outlook for the Asian economy, which also continues to be viewed optimistically.

### Economic indicators

- In line with the general pessimistic outlook for the Australian economy, almost 80 per cent of directors expect the exchange rate to further decline in the coming 12 months, while 65 per cent of directors expect the unemployment rate to increase.
- However, expectations for the ASX All Ordinaries index are more optimistic than the 2nd half of last year.

### Economic challenges

- Low productivity growth and consumer confidence continue to be the economic key challenges to business in Australia, while balance of power issues in the senate have become increasingly important.

# Executive Summary

## *Business Forecast*

### **Business growth**

- Forty 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.

### **Changes in business**

- The majority of directors observe stable levels of business exports and of outsourcing in the past 6 months, and also expect these levels to remain stable in the coming year. Around 35 per cent of directors are reporting decreased levels of investment and staffing in the past 6 months, while a similar proportion expect both to increase in the coming year.

### **Profits**

- Directors are slightly optimistic about current and future profits for their primary business. Around 35 per cent expect the current six months' profits to be higher than the same period last year, and compared to the previous 6 months. Over 35 per cent report similar expectations for the 2nd Half of 2015.

### **Business outlook**

- Continuing a recent trend since 2<sup>nd</sup> Half 2013, directors have become more pessimistic about the general business outlook and the business outlook for their own sector, with around 40 per cent and 35 percent, respectively, being pessimistic.

# Executive Summary

## Government Policy

### Budgetary

- The majority of directors believe that the Federal Government should aim for a budget surplus within the next 5-10 years, while the key priority to achieve this is increasing long-term revenue by restructuring the tax system.
- Infrastructure, on which 90 per cent of directors believe spend is too low, is seen as the key short- and long-term issue to be addressed by the Federal Government, while taxation reform and issues related to the ageing population are the next most important.

### Taxation

- Although the majority of company directors perceive the level of personal tax as too high, this perception has decreased a little since the 2<sup>nd</sup> Half of 2014. The sentiment around corporate tax remains less pessimistic in comparison to personal tax.
- Nearly 80 per cent of directors favour changes favour increasing or broadening the GST.

### Regulation

- Thirty-five per cent of directors believe the level of 'red-tape' has increased in the last 12 months, with a similar proportion expecting an increase in the coming year. Around 35 per cent also believe board commitment to 'red-tape' has increased in the past 12 months.

# Executive Summary

## *Government Policy (cont.)*

### **Credit Availability**

- Directors are increasingly reporting availability of credit for investment, assets and working capital in the previous half-year and are also more optimistic regarding the credit availability for these purposes in the next 12 months.

### **Industrial Relations**

- Company directors are less likely to think the Federal Government should pursue an industrial relations reform in the current term, most see this as a priority for the next term.
- The key priorities for an industrial relations reform are workplace flexibility and penalty rates.

### **Public Policy**

- Around 85 per cent of company directors believe the current quality of public policy debate in Australia is poor.

### **Performance & Business Understanding**

- Directors perceive an increasingly negative effect of the current Federal Government's performance on their business decision making and consumer confidence.
- More than 60 per cent disagree that the current Federal Government understands business.

# Executive Summary

## *Key Issues for Directors and Boards*

### **Director liability**

- Almost 60 per cent of directors perceive governance regulations as onerous.
- Around 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, while more than half agree that it negatively impacts their willingness to accept new board appointments.
- Directors have become more optimistic regarding the impact of legal judgments on their business decision making, compared to the 2<sup>nd</sup> half of 2014.
- Over 70 per cent of directors agree that there is a risk-averse decision-making culture on Australian boards, with almost 85 per cent agreeing that the risk of personal liability caused them to take an overly cautious approach to business decision making in the past.

### **Ethics of company directors**

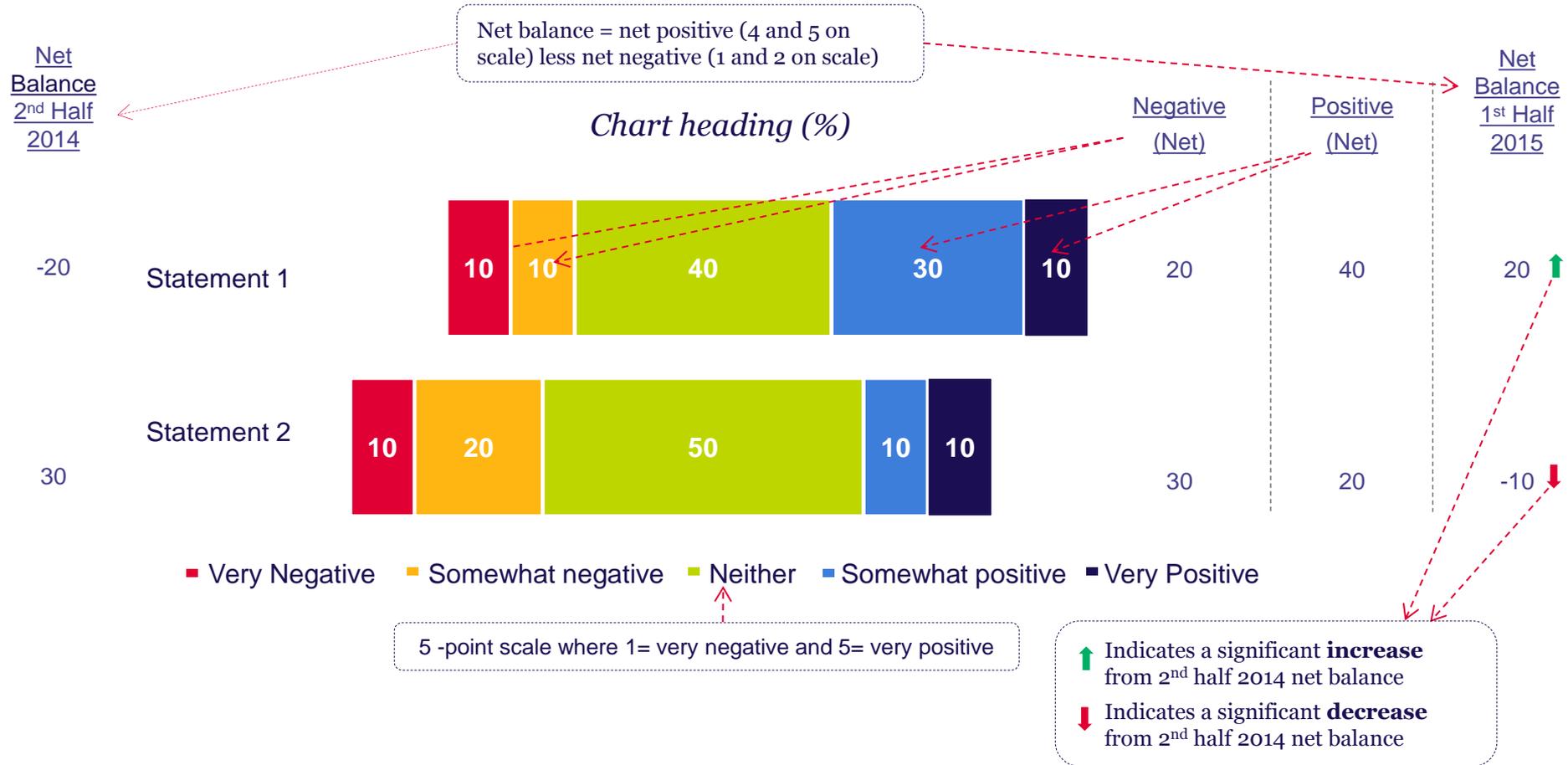
- The majority of directors continue to perceive Australian listed public companies as ethical, more so than overseas listed companies and Australian non-listed and private companies.

### **Board diversity**

- More than 65 per cent of directors state that their business is actively seeking to increase board diversity in terms of skills, while more the 45 per cent believe their business is actively trying to increase gender diversity.

# Detailed Results

# Explanation of charts – example only

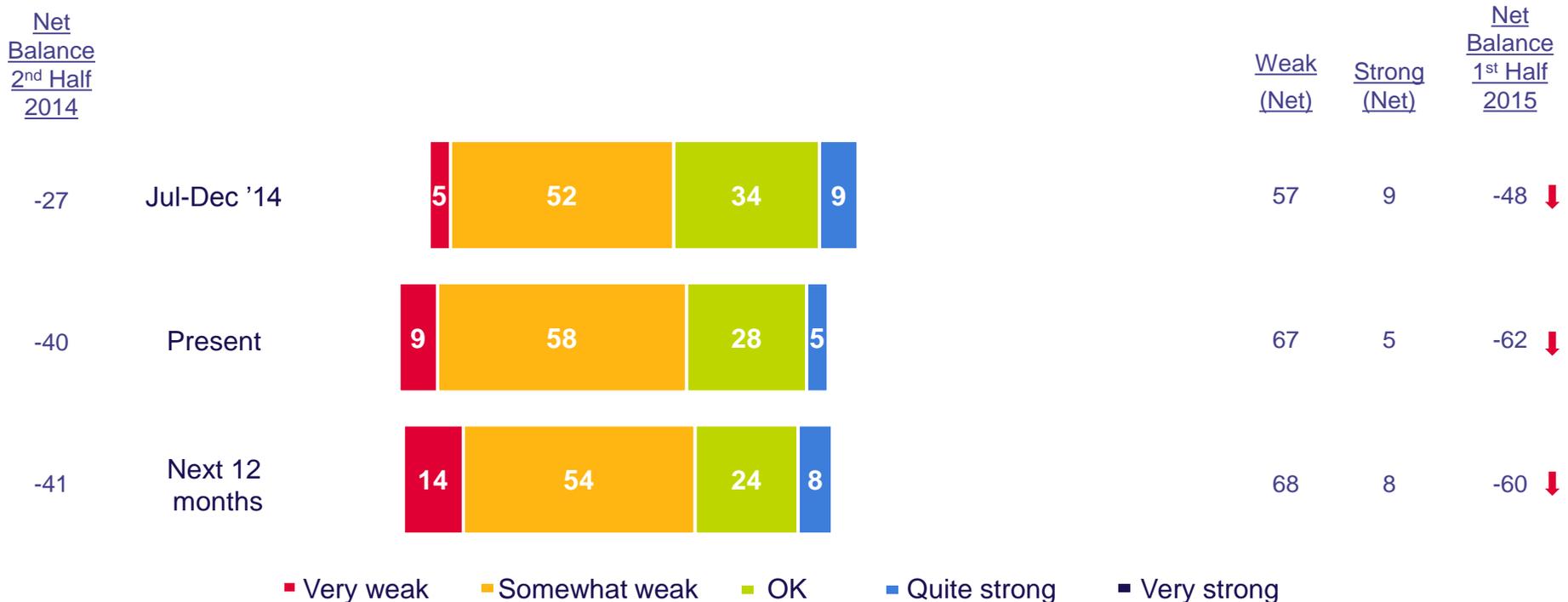


# Economic & Market Outlook

# Health of the Australian economy

Directors view the health of the Australian economy with increased pessimism compared to the 2<sup>nd</sup> Half 2014. About 55 per cent of directors perceive the economy as weak in the past 6 months, while over 65 per cent see it as weak at present, and almost 70 per cent expect it to be weak in the next 12 months.

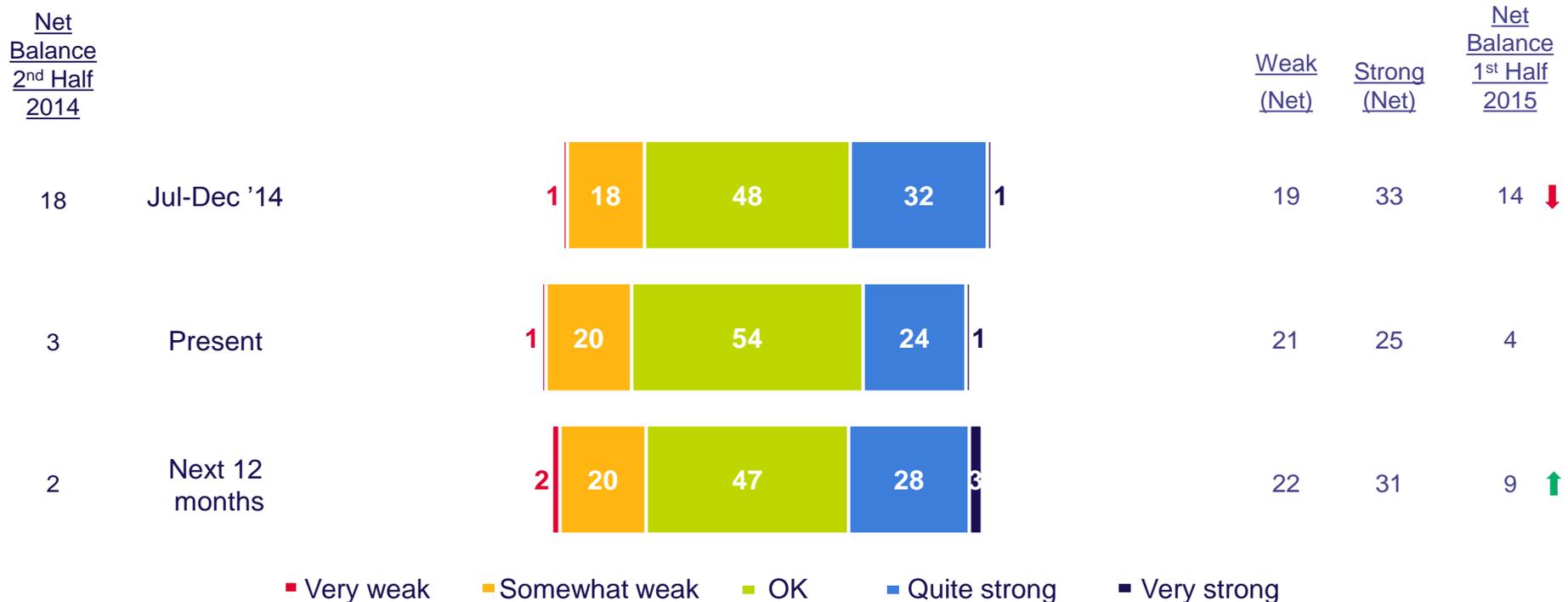
What is your assessment of the health of the Australian economy? (%)



# Health of the Asian economy

Current and future sentiment regarding the health of the Asian economy remains optimistic. While its perceived strength in the past 6 months decreased slightly, present sentiment remains neutral, and about 30 per cent expect it to be strong in the next 12 months.

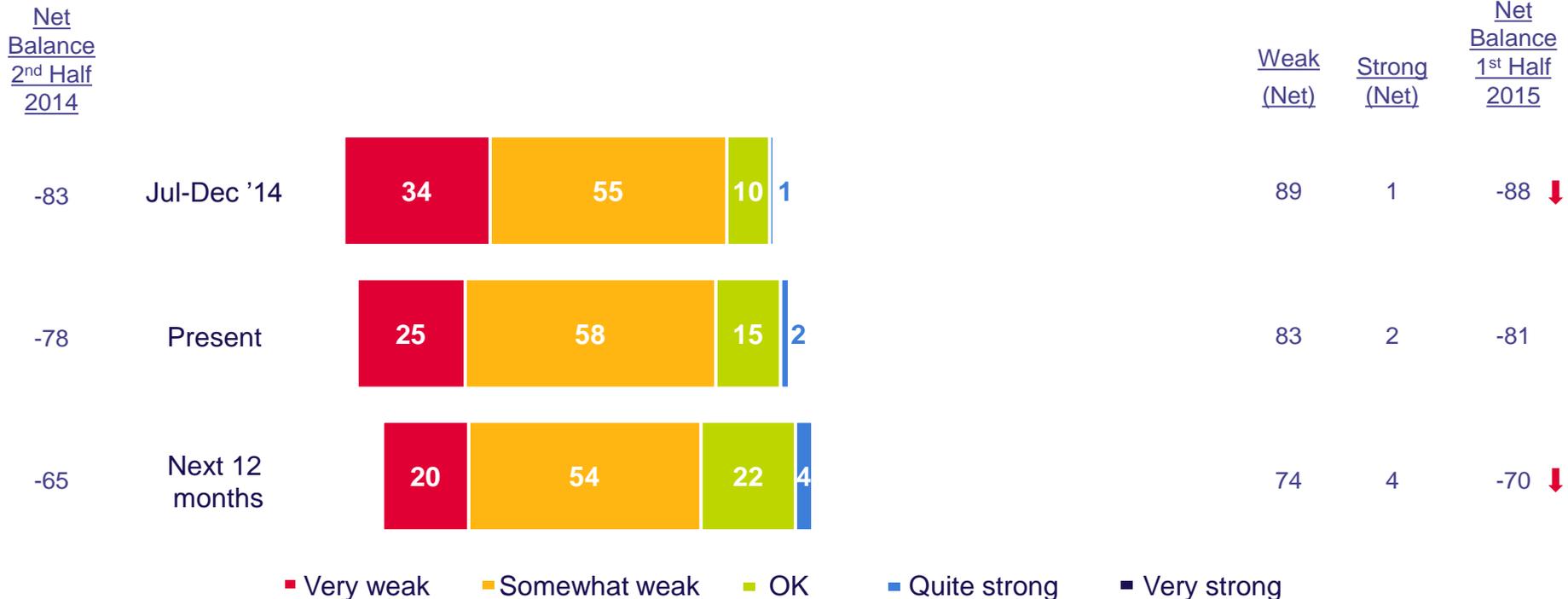
What is your assessment of the health of the Asian economy? (%)



# Health of the European economy

Sentiment regarding the European economy remains very pessimistic – almost 90 per cent of directors view the European economy as weak in the past 6 months, while around 75 per cent expect it to remain weak over the next 12 months.

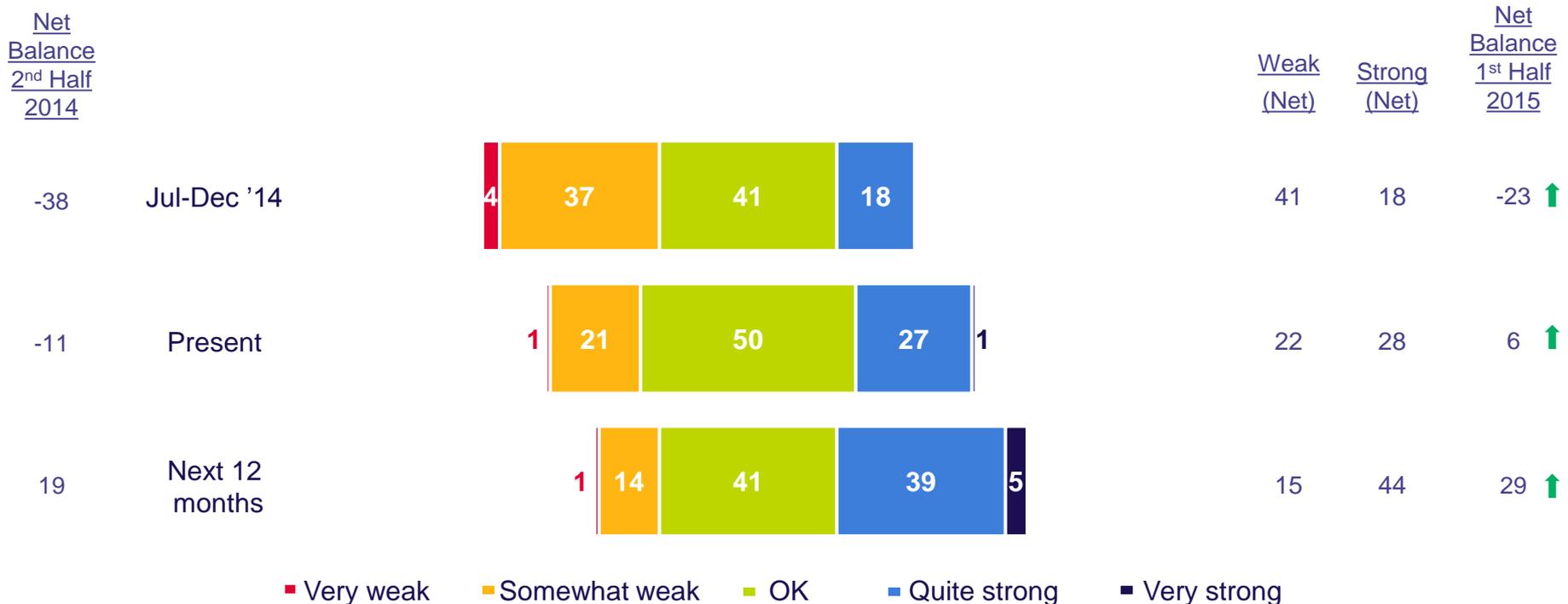
What is your assessment of the health of the European economy? (%)



# Health of the US economy

The sentiment around the US economy is increasingly optimistic. Although around 40 per cent of directors perceived the US economy as weak for the past 6 months, almost 30 per cent perceive it as presently strong, and about 45 per cent expect it to be strong over the coming year.

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

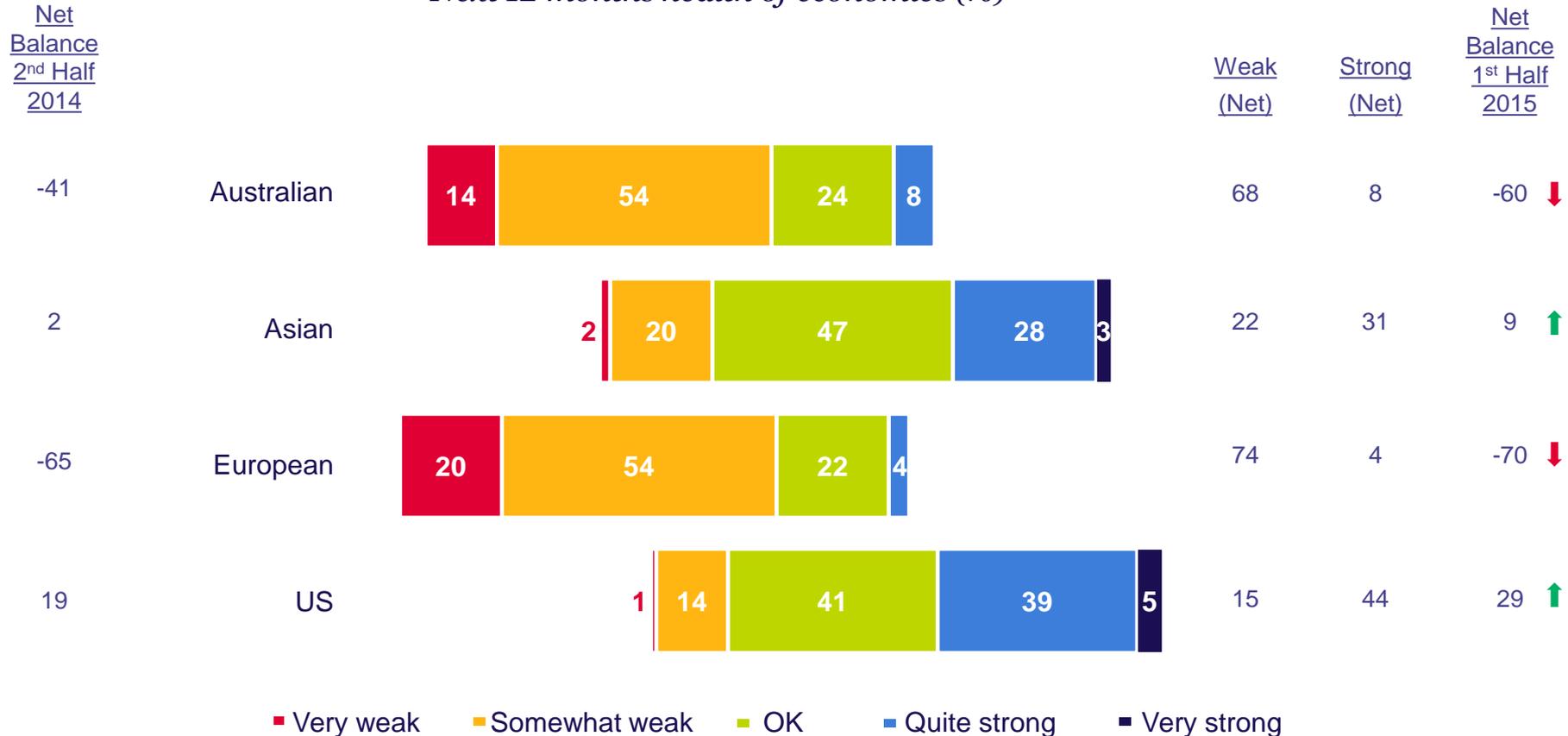


# Next 12 months health of economies: summary

20

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 foreseen to be weak by around 70 per cent and 75 per cent of directors, respectively.

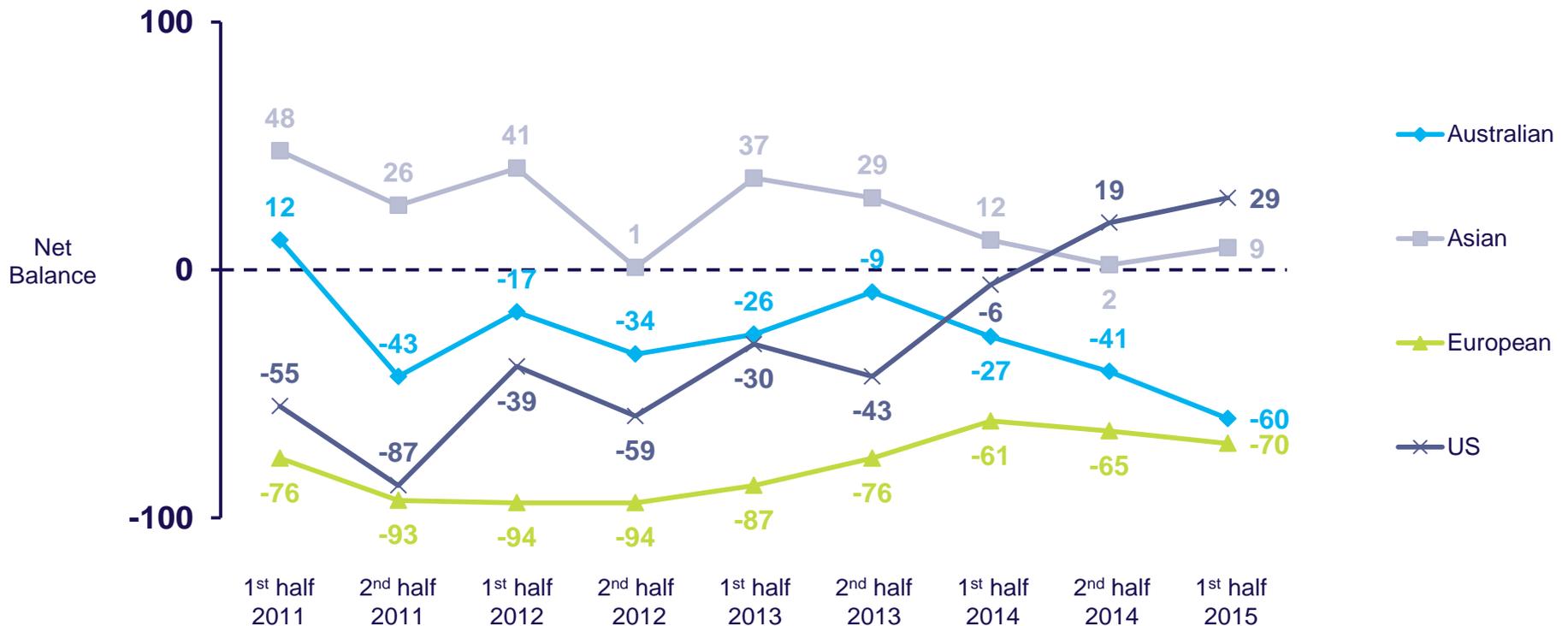
Next 12 months health of economies (%)



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

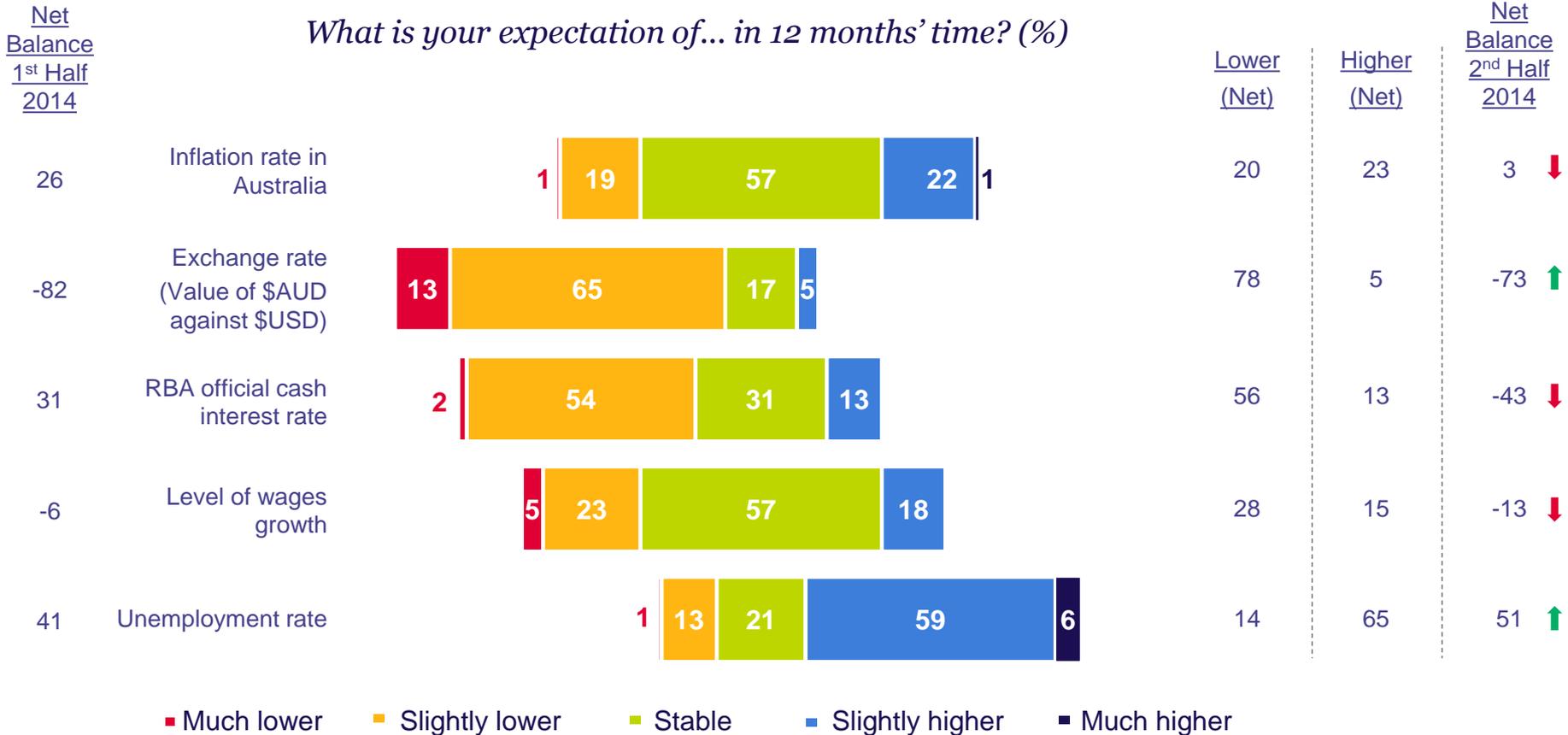
Expectations for the US economy continue the positive long term trend, while the Australian and the European economies are regarded increasingly pessimistically. After 3 semi-annual decreases in expectations for the Asian economy, the trend has turned around this wave with a slightly more positive view than in the 2<sup>nd</sup> Half 2014.

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



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

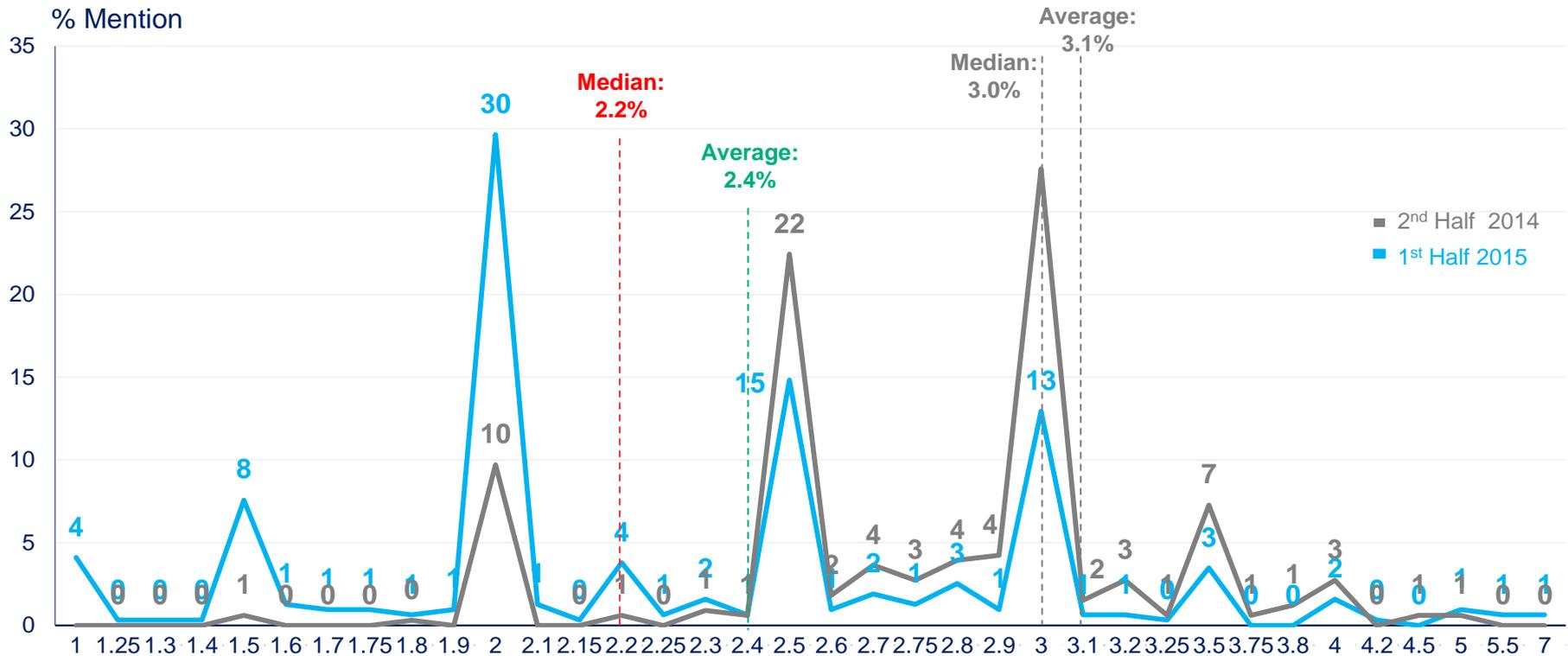
Sentiment regarding economic indicators is mixed from the 2<sup>nd</sup> Half 2014 results. Although less pessimistic than the previous survey, almost 80 per cent of directors expect the value of the Australian dollar to decline further. 65 per cent expect a rise in unemployment, up from the previous wave, while more than 55 per cent expect the RBA official cash rate to decrease.



# Economic indicators – Australian inflation rate in next 12 months

At 2.4% on average, expectations regarding the Australian inflation rate are lower than in the previous survey. Estimates continue to cluster around 2, 2.5 and 3 per cent. The actual inflation rate during survey fieldwork was 1.7 per cent\*.

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

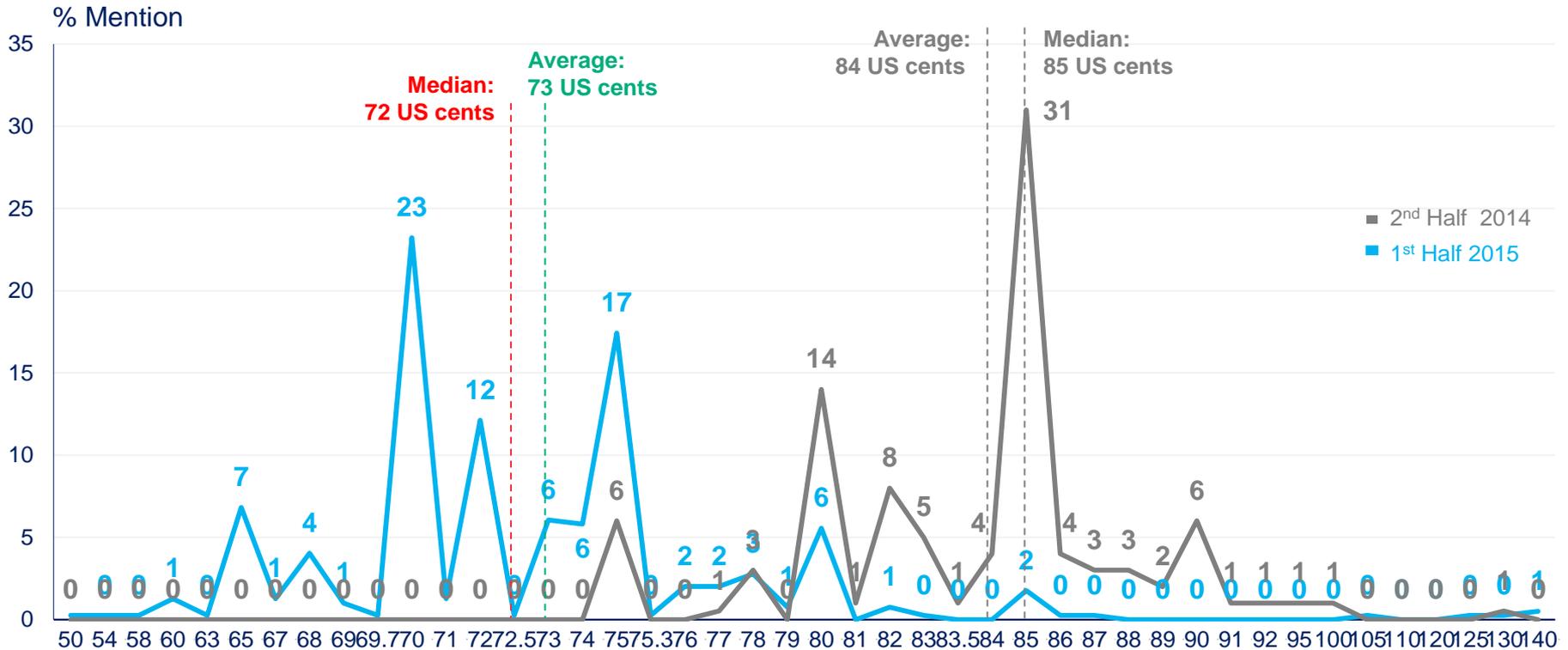


\*. Source: RBA

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

In line with the current trend of the Australian dollar value, directors expect a further decreased value (73 US cents on average) compared to the previous survey, with estimates clustering around 70, 72 and 75 US cents. The average rate during survey fieldwork was 77 US cents\*.

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

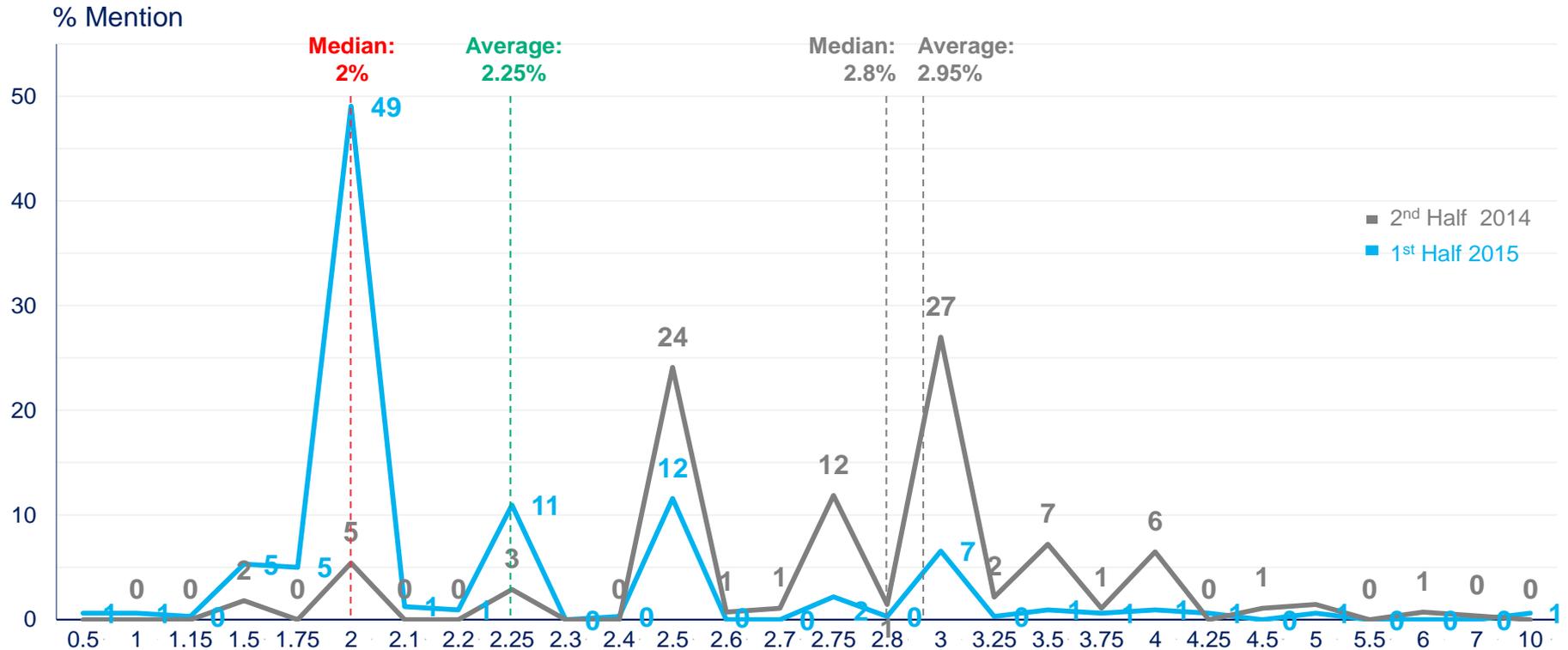


\*. Source: RBA

# Economic indicators – RBA official cash interest rate in next 12 months 25

Almost half of directors expect a further decrease of the RBA official cash rate to 2 per cent, with other estimates clustering around 2.25 per cent and 2.5 per cent. The actual interest rate during survey fieldwork was 2.25 per cent\*.

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

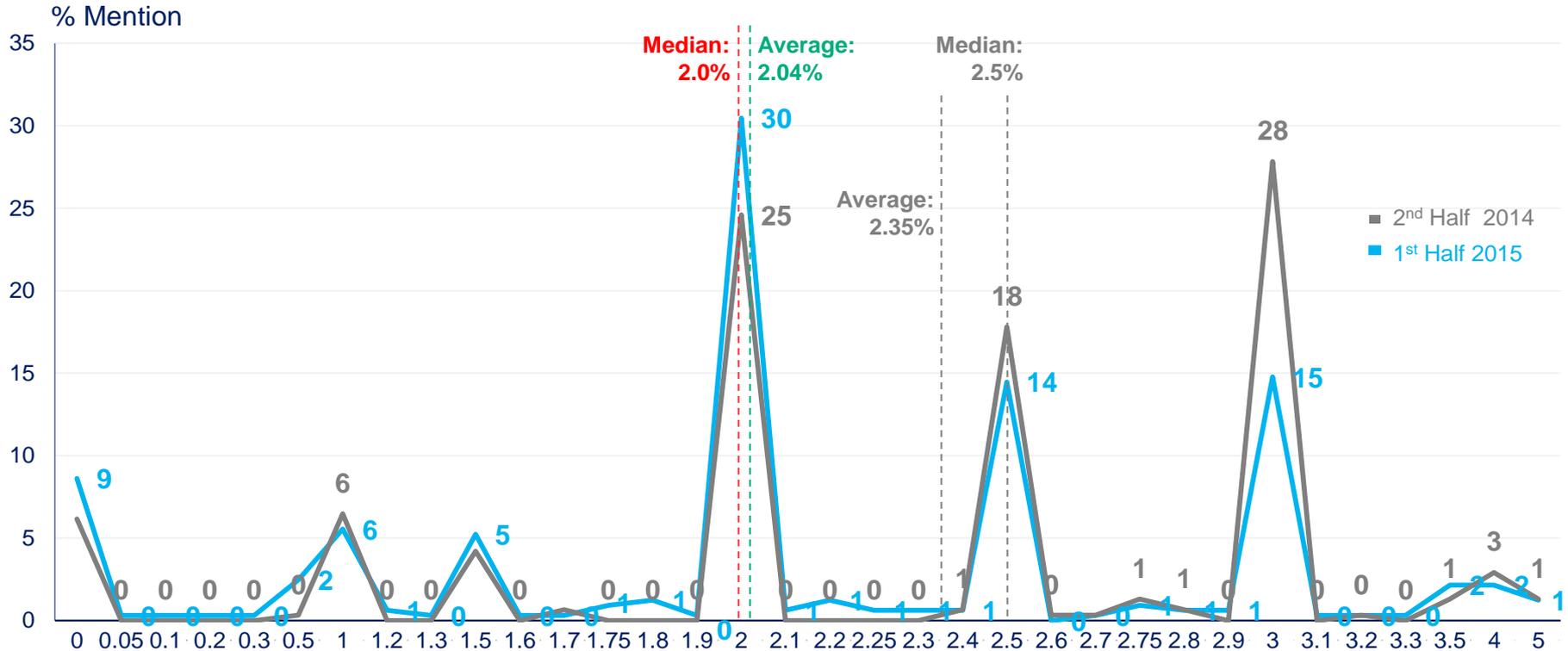


\*. Source: RBA

# Economic indicators – wages growth rate in next 12 months

Directors expect a lower increase in wages compared to 2<sup>nd</sup> Half 2014, at an average and median of around 2 per cent, with expectations clustering at 2, 2.5 and 3 per cent. The actual growth for the most recent year to the survey fieldwork was 2.5 per cent\*.

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

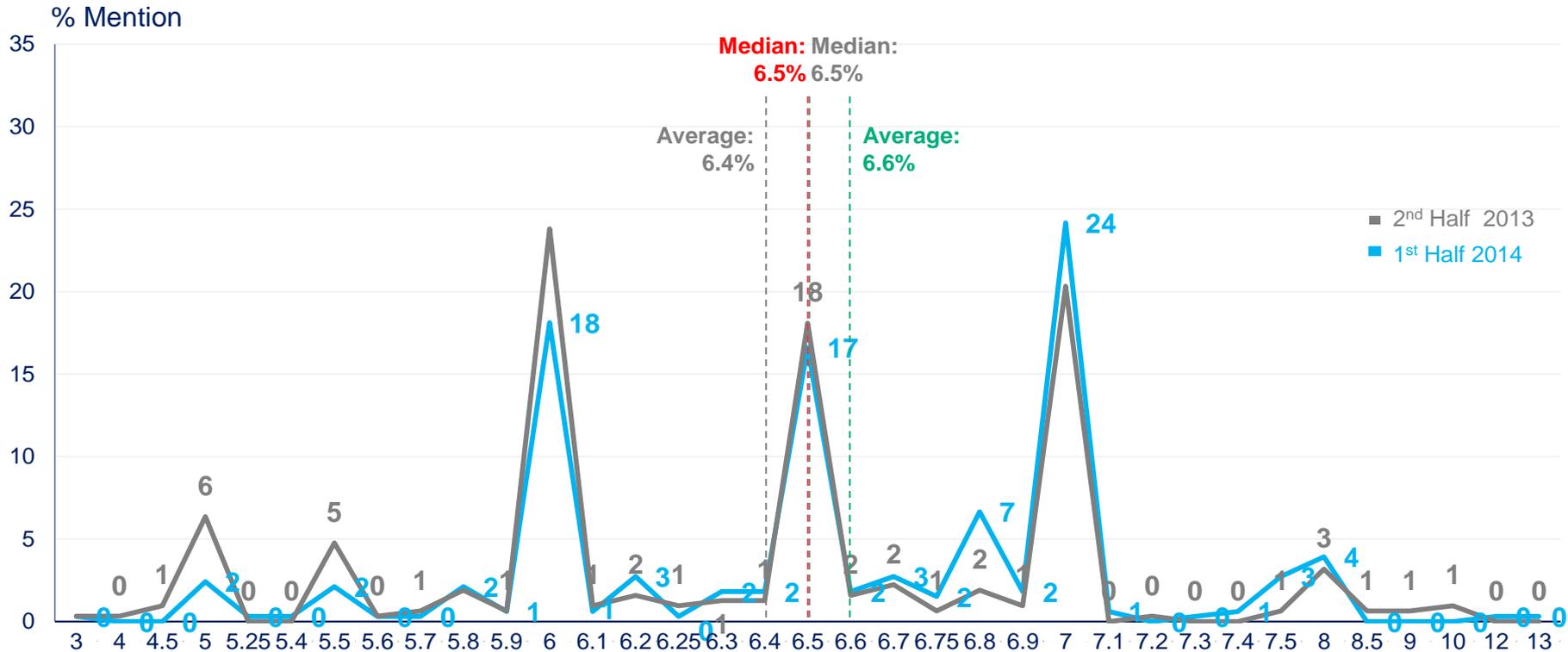


\*. Source: ABS

# Economic indicators – unemployment rate in next 12 months

The average expected unemployment rate rose slightly to 6.6 per cent, estimates clustering around 6, 6.5 and 7 per cent. The known unemployment rate during survey fieldwork was 6.4 per cent\*.

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



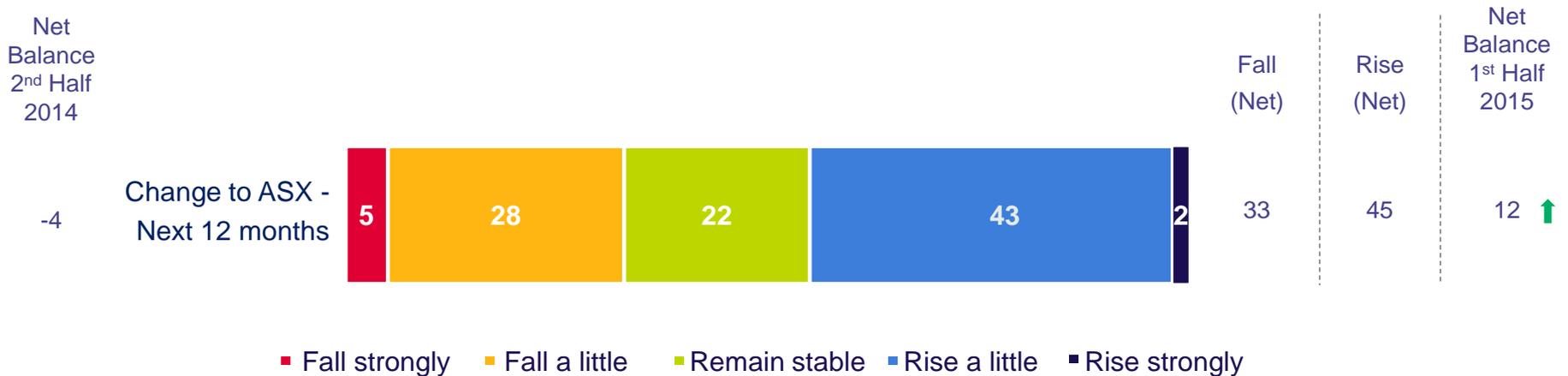
\*. Source: ABS

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

28

The expectations regarding the ASX All Ordinaries index have become more optimistic compared to the 2<sup>nd</sup> Half 2014 with 45 per cent of directors expecting the index to rise in the next 12 months.

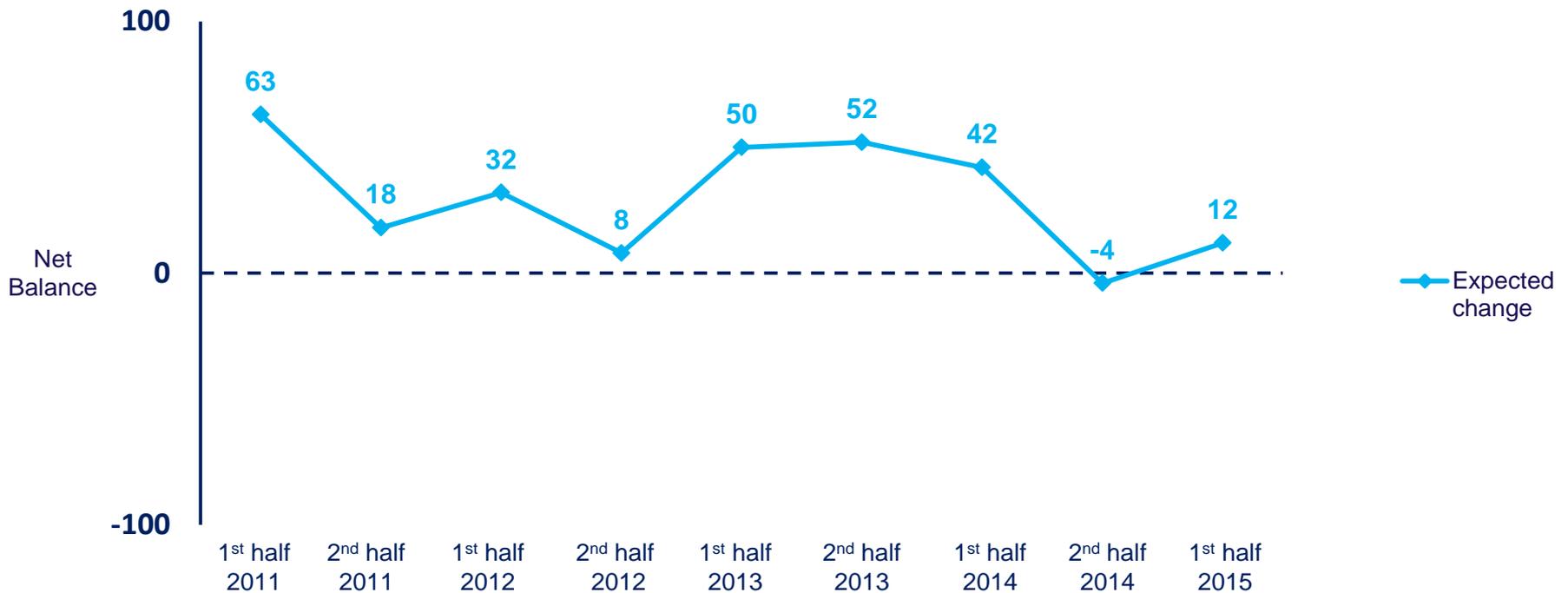
Expected change to ASX All Ordinaries index – next 12 months (%)



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

Sentiment regarding the ASX All Ordinaries index for the coming year has reverted back to optimistic, stopping a downward trend in expectations since 1<sup>st</sup> Half 2014.

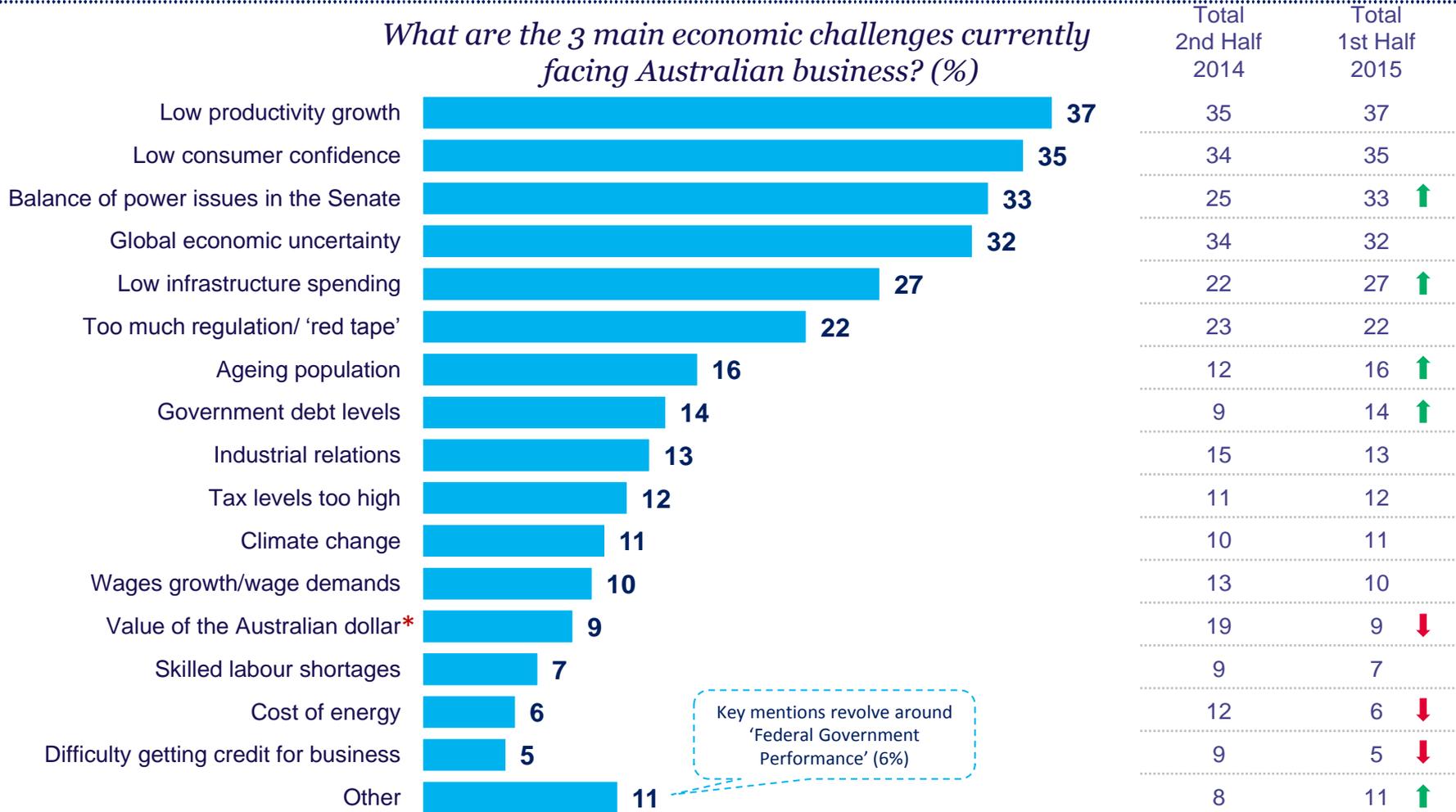
Expected change to ASX All Ordinaries index: next 12 months – semi-annual trend (net balance)



# Main current economic challenges (Top 3)

Directors continue to view low productivity growth as the biggest economic challenge facing Australian business, followed by low consumer confidence, while balance of power issues in the senate has become an increasingly important challenge (ranking third now).

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



Key mentions revolve around 'Federal Government Performance' (6%)

\*Note changed from 'High value of the Australian dollar' to 'Value of the Australian dollar' in 1st Half 2015

7: In your opinion, what are the 3 main economic challenges currently facing Australian business? (Select 3 answers only)  
Base: All respondents n=540

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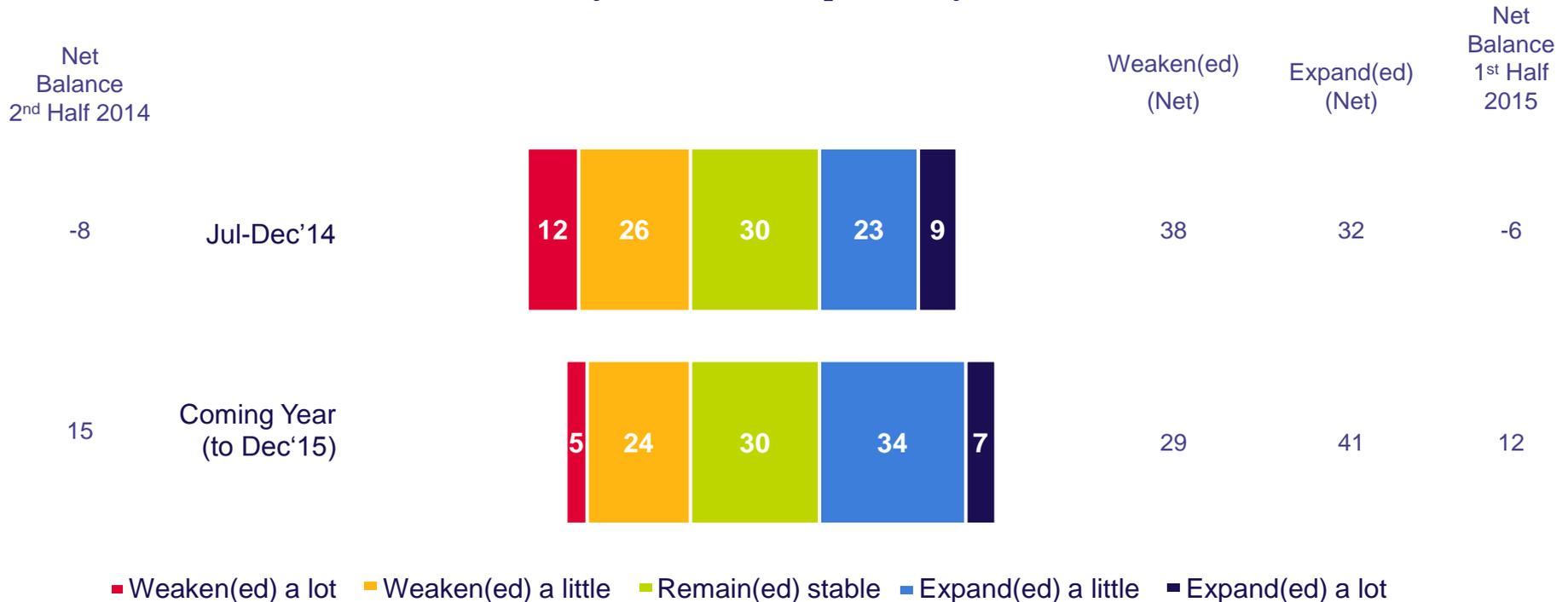
# Business Forecast

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# Growth of the business (primary directorship company)

*In line with the previous survey results, almost 40 per cent of directors reported that business growth weakened between July and December 2014, while more than 30 per cent reported growth. Future projections remain optimistic, with more than 40 per cent of directors expecting growth in the coming year.*

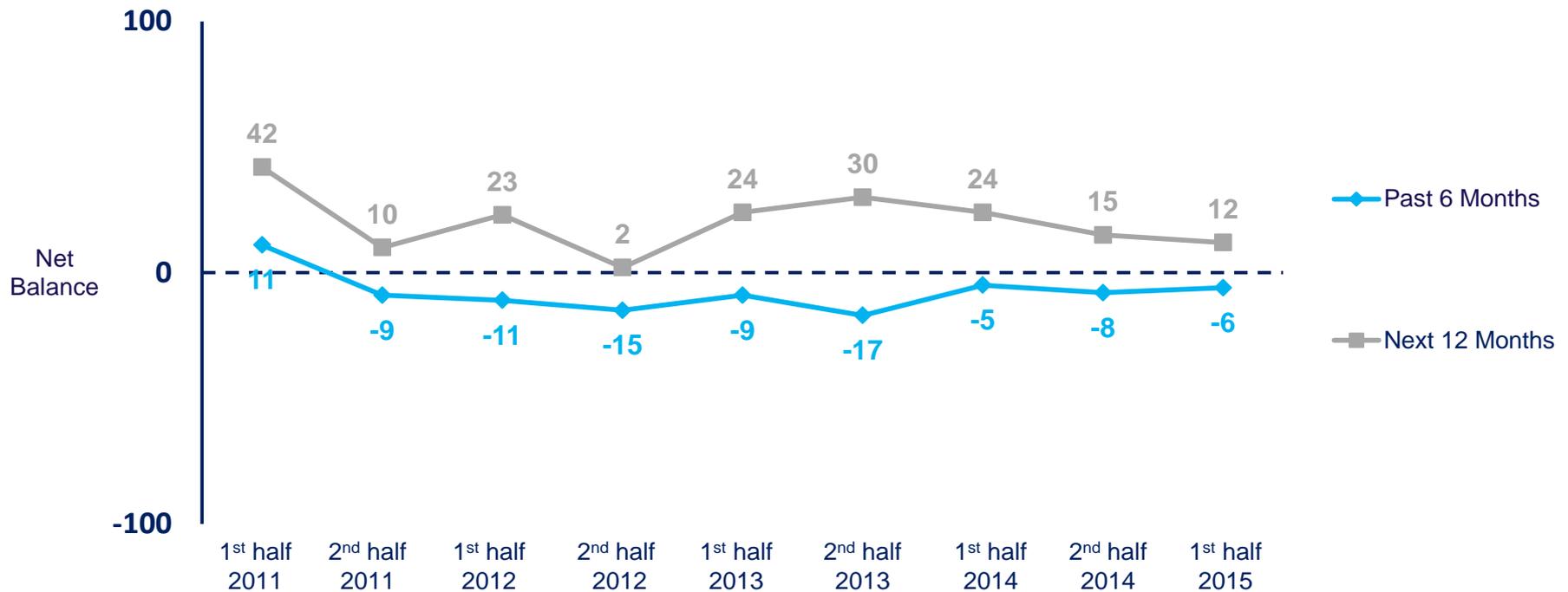
Growth of the business – past and future (%)



# 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.

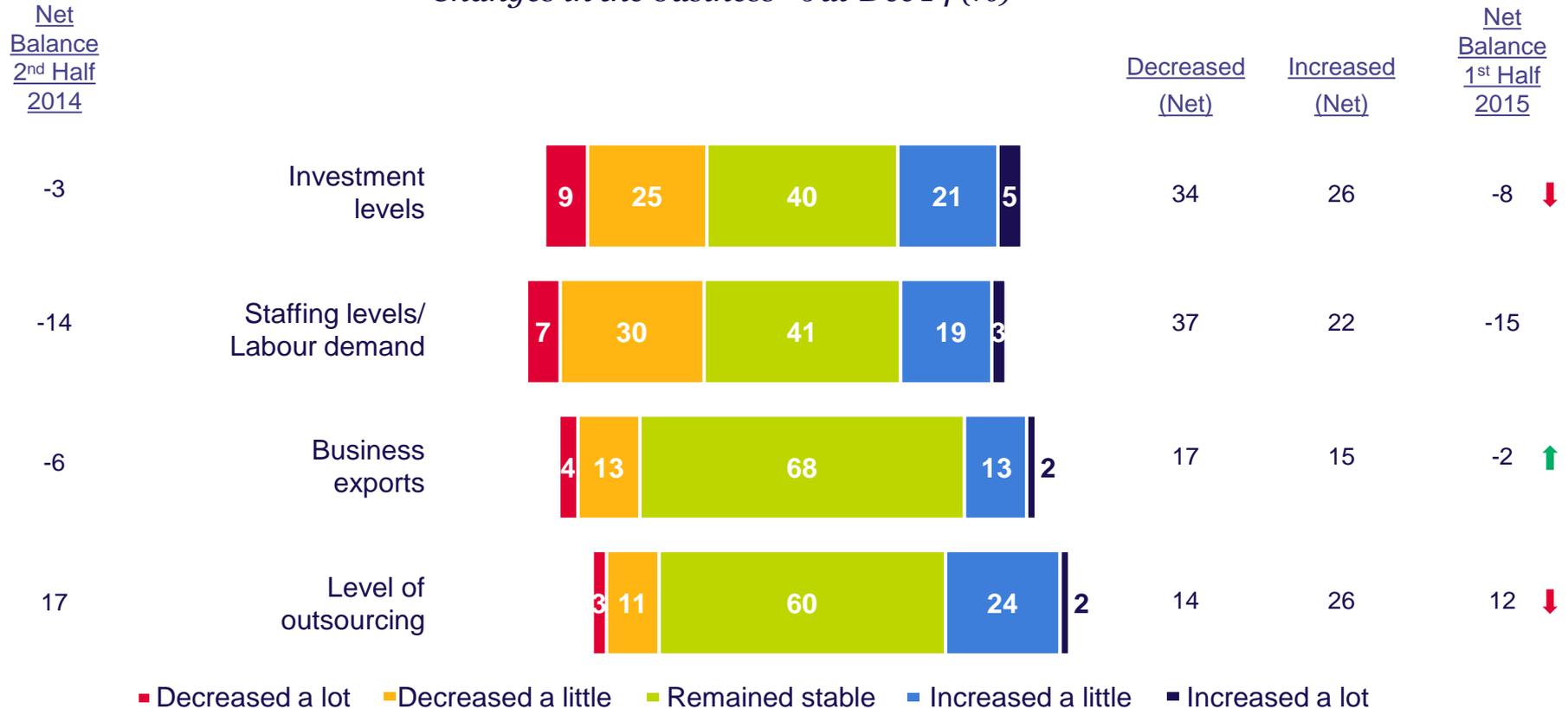
Growth of business (past 6 months and next 12 months) – semi-annual trend  
(net balance)



# Changes in the business – Jul-Dec’14

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

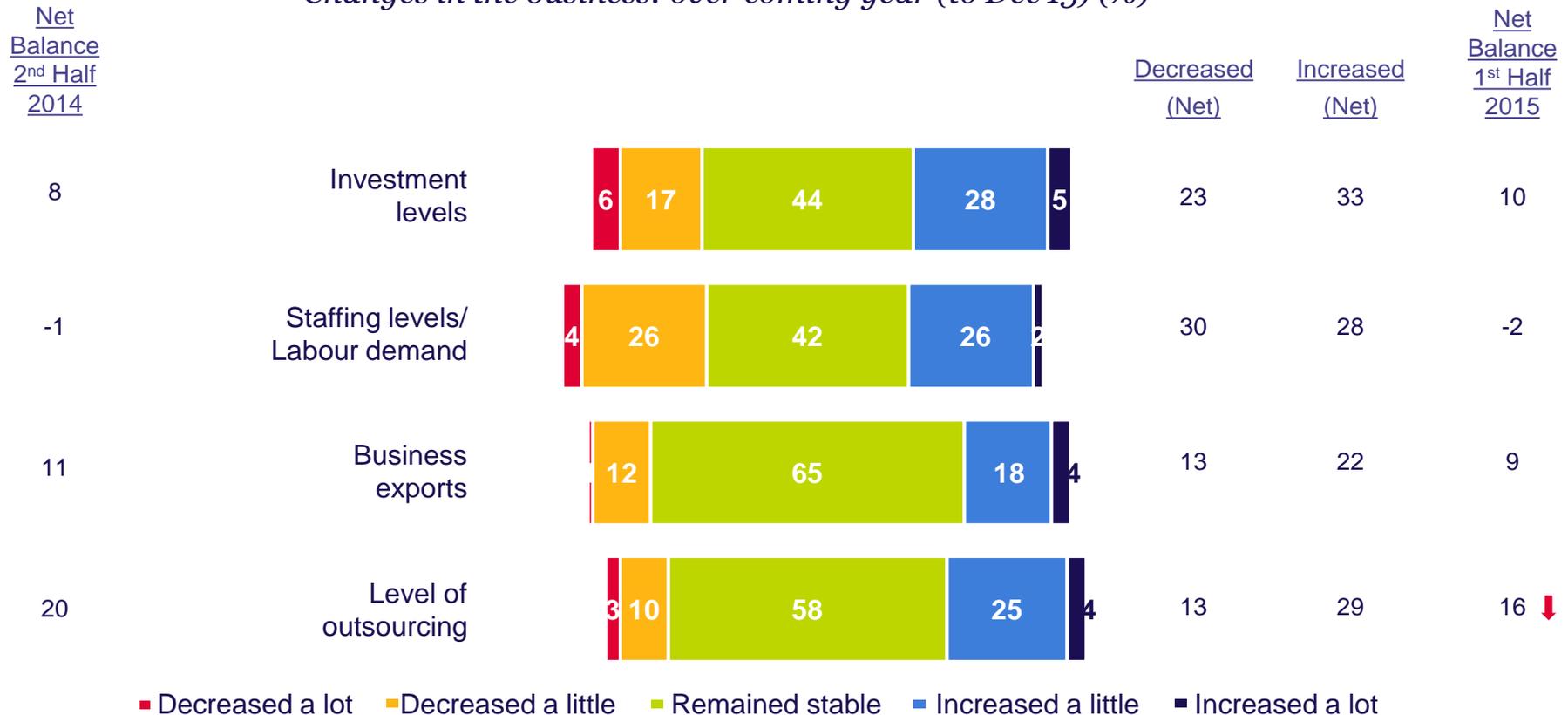
Changes in the business - Jul-Dec’14 (%)



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

Almost 30 per cent expect the level of outsourcing to increase in the next 12 months, although this is less than in the 2<sup>nd</sup> half 2014. Expectations of growth across the other three facets of business are mostly stable.

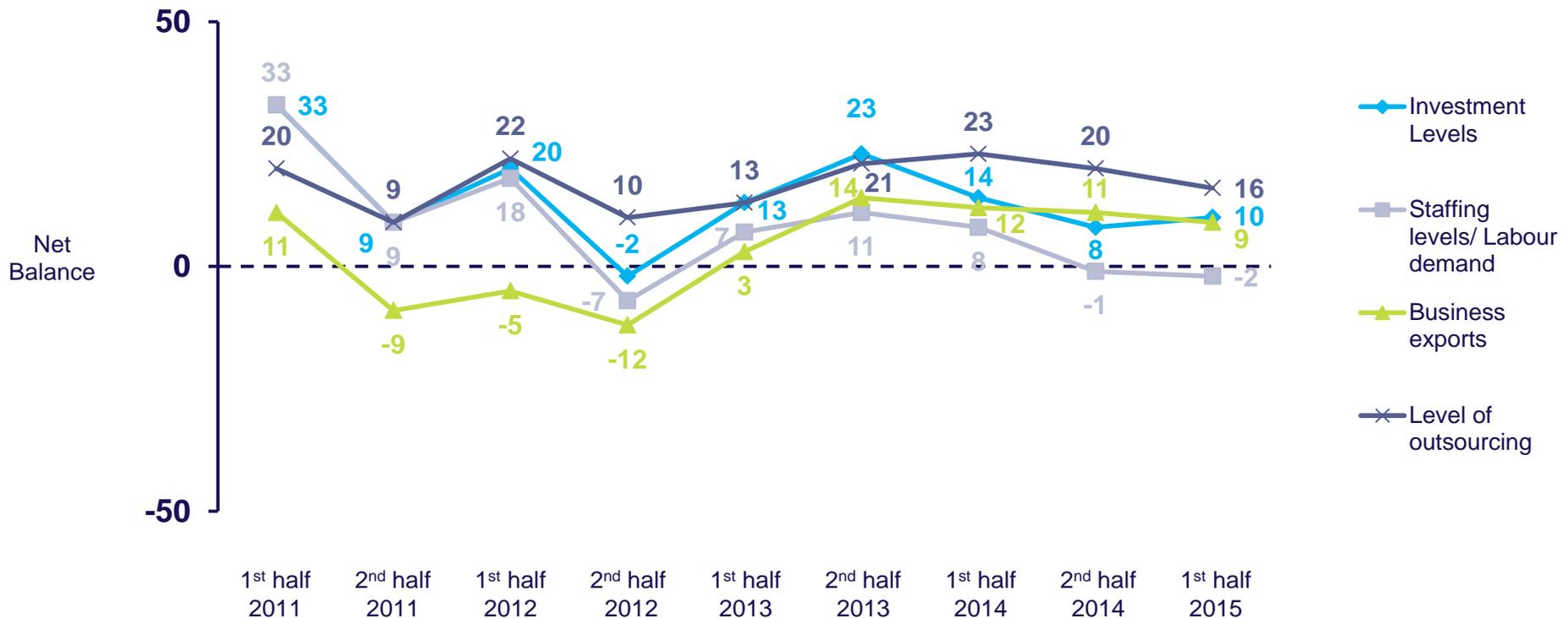
Changes in the business: over coming year (to Dec'15) (%)



# 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 have remained stable 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

37

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 2<sup>nd</sup> half 2014 results.

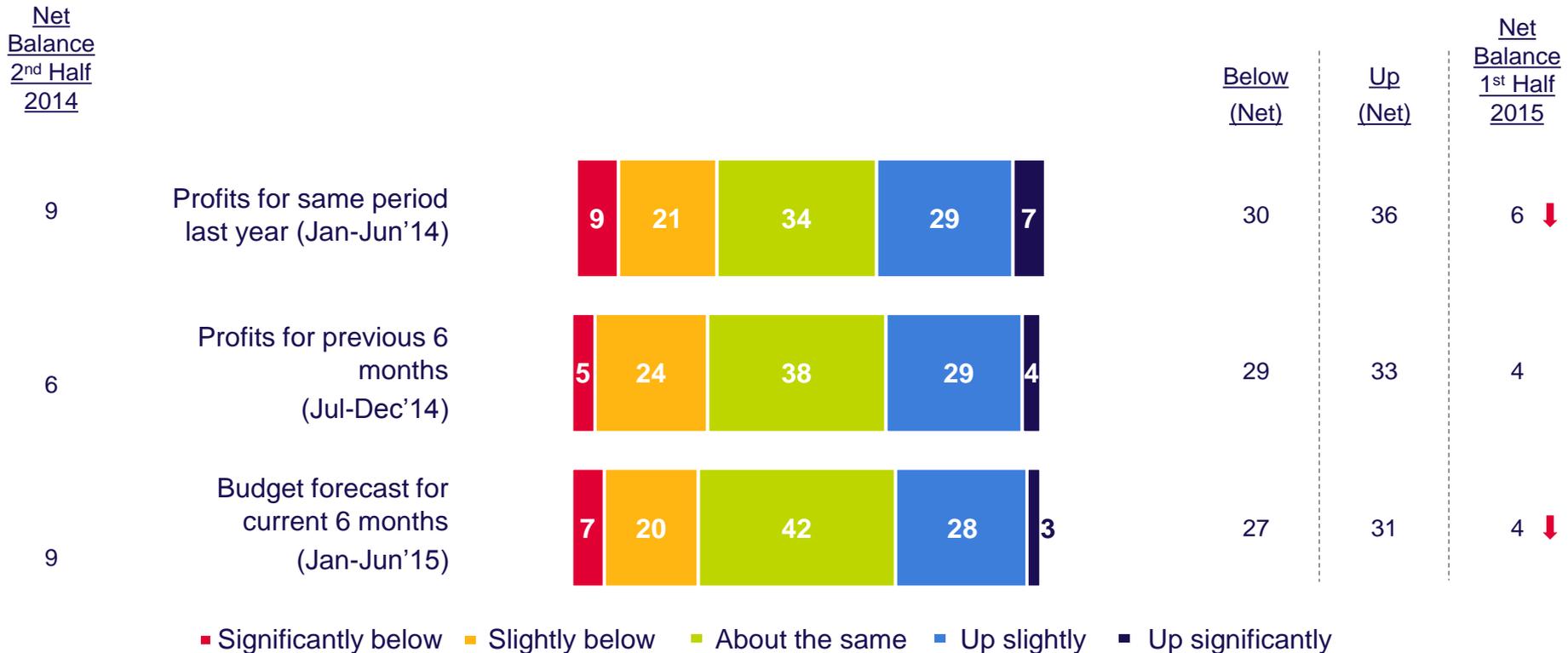
## Main reason for expected change in staffing levels/labour demand (%)

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	2 <sup>nd</sup> Half 2014	50	41	59
	1 <sup>st</sup> Half 2015	51	39	64
Changed economic conditions	2 <sup>nd</sup> Half 2014	32	46	17
	1 <sup>st</sup> Half 2015	32	45	17
Workplace laws	2 <sup>nd</sup> Half 2014	3	3	3
	1 <sup>st</sup> Half 2015	3	5	1
Changed wage levels	2 <sup>nd</sup> Half 2014	2	3	1
	1 <sup>st</sup> Half 2015	1	1	1
Parental leave laws	2 <sup>nd</sup> Half 2014	0	0	1
	1 <sup>st</sup> Half 2015	0	0	0
Other	2 <sup>nd</sup> Half 2014	14	7	20
	1 <sup>st</sup> Half 2015	13	10	17

# Profits for current six months compared to...

*In line with the 2<sup>nd</sup> half 2014 results, directors are slightly optimistic about actual profits for the current 6 months, with more than 35 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 (Jan-Jun'15) compared to... (%)

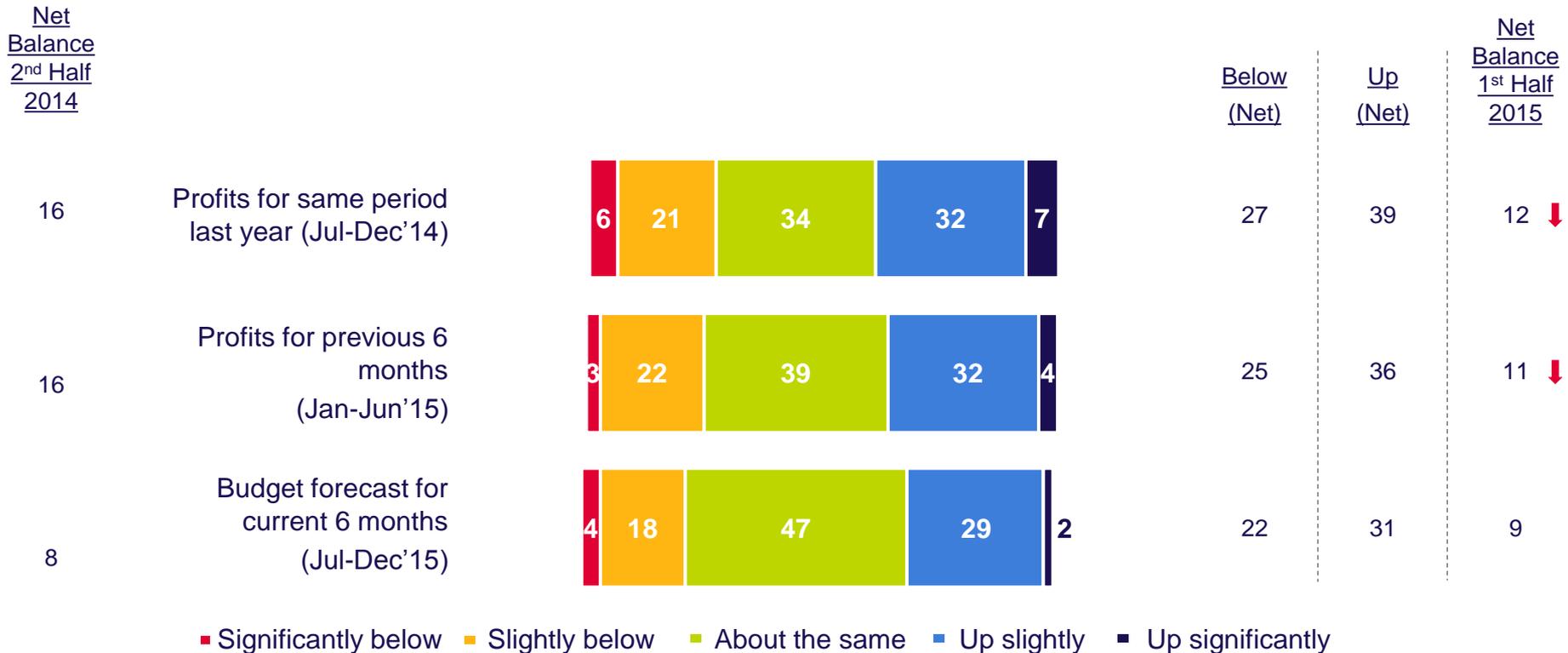


# Profits for second half of year compared to...

39

Expectations of profits for the second half of the year to June 2015 are in line with the previous survey's results, with almost 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 (Jul–Dec 2015) compared to... (%)

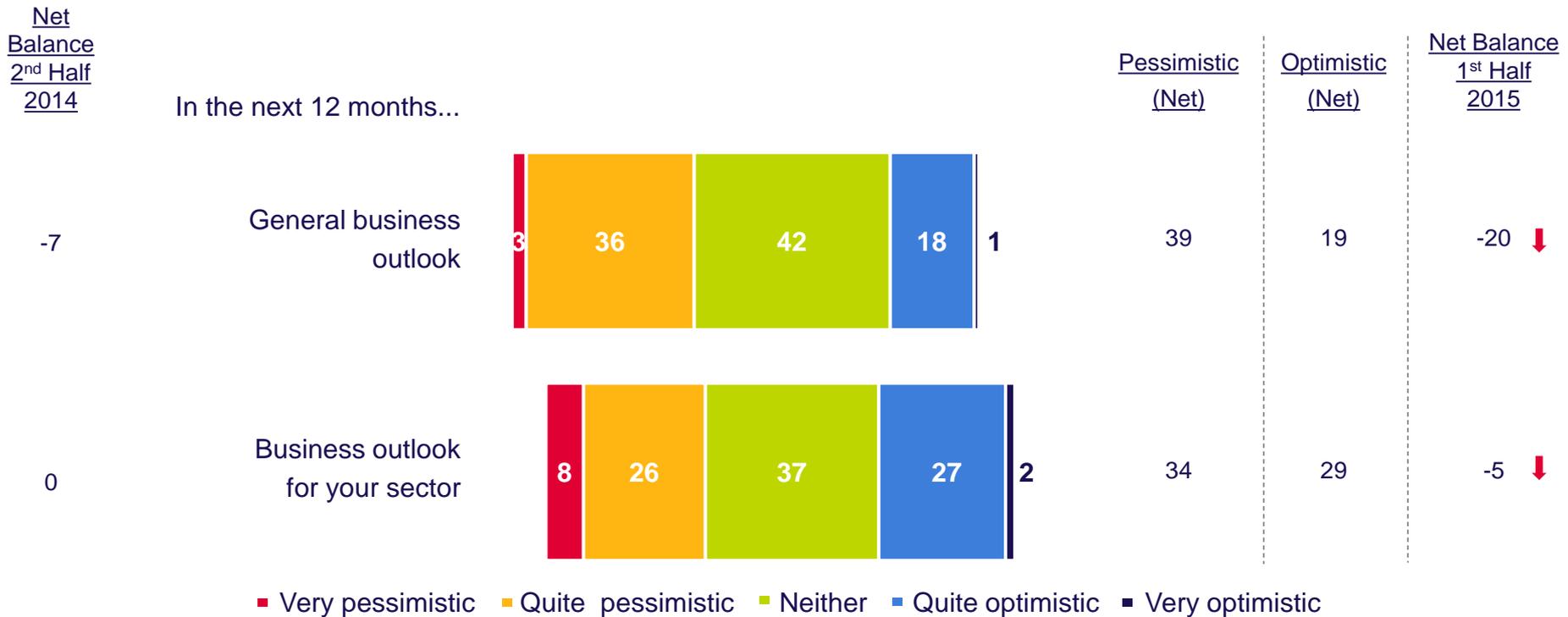


# Confidence in business outlook – next 12 months

40

Directors have become more pessimistic about the general business outlook compared to the previous survey's results, with almost 40 per cent of directors indicating they are pessimistic about the general business outlook, and almost 35 per cent indicating they are pessimistic regarding the outlook for their own sector.

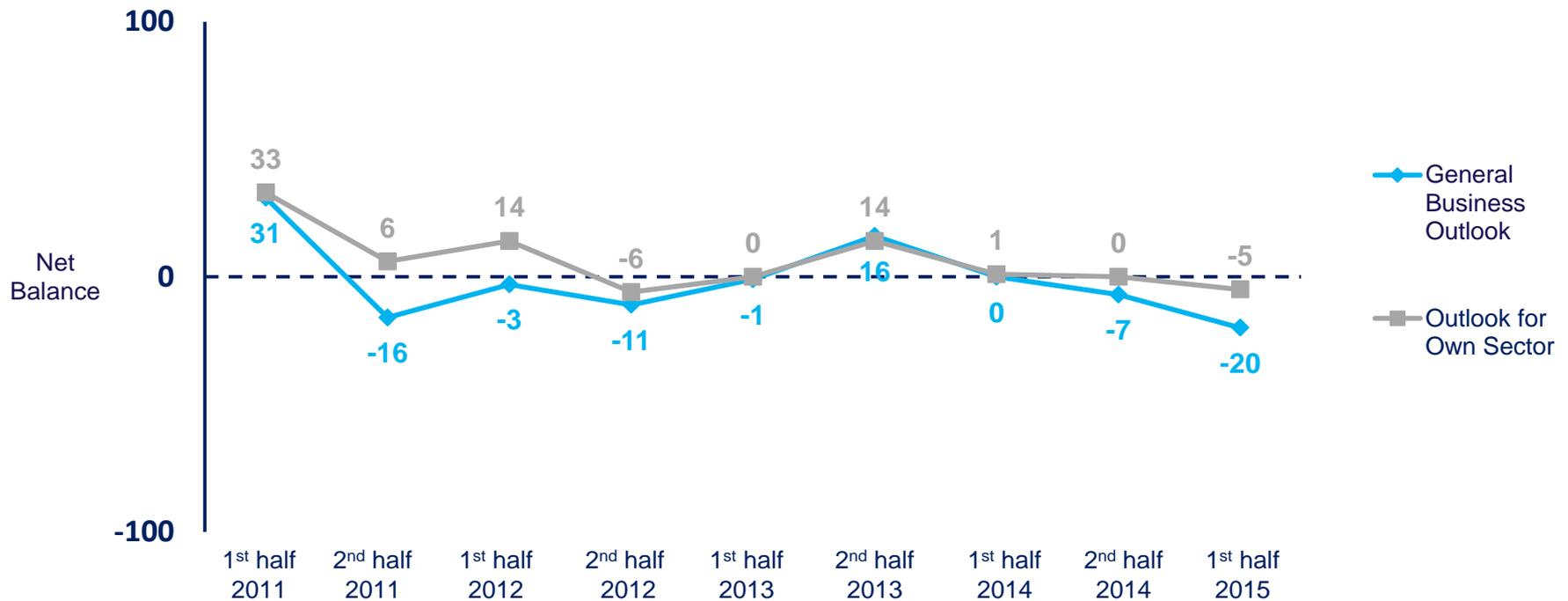
Confidence in business outlook – general and sector – next 12 months (%)



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

Directors' optimism regarding the general business outlook and the business outlook for the own sector continues its steady decrease since 2<sup>nd</sup> Half 2013.

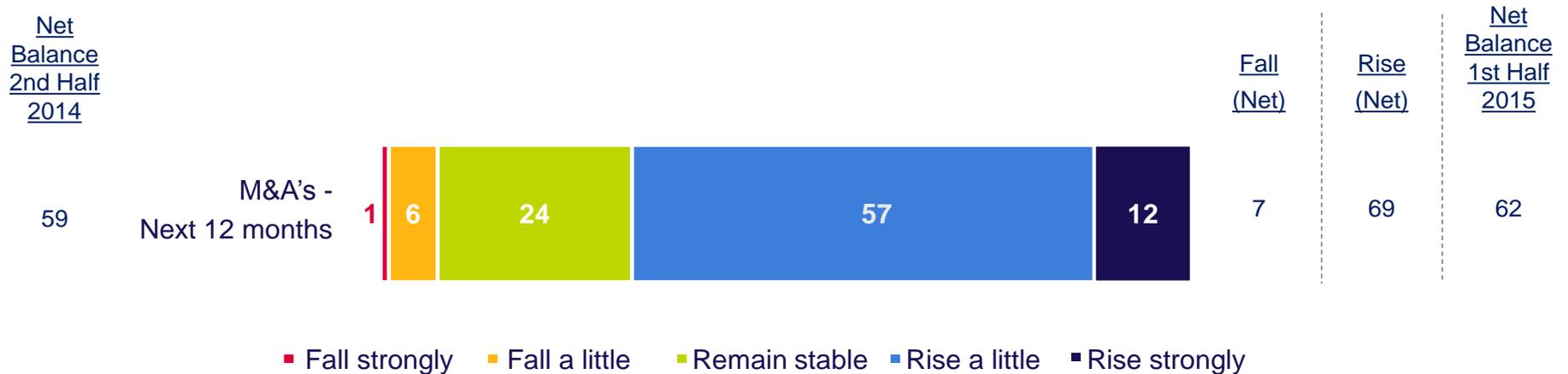
Confidence in business outlook: next 12 months – semi-annual trend (net balance)



# Expected change in level of mergers and acquisitions – next 12 months 42

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

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



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# Government Policy

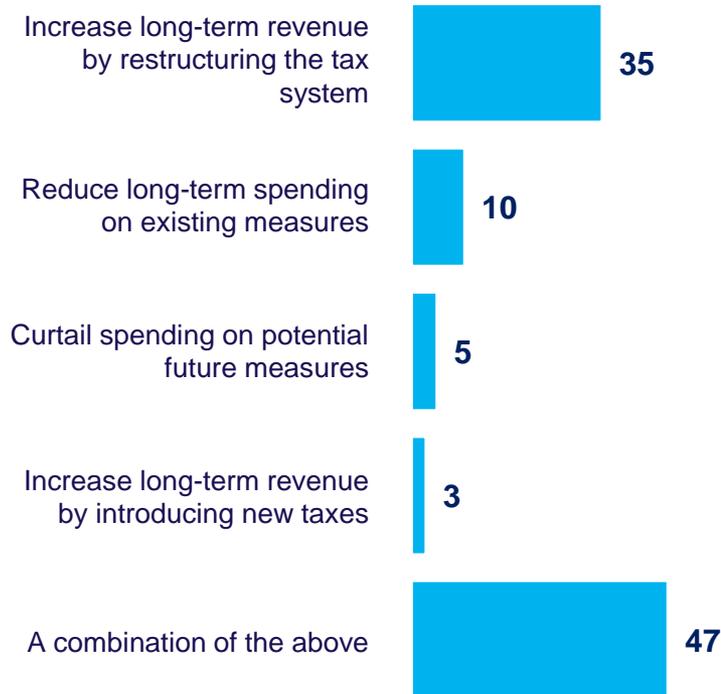
## *Budgetary*

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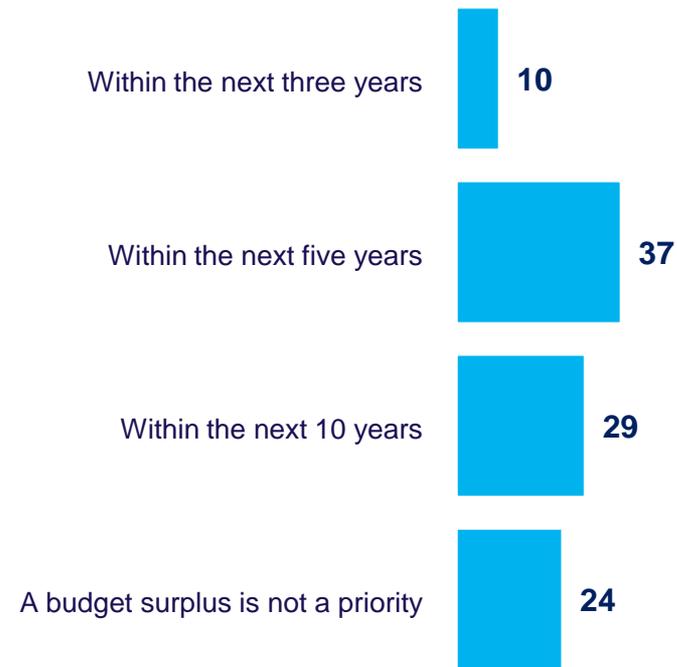
# Priorities for Federal Budget and Timeframe for Surplus

Regarding the Federal Budget, Australian company directors see a key priority in restructuring the tax system with the aim to increase long-term revenue, however over 45 per cent prefer a combination of various fiscal policies to reduce the budget deficit. For the vast majority of 65 per cent, the government should aim for a budget surplus within 5-10 years.

Priorities for Federal Budget (%)



Timeframe for Federal Budget Surplus (%)



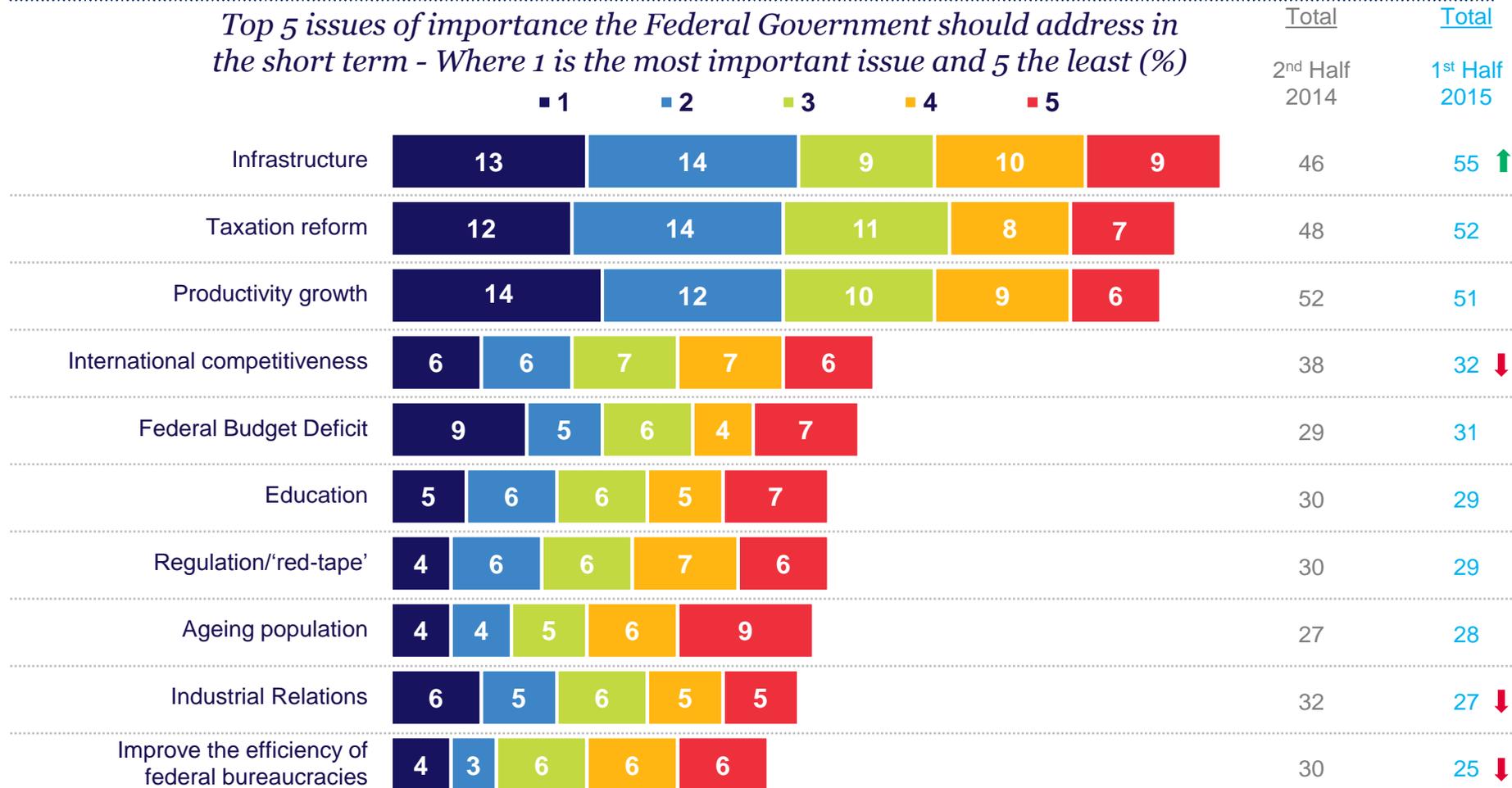
Note: New questions asked in 1<sup>st</sup> half 2015

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

45

*This survey, infrastructure is rated by directors as the top priority the Federal Government should address in the short term, followed by a taxation reform and productivity growth. Directors are less concerned about international competitiveness than in the 2<sup>nd</sup> Half 2014.*

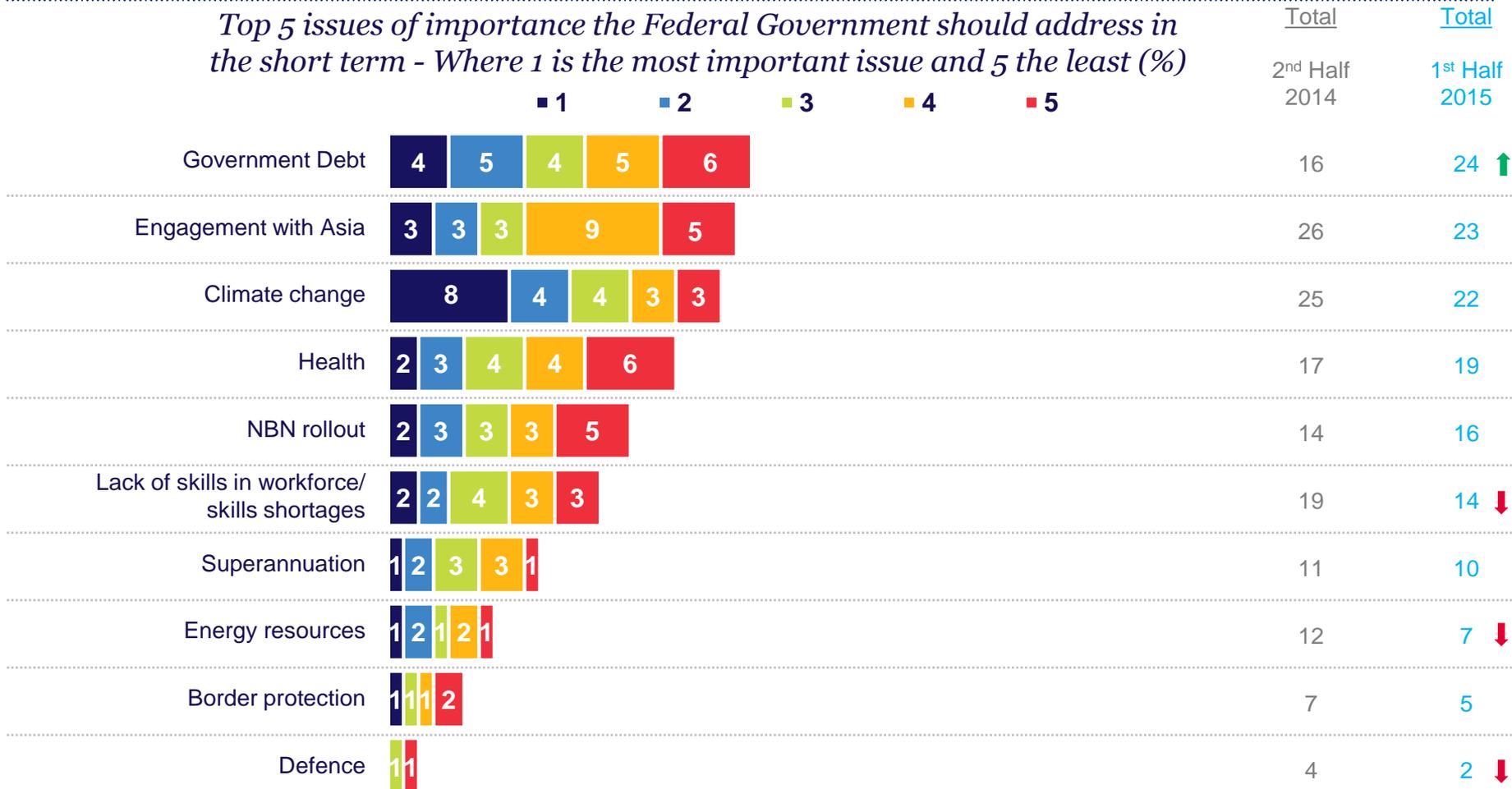
*Top 5 issues of importance the Federal Government should address in the short term - Where 1 is the most important issue and 5 the least (%)*



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

Defence continues to be rated by directors as the lowest short term priority for the Federal Government, followed by border protection, energy resources and superannuation.

*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 (%)*

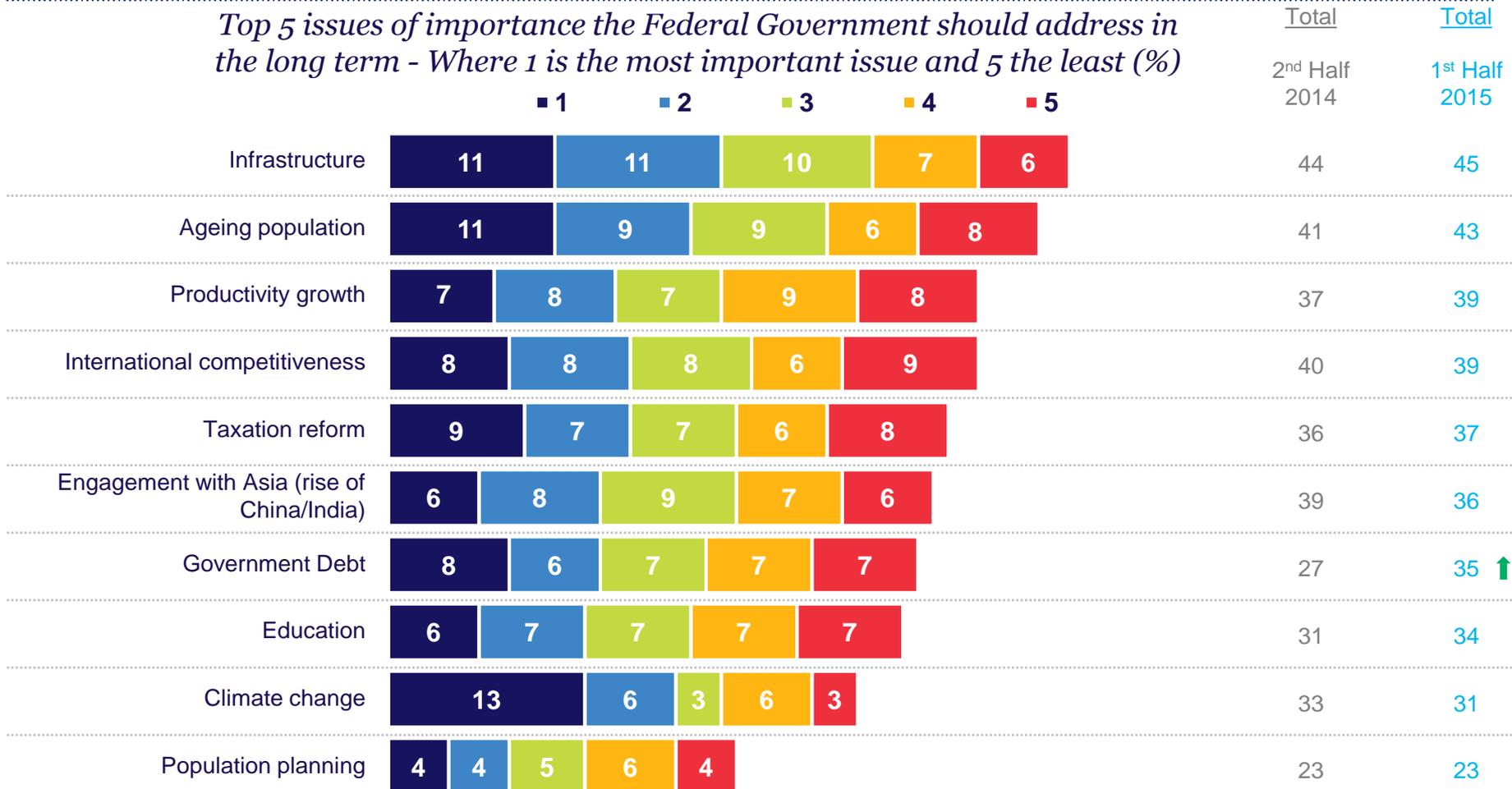


# Issues federal government should address in long term (part 1)

47

Infrastructure is rated by directors as the top long term priority. This is followed by the ageing population and productivity growth. 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 (%)

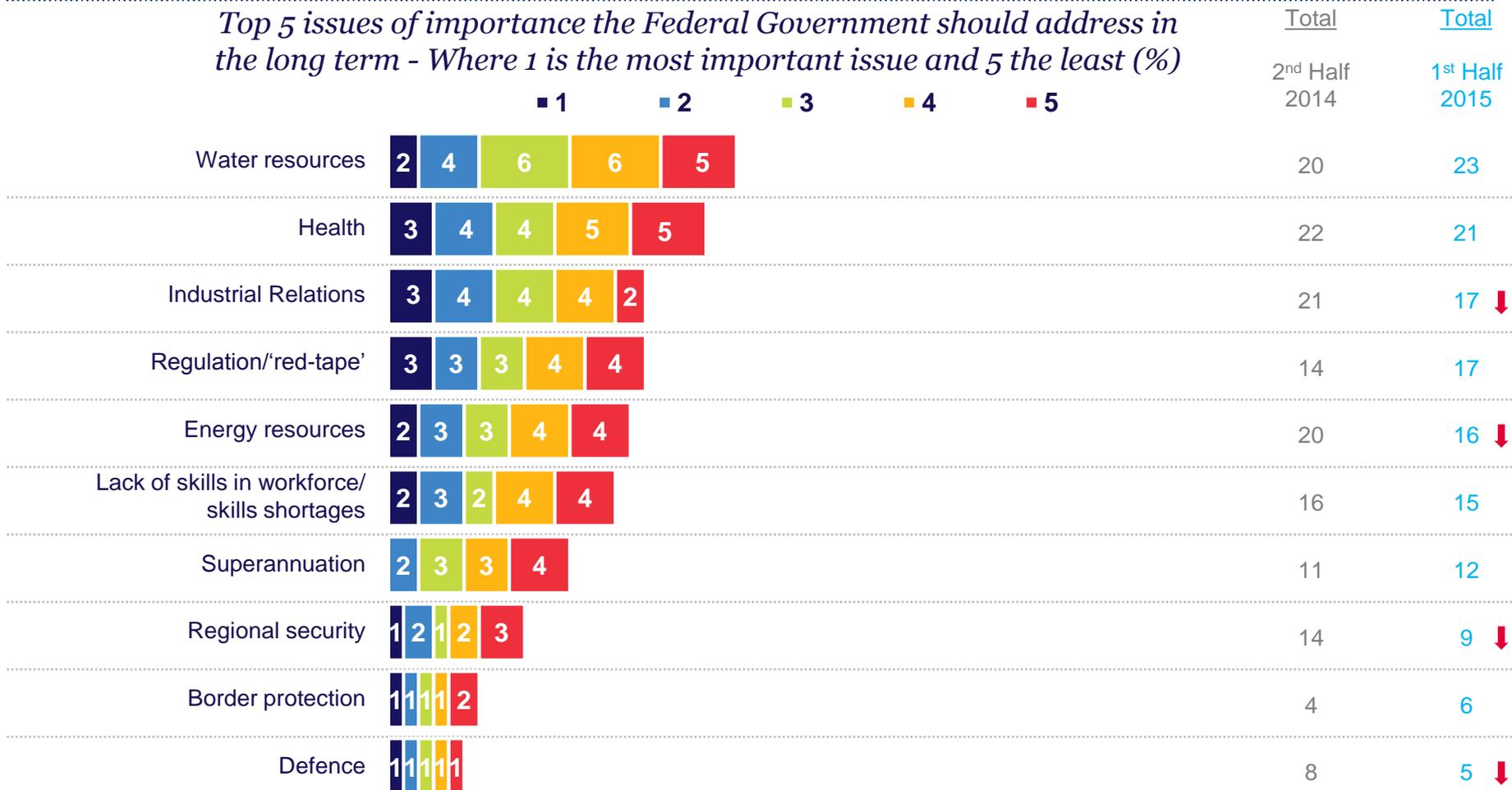


# Issues federal government should address in long term (part 2)

48

Defence is rated as the lowest long-term priority the Federal Government should address. This is followed by border protection and regional security.

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 (%)

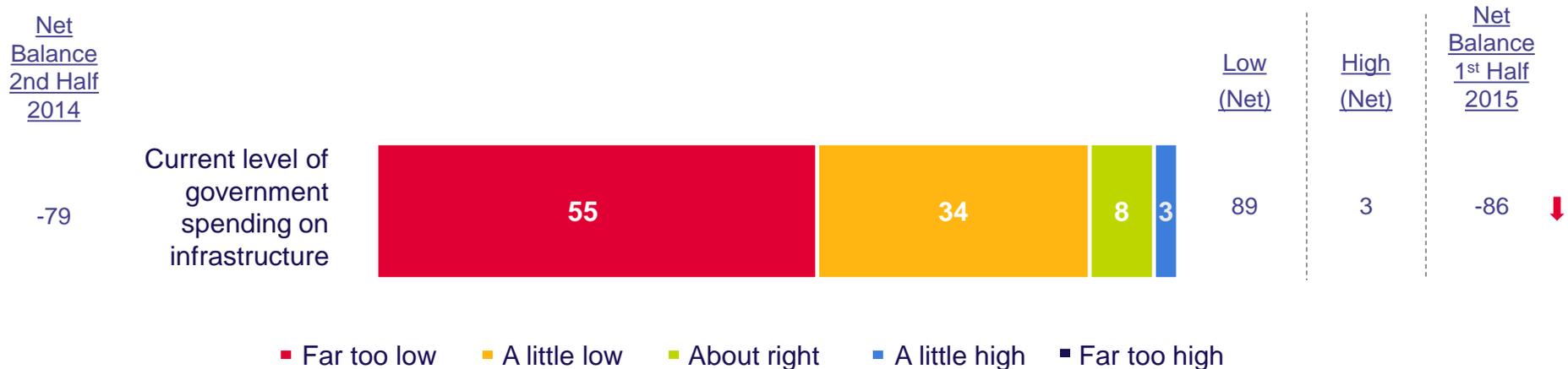


# Current level of government spending on infrastructure

49

Sentiment regarding the level of government spending on infrastructure is more pessimistic compared to the 2<sup>nd</sup> half 2014 results, almost 90 per cent of directors maintain the belief that government spending on infrastructure is too low.

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



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# Government Policy

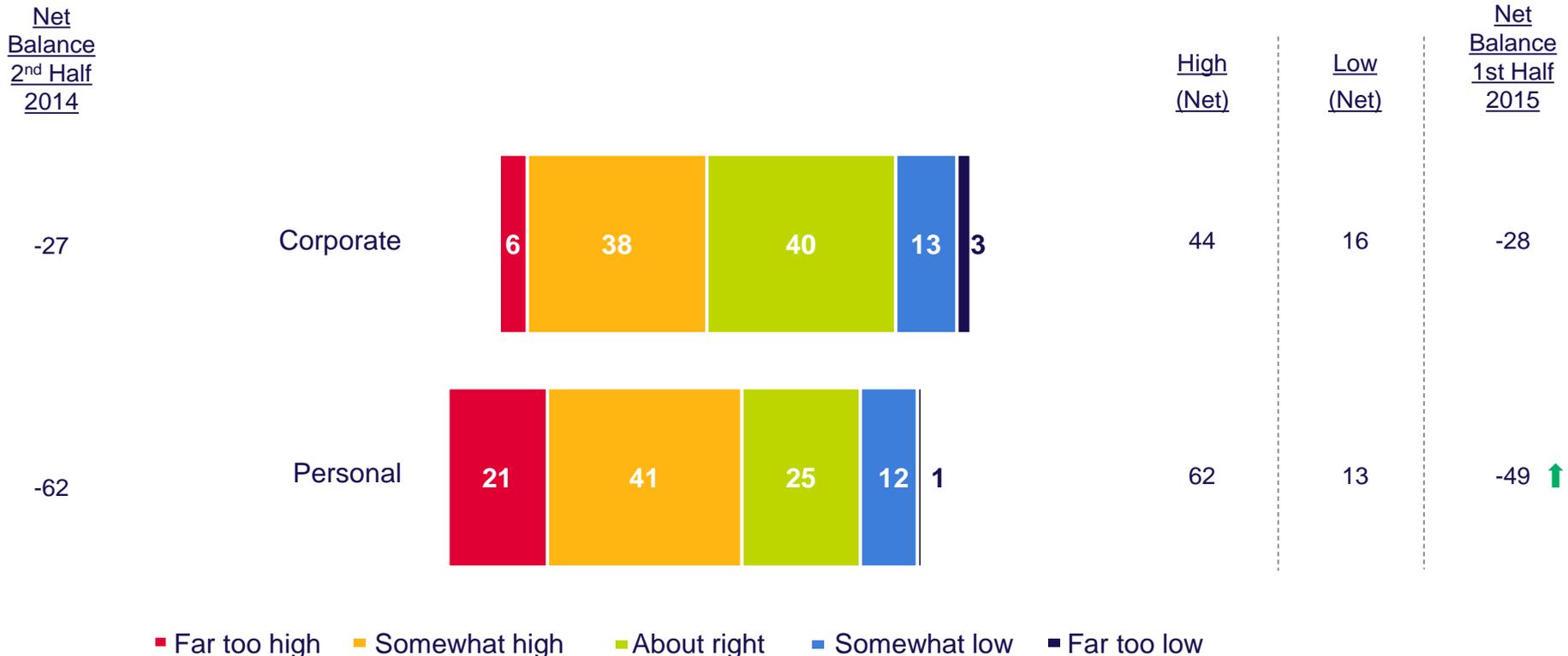
## *Taxation*

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# Level of taxation in Australia

Directors are slightly more optimistic regarding the level of personal taxation in Australia, however over 60 per cent of directors maintain the belief that personal taxation is too high. In line with the previous survey results, around 45 per cent of directors believe that the level of corporate taxation is too high.

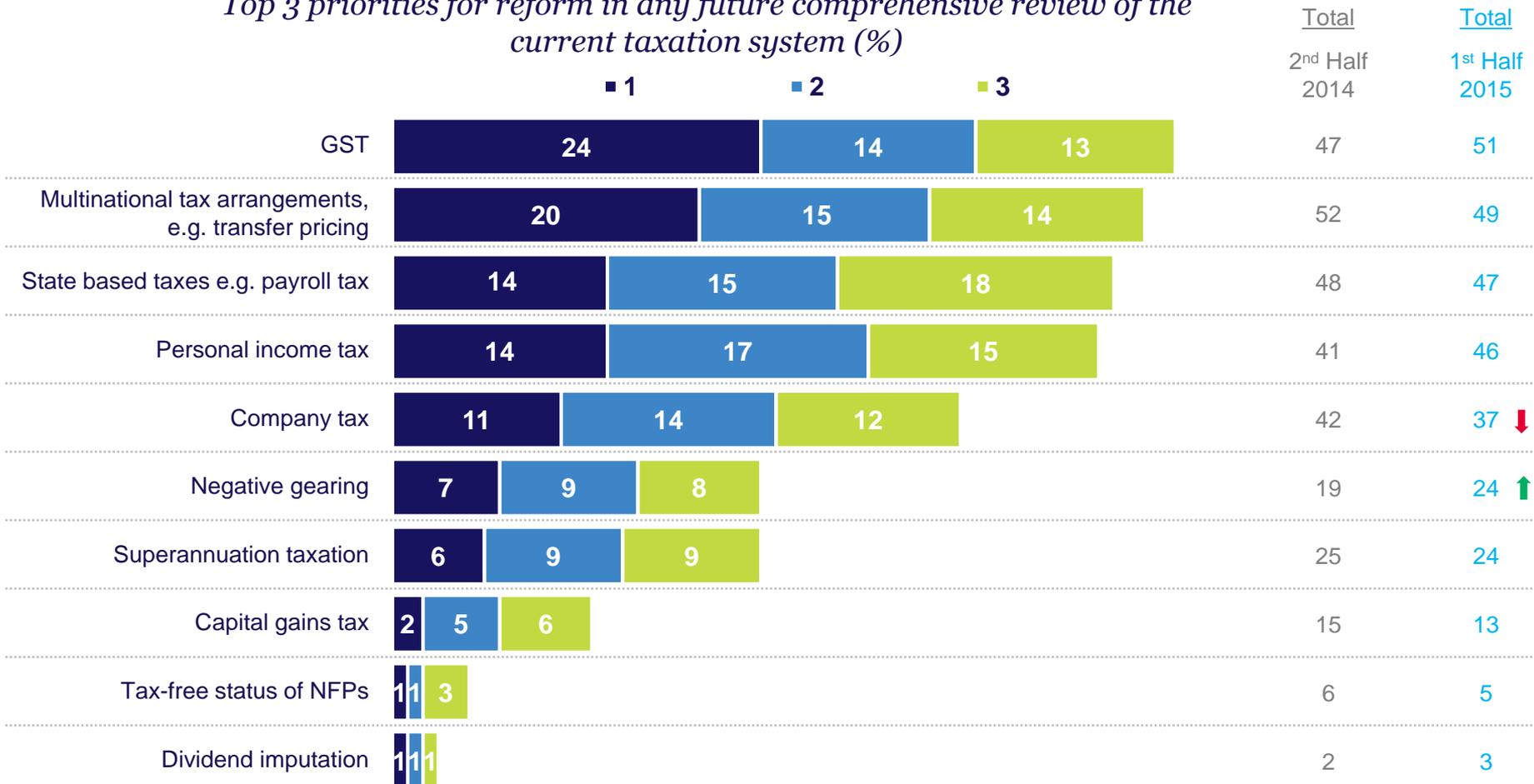
View on level of taxation in Australia – corporate and personal (%)



# Reform of taxation system

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

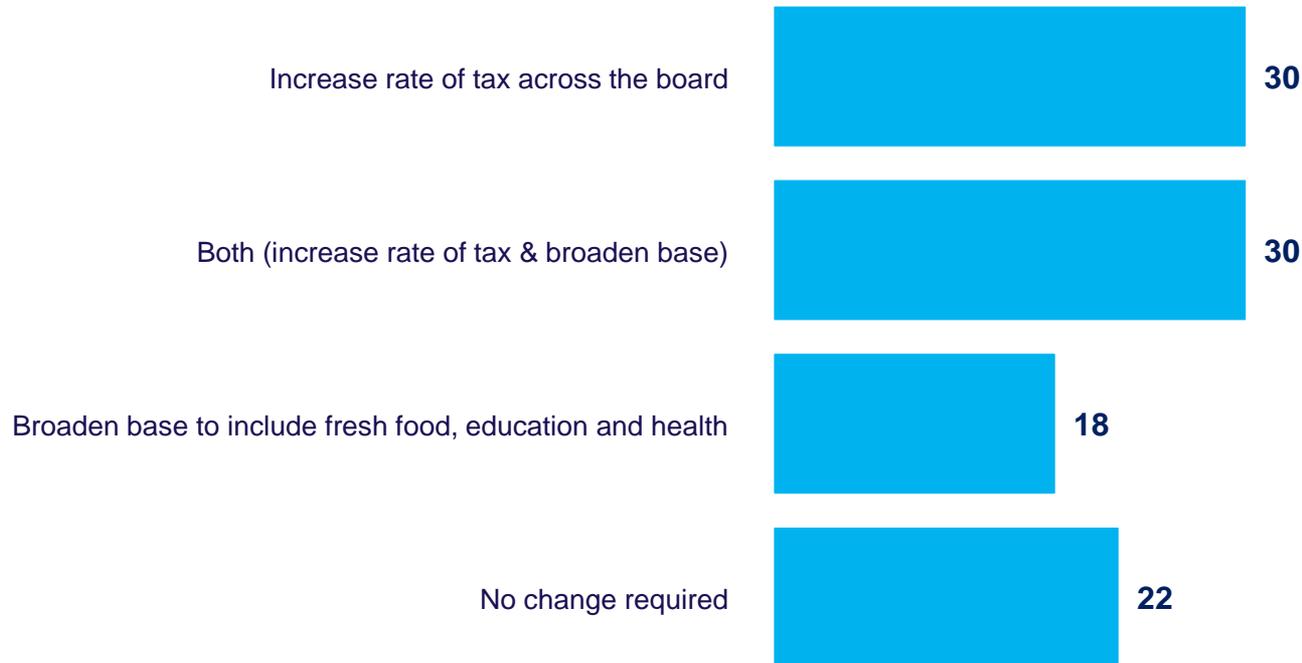
Top 3 priorities for reform in any future comprehensive review of the current taxation system (%)



# Changes to the GST system

Almost 80 per cent of directors support a change to the GST system.

## Changes that should be made to current GST system (%)



*Note: New question asked in 1<sup>st</sup> half 2015*

35. What changes, if any, should be made to the current GST system?

Base: All respondents n=540

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# Government Policy

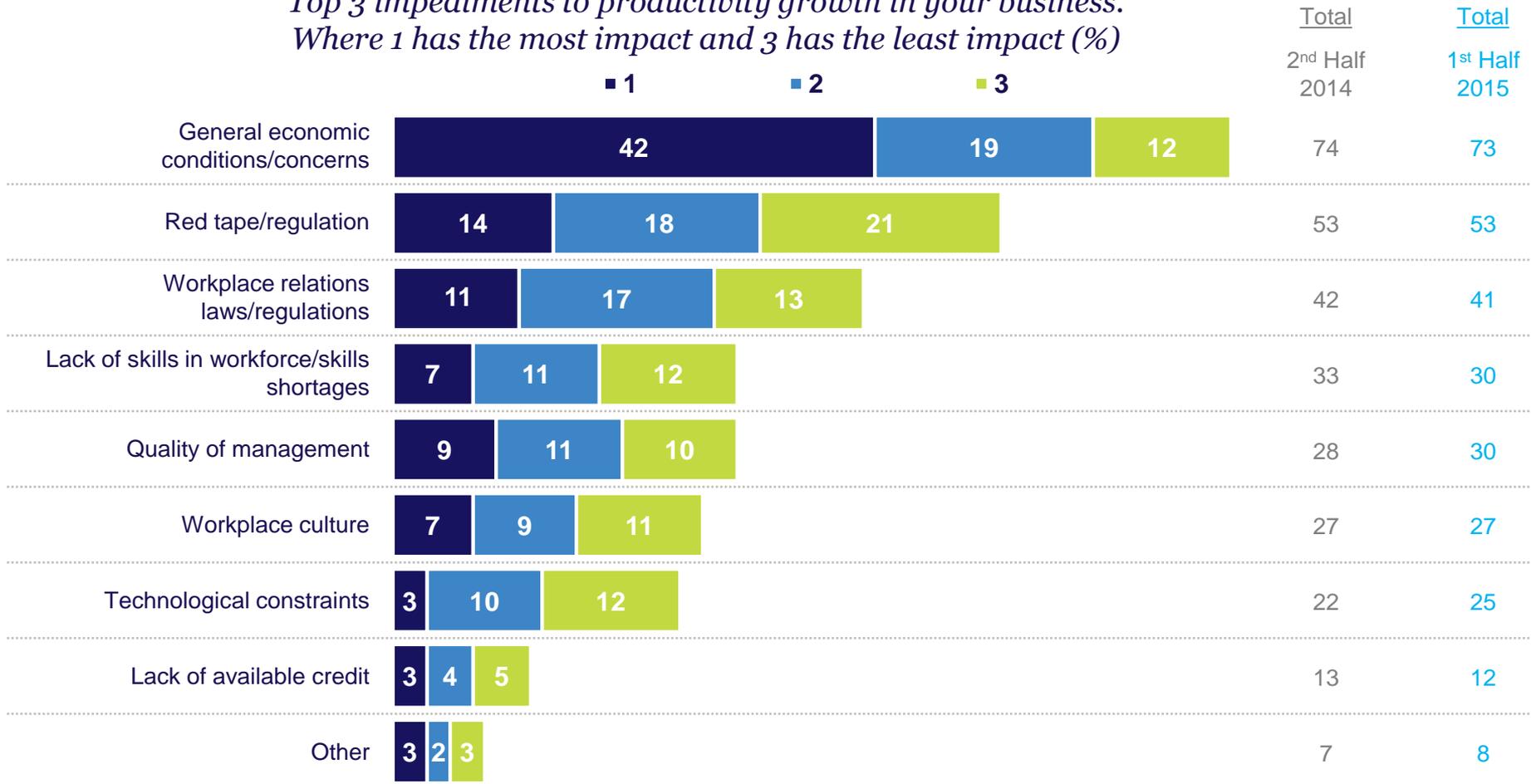
## *Regulation*

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# Impediments to productivity growth

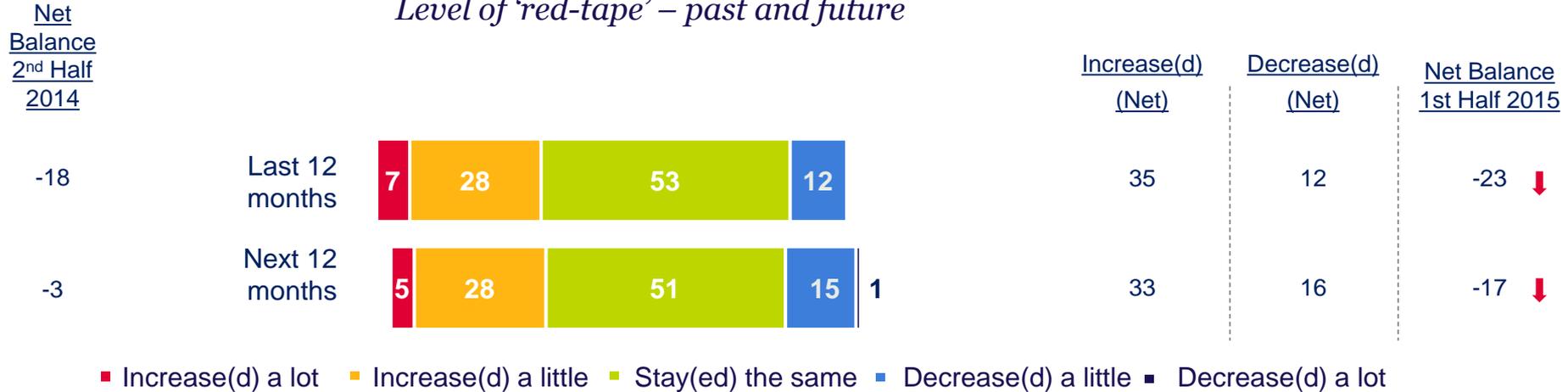
In line with 2<sup>nd</sup> half 2014 results, directors identify general economic conditions/concerns as the top impediment to productivity growth in their business, followed by 'red-tape' and regulation and workplace relations laws/regulations.

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

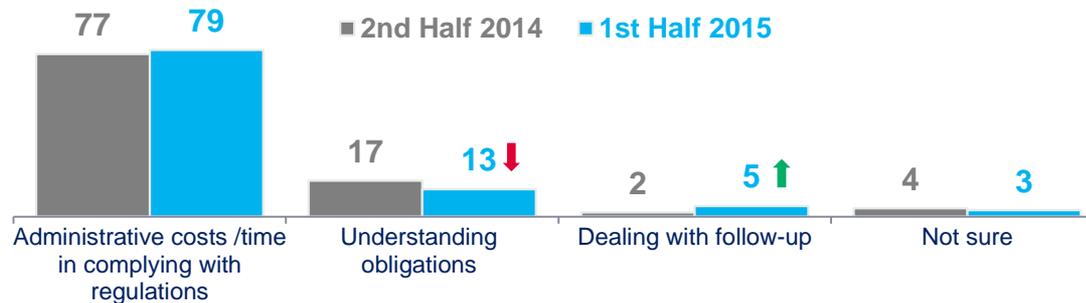


# Level of 'red-tape'

Directors have become more pessimistic regarding the level of 'red-tape' in the next 12 months, with almost 35 per cent expecting an increase. Another 35 per cent of directors experienced an increase in 'red-tape' in the past 12 months. Almost 80 per cent of directors identify administrative costs and the time associated with compliance as having the greatest impact on their business.

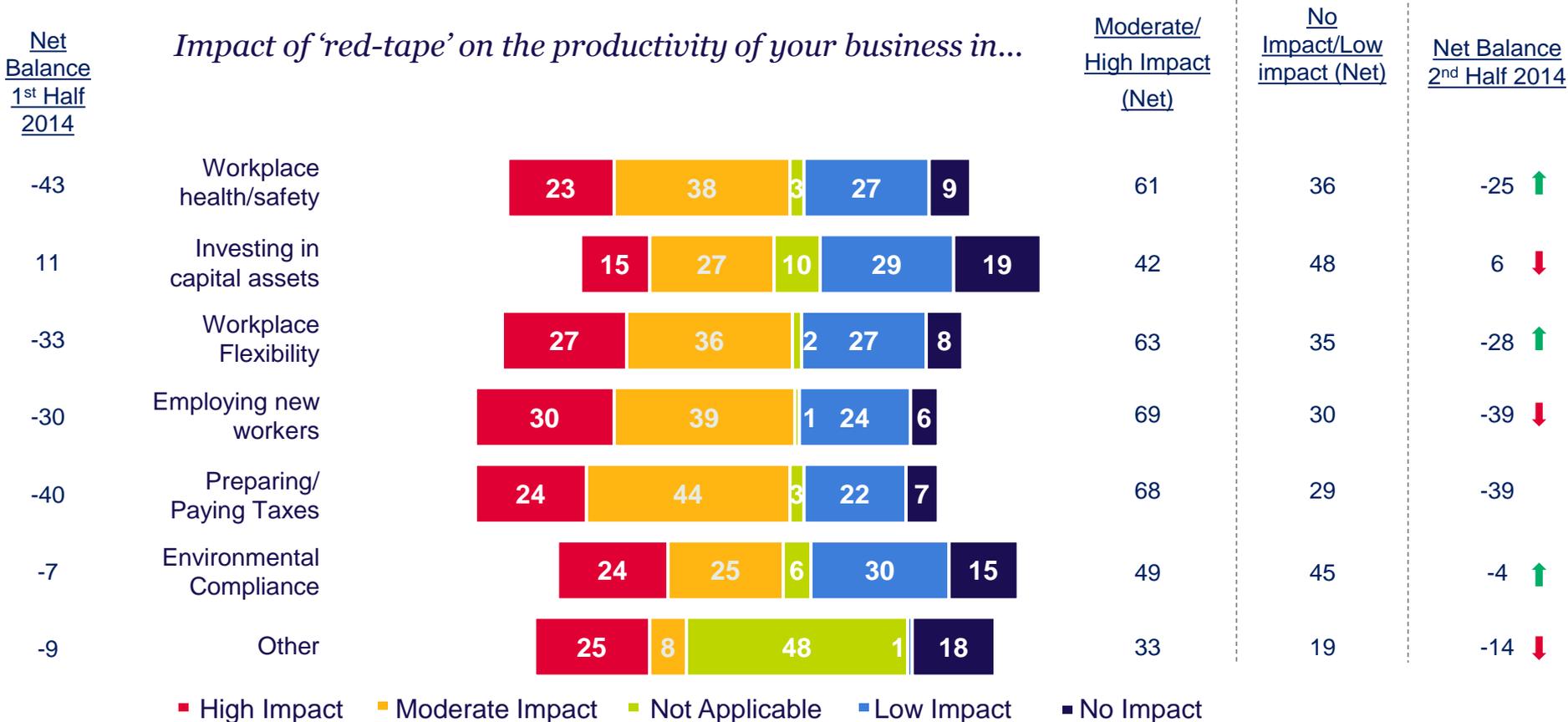


## Aspects of red-tape – most impact on business (%)



# Impact of 'red-tape' on business productivity

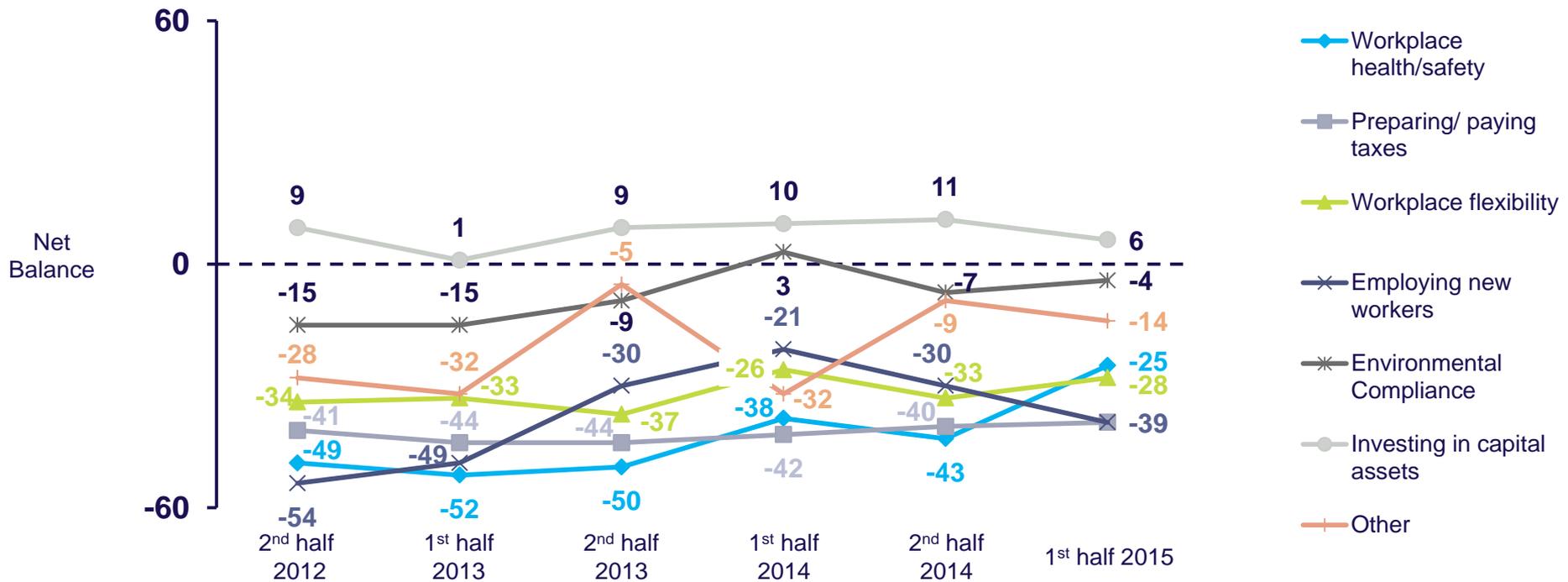
Around 70 per cent of directors identify employing new workers and preparing/paying taxes as the aspects of their business most affected by 'red-tape'. These are followed by workplace flexibility and workplace health/safety.



# 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 employing new workers and preparing/paying taxes.

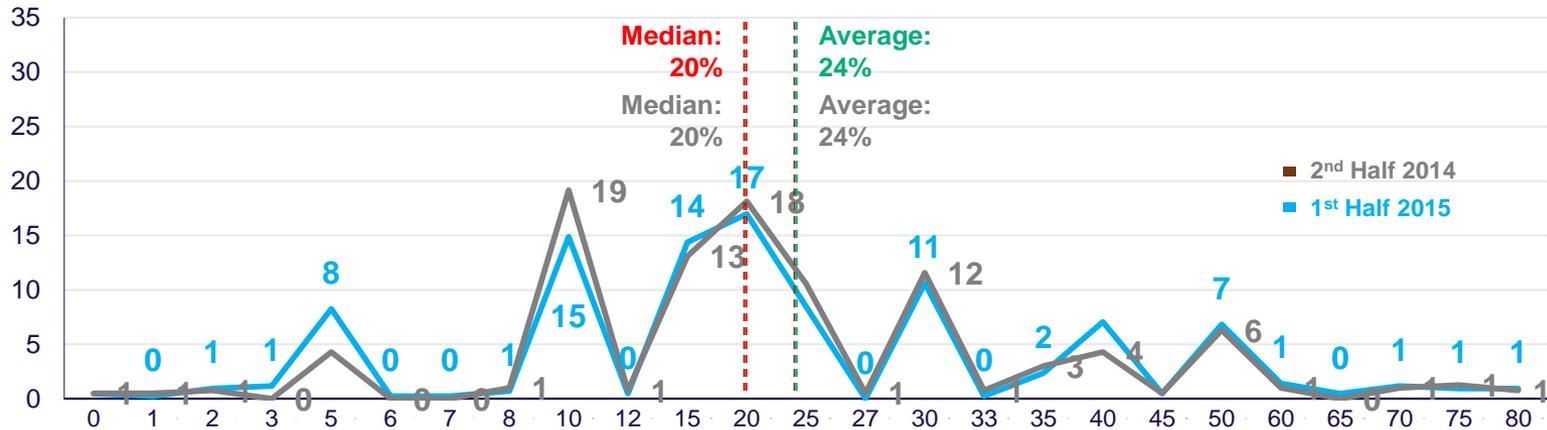
Impact of 'red-tape' on the productivity of your business in... – semi-annual trend (net balance)



# 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 more than 35 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...? (%)



Increased  
(Net)

Decreased  
(Net)

Net Balance  
2nd Half  
2014

-35      37      3      -34

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

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# Government Policy

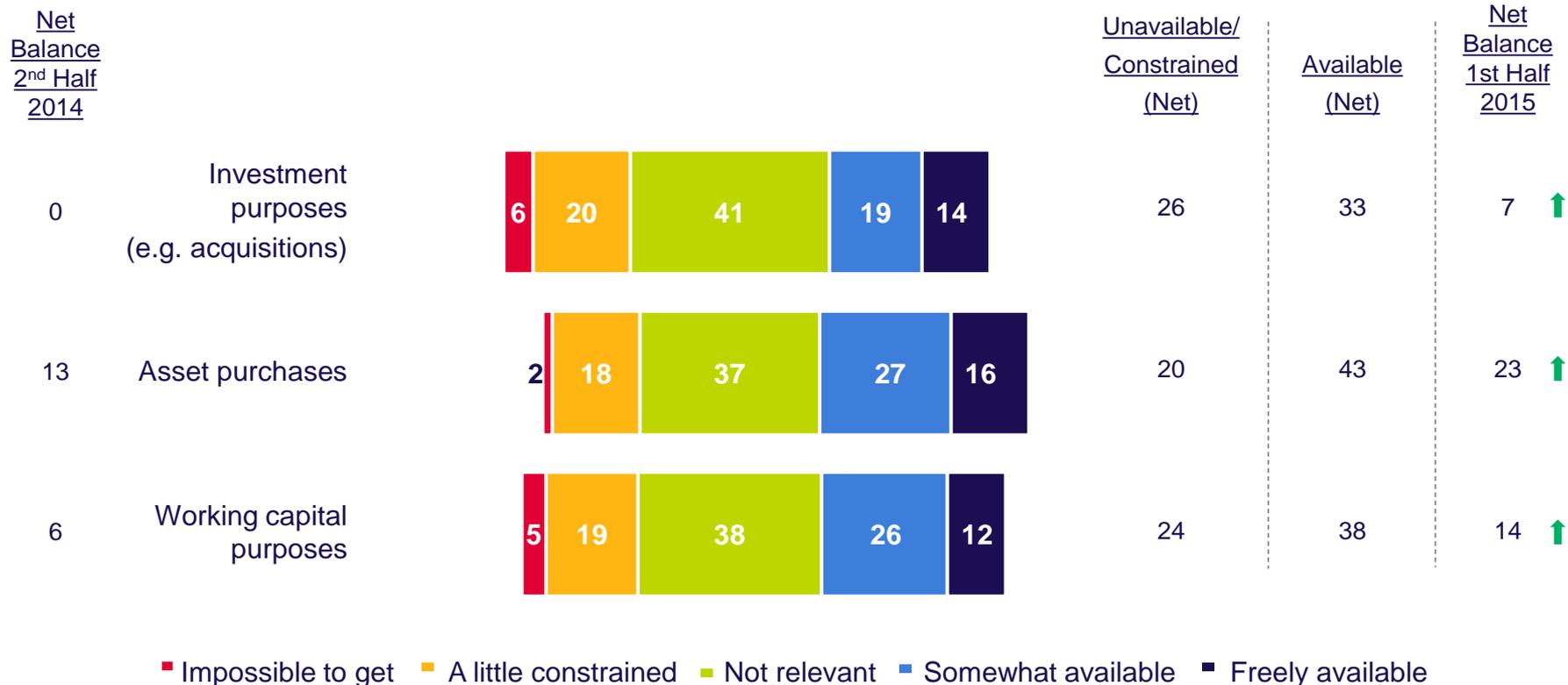
## *Credit Availability*

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# Credit availability for business – Jul-Dec’14

Directors are slightly more positive regarding credit availability over the past six months, compared to the previous survey results. Credit for asset purchases were viewed as somewhat or freely available by almost 45 per cent, while almost 40 per cent of directors saw credit for working capital purposes as available.

Credit availability for business – Jul-Dec’ 14 (%)



# Credit availability for business – next 12 months

Expectations of credit availability in the future have also become more positive, with more than 50 per cent of directors now predicting that credit for asset purchases will be somewhat or freely available over the coming year, and more than 40 per cent expecting the same regarding credit for investment purposes and working capital purposes.

Credit availability for business - next 12 months (%)



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# Government Policy

## *Industrial Relations*

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# 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. The key priorities for an industrial relations reform are workplace flexibility and penalty rates.

*Extent to which Federal Government should pursue industrial relations reform (%)*

	2 <sup>nd</sup> Half 2014	1 <sup>st</sup> Half 2015
Significant reform in the next term of government, following an electoral mandate	49	51
Significant reform in the current term of government	27	21 ↓
No significant reform is required	24	27

*Priority for industrial relations reform (%)\**



*\*Note: New question asked in 1<sup>st</sup> half 2015*

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# Government Policy

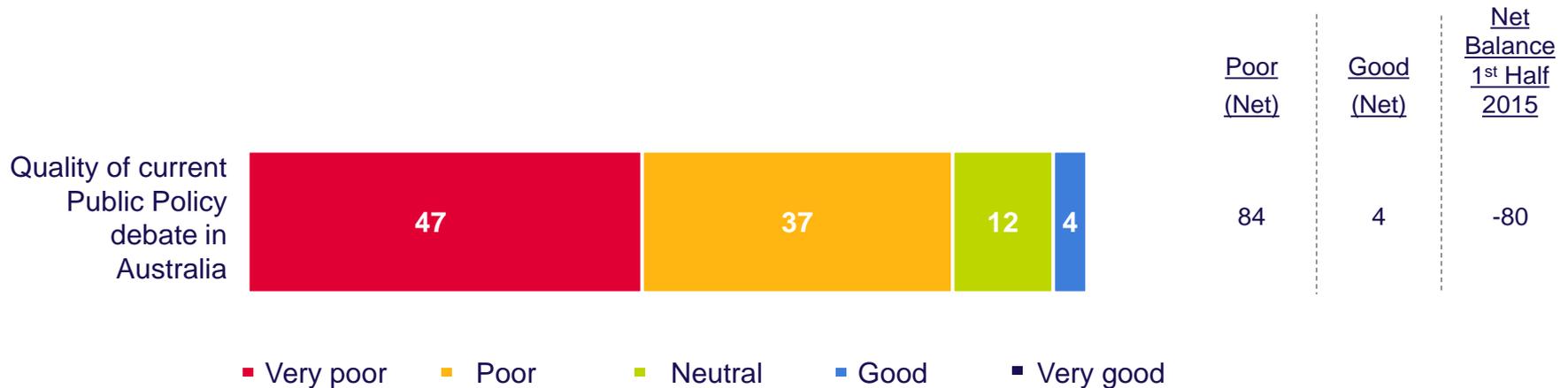
## *Public Policy*

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# Quality of Public Policy debate

Around 85 per cent of company directors believe the current quality of public policy debate in Australia is poor.

Opinion on Public Policy debate (%)



Note: New question asked in 1<sup>st</sup> half 2015

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# Government Policy

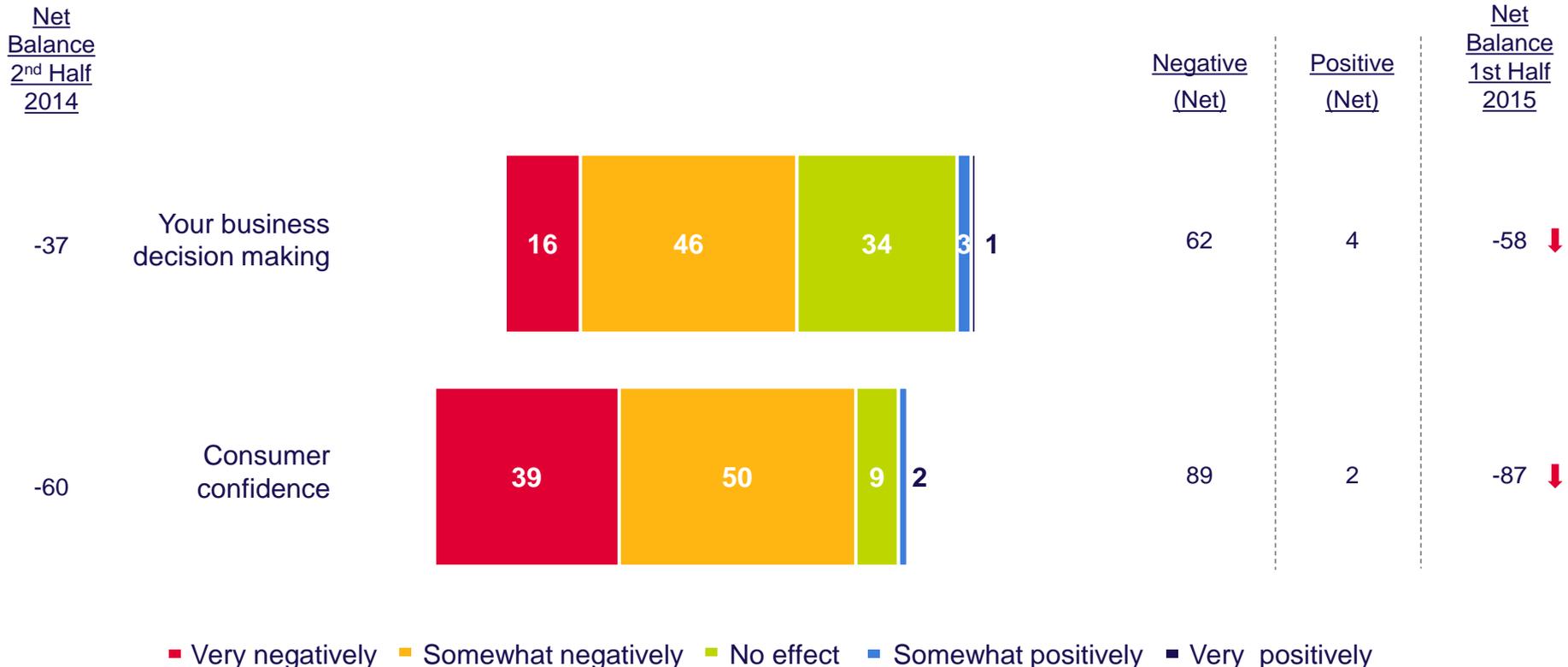
## *Performance & Business Understanding*

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# Impact of federal government's performance on business

Directors have become more pessimistic about the Federal Government's effect on business, with more than 60 per cent of directors viewing the Federal Government's performance as having a negative effect on their business decision making and around 90 per cent viewing the Federal Government's performance as having a negative impact on consumer confidence.

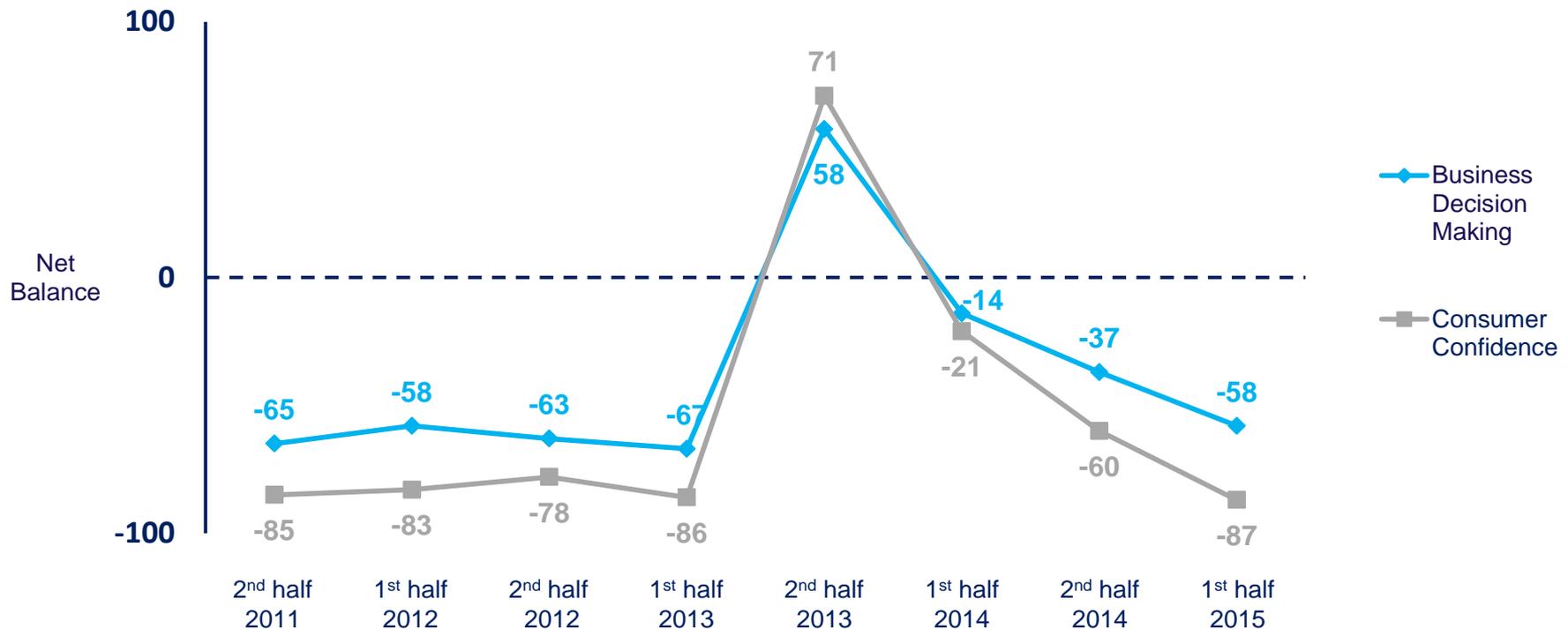
Effect of current federal government's performance on... (%)



# 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, with sentiment dropping back to similarly low levels when under the Labour governments.

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

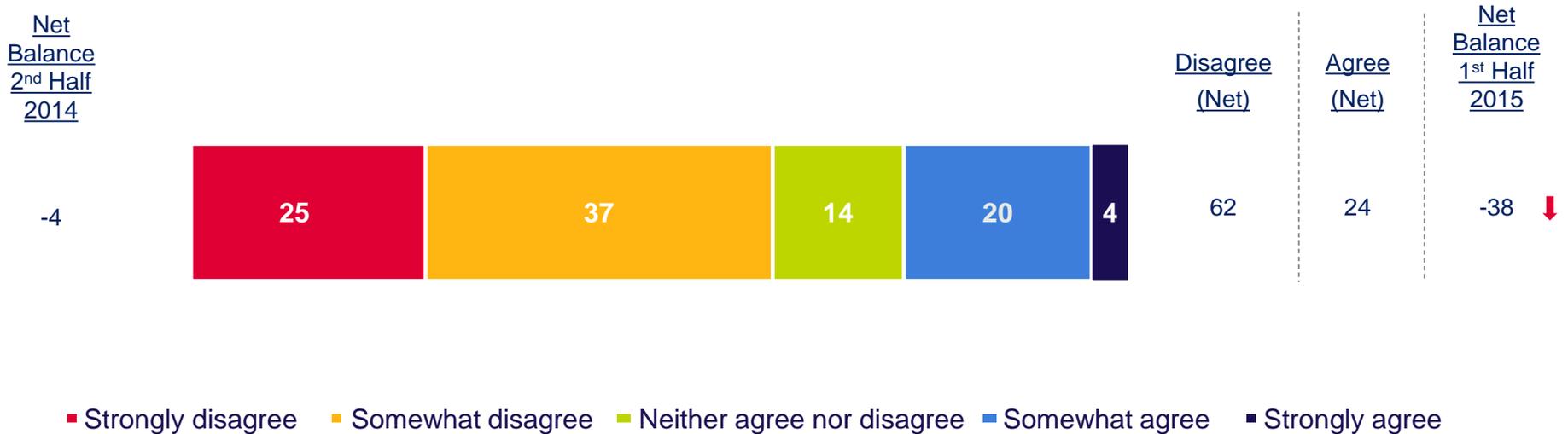


# Federal government understanding of business

70

Directors have become more pessimistic about the Federal Government's understanding of business, with more than 60 per cent of directors disagreeing that the current Federal Government understands business.

Does the current federal government understand business? (%)

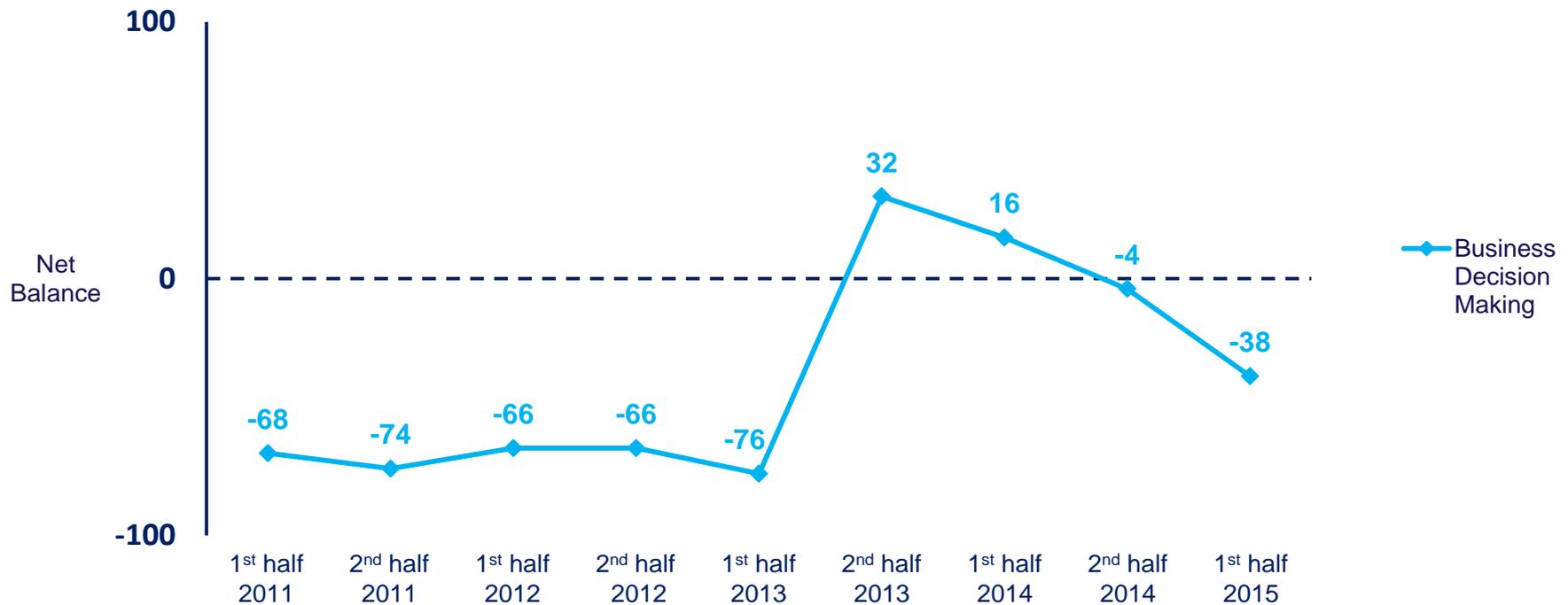


# Federal government understanding of business – semi-annual trend

71

The sentiment regarding the Federal Government’s understanding of business has declined since the coalition was elected, with a growing majority of directors disagreeing that the coalition government understands business.

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



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# Key Issues for Directors and Boards

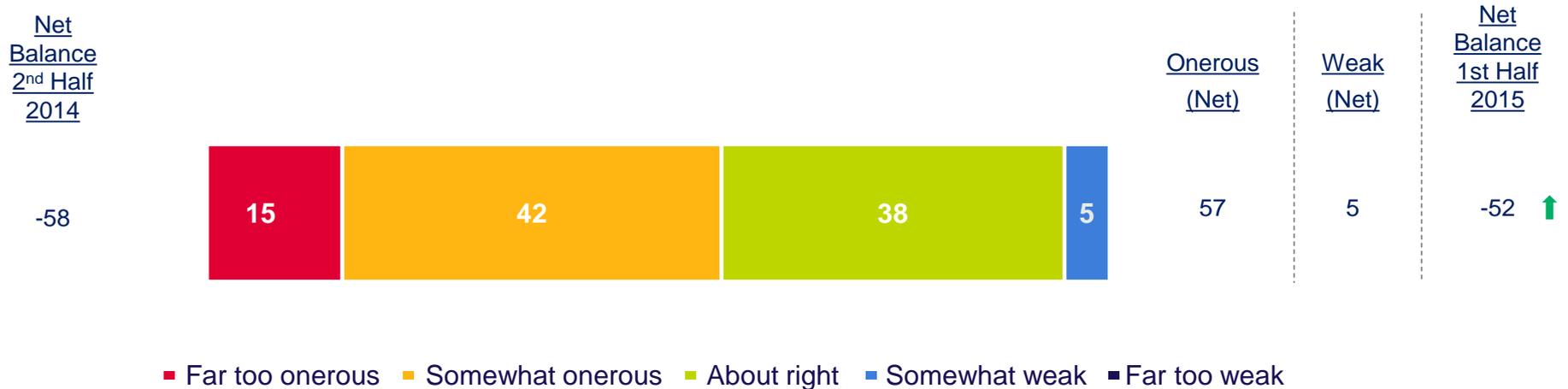
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# Current governance regulations under the corporations act

73

Almost 60 per cent of directors believe that current governance regulations under the Corporations Act are onerous, however the sentiment has become more optimistic since the 2<sup>nd</sup> half of 2014.

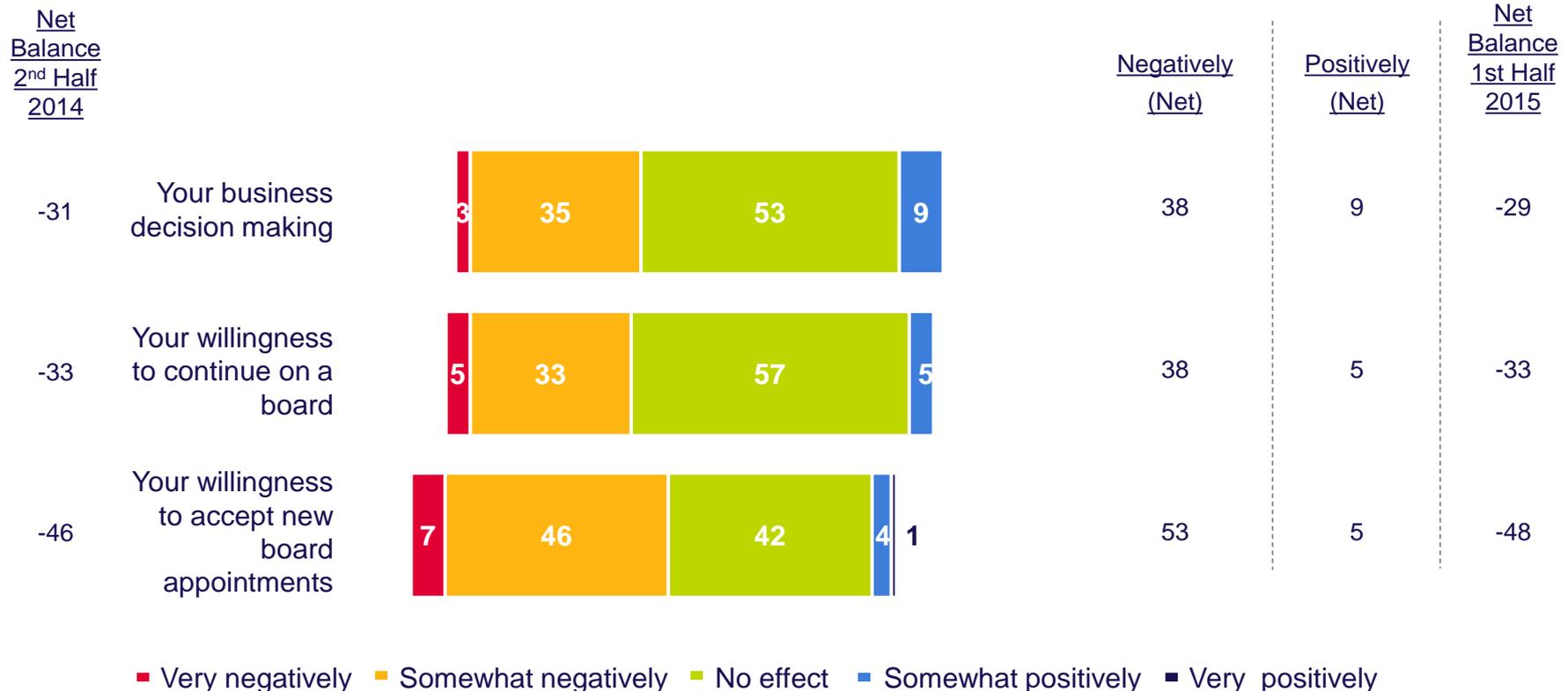
Are current governance regulations...? (%)



# Impact of legislation on director liability

Around 40 per cent of directors believe that legislation on director liability has a negative impact on their business decision making, as well as on their willingness to continue on a board, while almost 55 per cent agree that it negatively impacts their willingness to accept new board appointments.

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

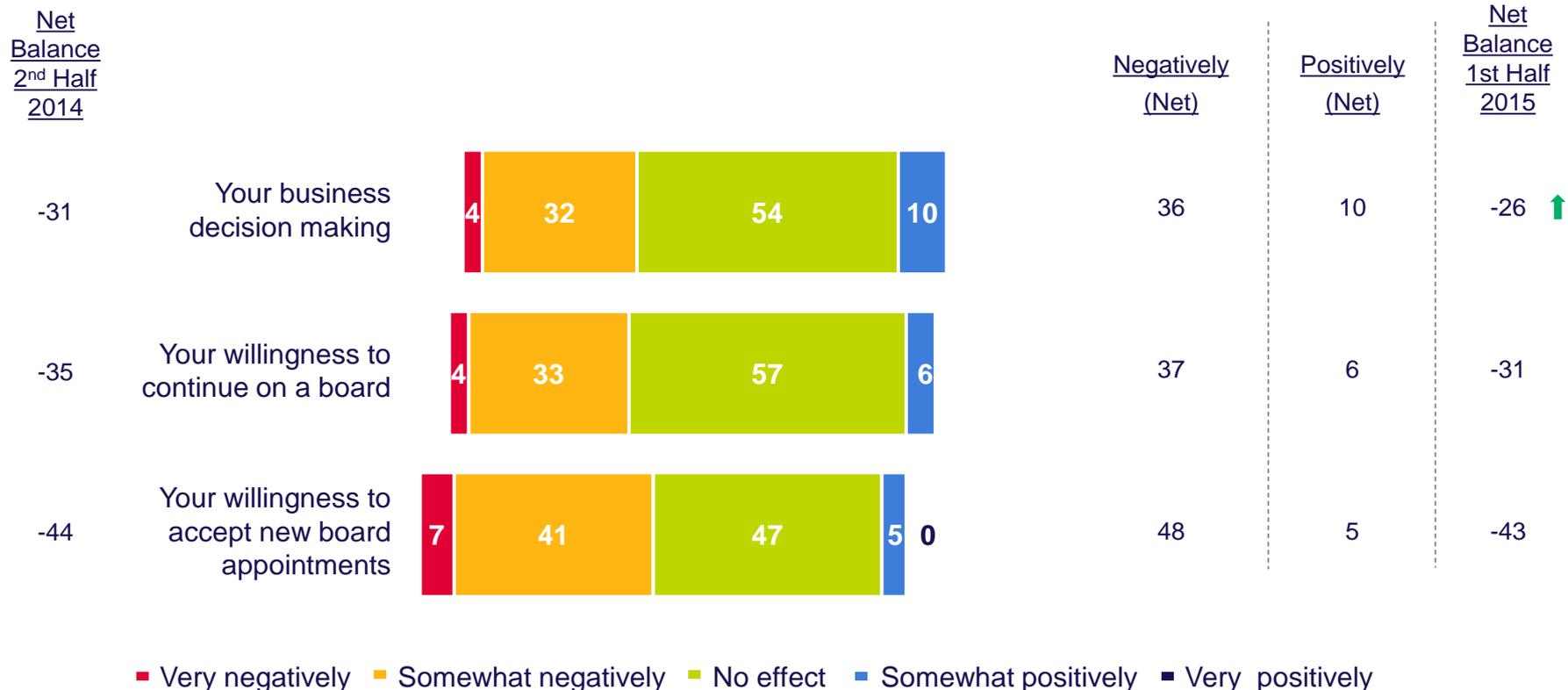


# Impact of legal judgments on director liability

75

Directors have become more optimistic regarding the impact of legal judgments on their business decision making. However, around 35 per cent of directors still 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... (%)

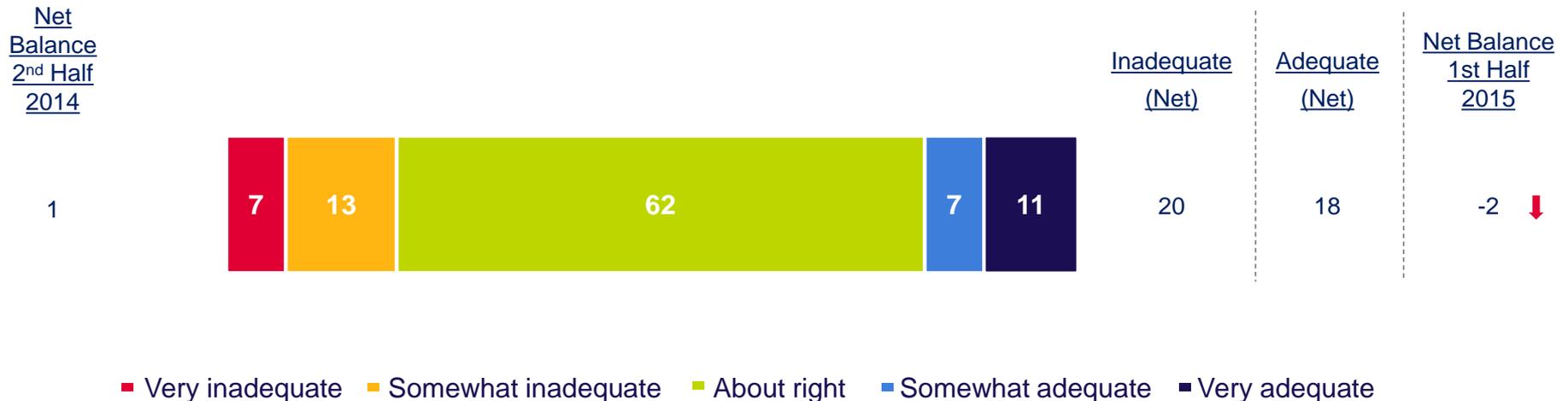


# Adequacy of directors and officers insurance

76

Eighty per cent of directors perceive their business' Directors and Officers insurance as adequate, or about right. This is in line with the 2<sup>nd</sup> half 2014 result.

Adequacy of business' directors and officers insurance (%)



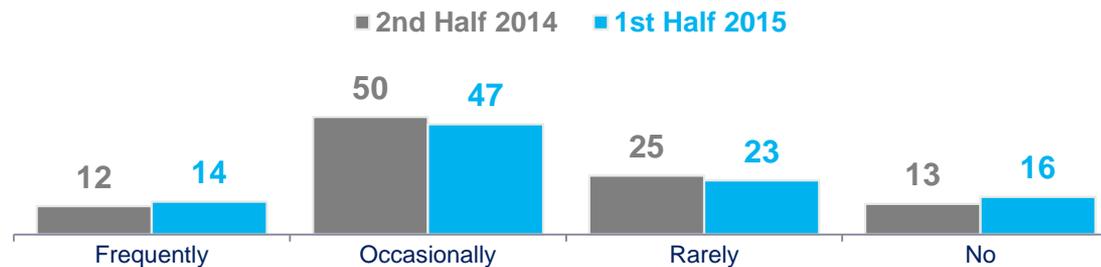
# Business decision making and risk aversion

Over 70 per cent of directors perceive there to be a risk-averse decision-making culture on Australian boards. Almost 85 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? (%)



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



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

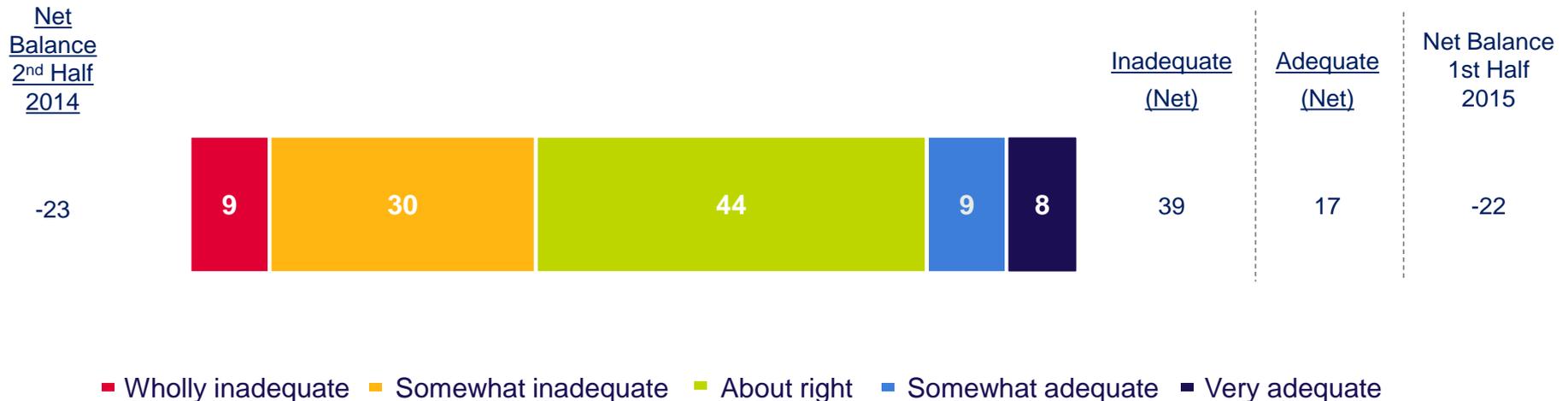
44. Has the risk of personal liability caused you, or a board of directors on which you sit, to take an overly cautious approach to business decision making

Base: All respondents n=540

# 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 almost 40 per cent of directors hold the view that they are inadequate. This is in line with the previous survey results.

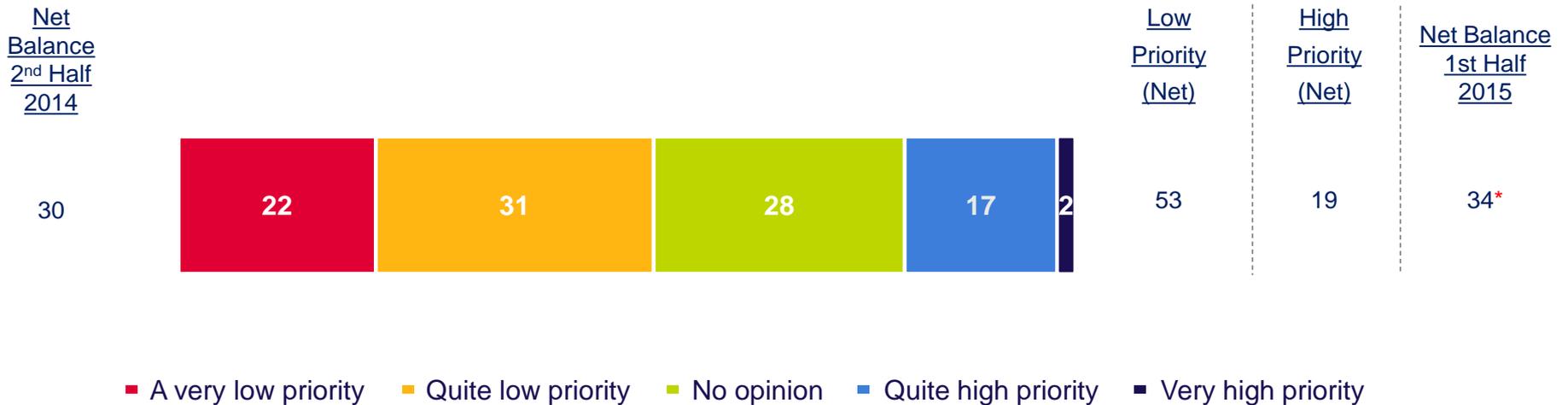
Adequacy of public company remuneration reports (%)



# Reform of laws and regulations governing public company remuneration 79

Directors continue to assign low importance to the priority of the reform of laws and regulations governing public company remuneration, with almost 55 per cent of directors believing it should be a low priority.

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

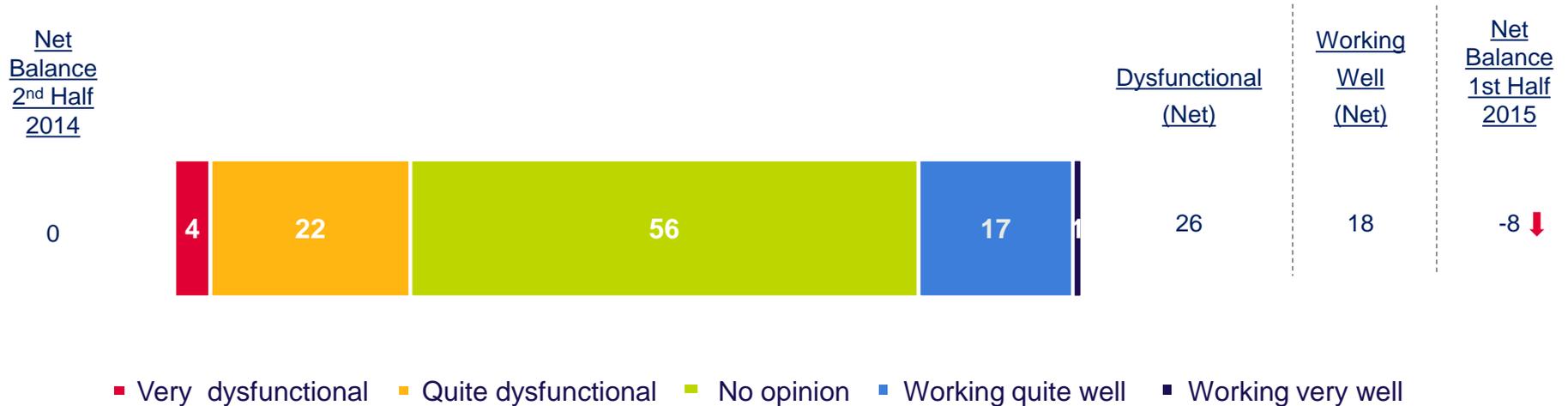


\* Note: Net balance for priority of the reform of laws and regulations governing public company remuneration calculated in reverse

# International Financial Reporting Standards (IFRS)

Sentiment regarding the IFRS has decreased slightly, with over 25 per cent of directors now perceiving the IFRS as dysfunctional, and almost 20 per cent perceiving it to be working well.

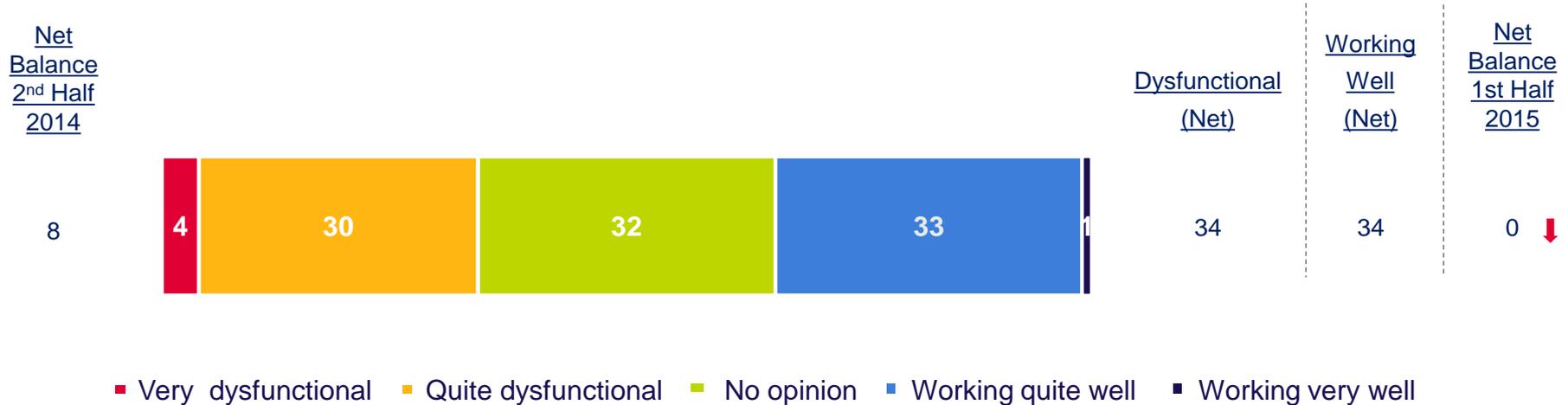
## Functionality of the International Financial Reporting Standards (IFRS) (%)



# Current AGM system

Sentiment is neutral regarding the current AGM system in the 2<sup>nd</sup> half 2014, with almost 35 per cent of directors of the opinion that the current AGM system is working well and the same proportion perceiving the current AGM system as dysfunctional.

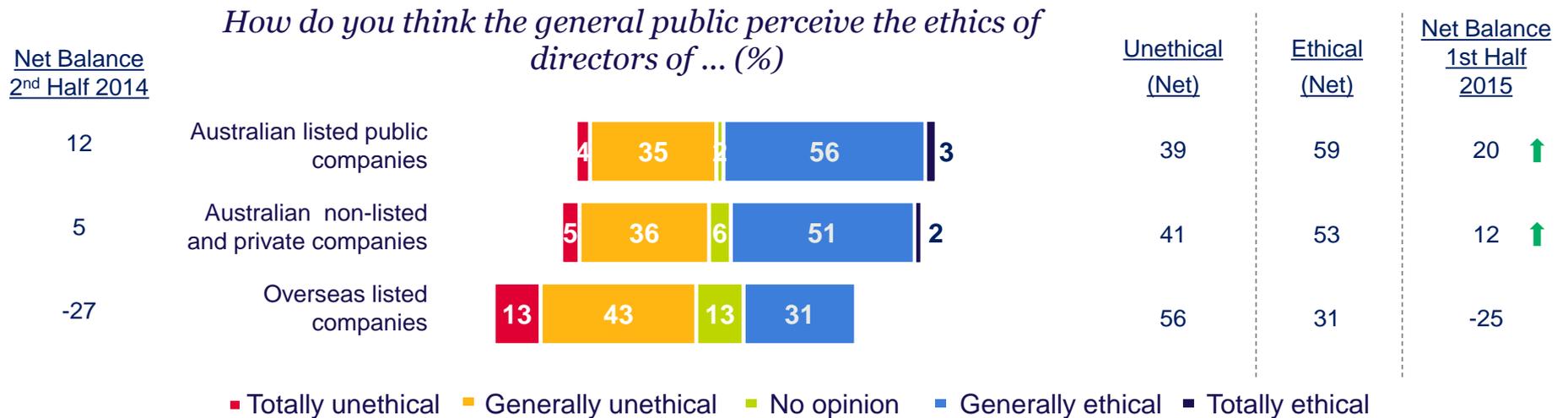
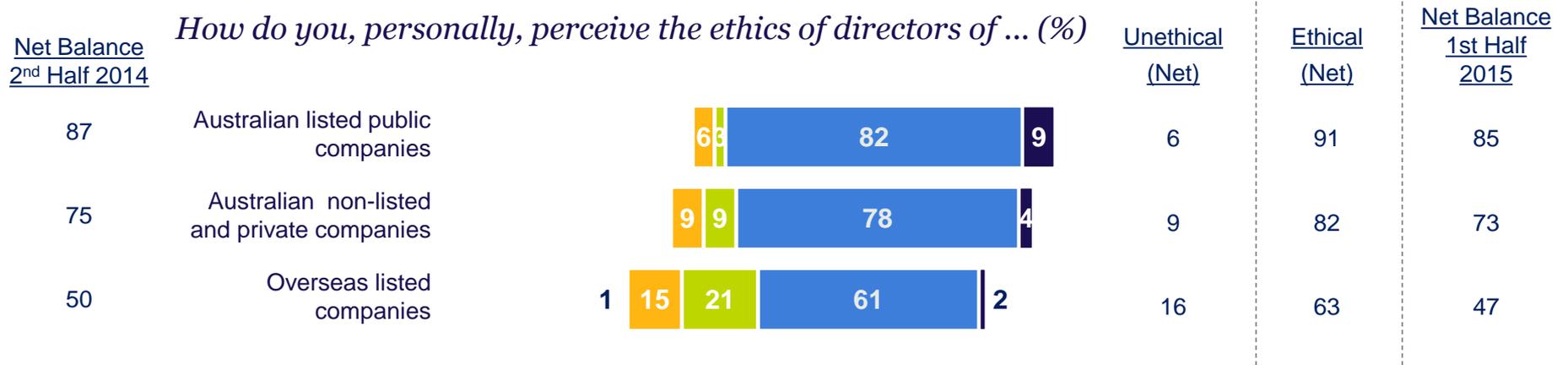
Functionality of the current AGM system (%)



# Personal and public perception of company directors' ethics

82

Most directors still perceive Australian companies as generally ethical and more so than overseas listed companies. Directors are more optimistic regarding the public perception of the ethics of Australian listed public and non-listed and private company directors, compared to the 2<sup>nd</sup> half of 2014.



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

Over 30 per cent of directors perceive ESG issues to be very important, similar to the 2<sup>nd</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.

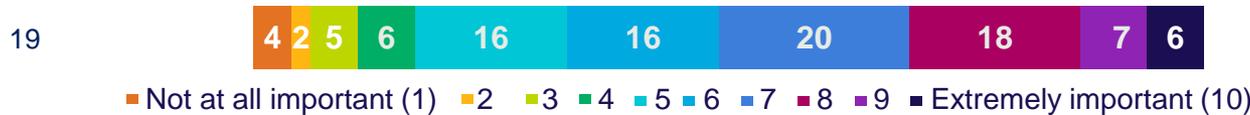
*Importance of ESG issues within business (10-pt scale, where 1 is 'not at all important' and 10 is 'extremely important') (%)*

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

Not  
Important  
(Bottom 3  
Net)

Important  
(Top 3 Net)

Net Balance  
1st Half  
2015



11

31

20

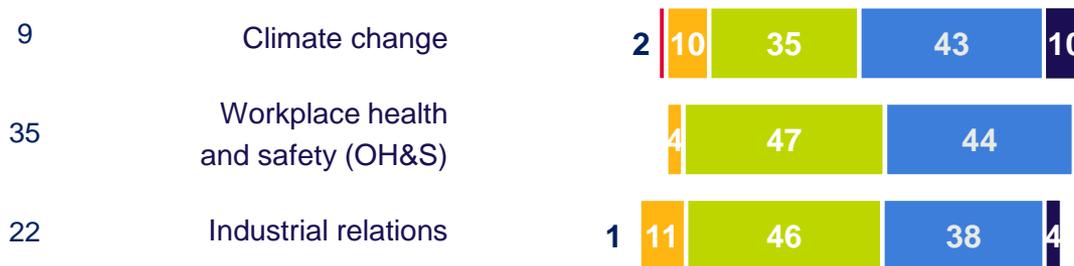
*Extent of regulation change for Environmental, Social and Governance (ESG) issues - next 2 years (%)*

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

Likely to  
Decrease  
(Net)

Likely to  
Increase  
(Net)

Net Balance  
1st Half  
2015



12

53

41 ↑

4

49

45 ↑

12

42

30 ↑

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

50. How important is ESG within your business on a scale of 1 to 10 where 1 is not at all important and 10 is extremely important?

49. To what extent, if any, do you expect regulation over the area of Environmental, Social and Governance (ESG) issues to change over the next 2 years, in relation to....?

Base: All respondents n=540

# 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 and more the 45 per cent believe their business is actively trying to increase diversity in terms of gender.

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

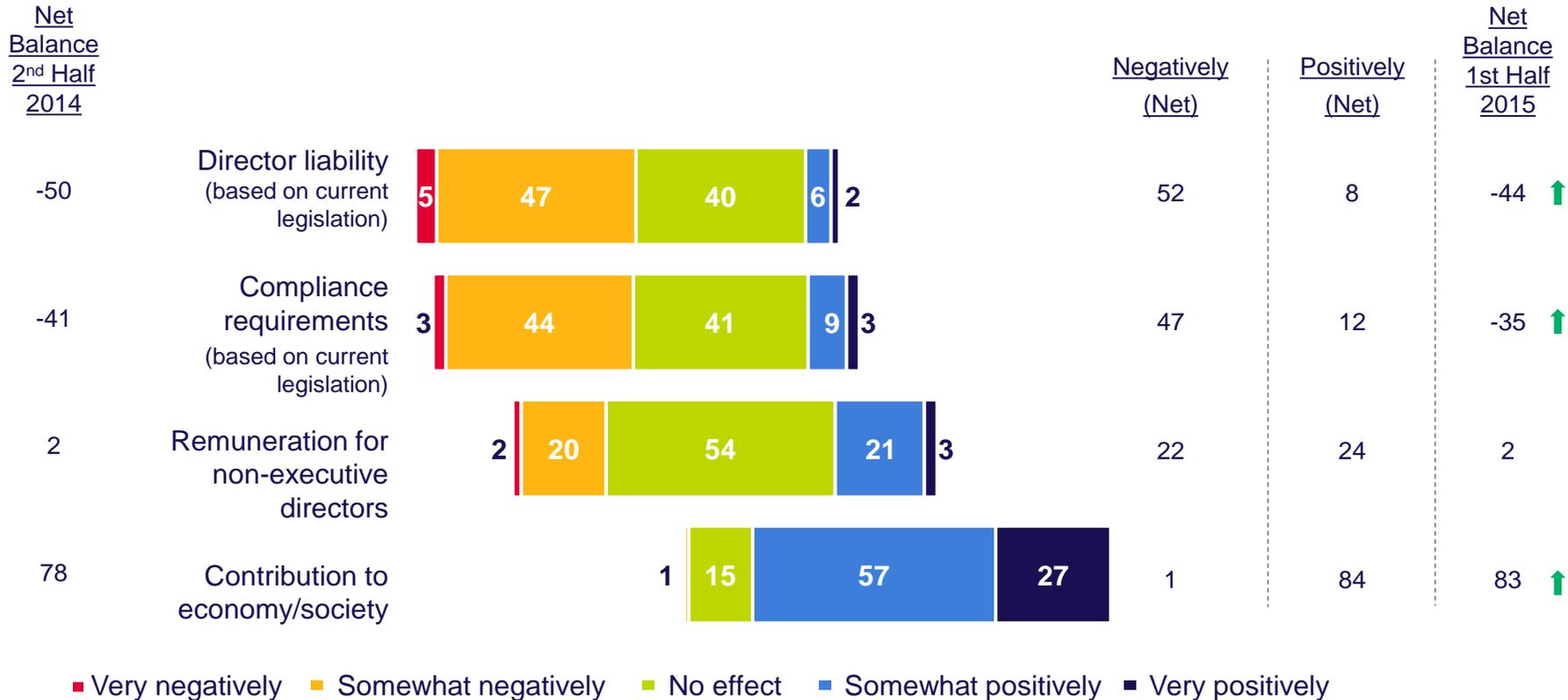


# Factors influencing your willingness to serve on a board

85

Directors believe that director liability and compliance requirements negatively impact their willingness to serve on a board. Almost 85 per cent of directors believe the contribution they make to the economy and society influences their willingness to serve on a board, this proportion has increased slightly since the previous survey.

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



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# APPENDIX

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# Summary of Key Indicators

# Summary of key indicators

(1 of 6)

Indicator (expected change in coming 12 months)	Scale	1 <sup>st</sup> Half 2015 net balance	2 <sup>nd</sup> Half 2014 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-60 ↓	-41
Health of the Asian economy	Weak/strong	9 ↑	2
Health of the European economy	Weak/strong	-70 ↓	-65
Health of the US economy	Weak/strong	29 ↑	19
Inflation rate (Australia)	Lower/higher	3 ↓	26
Exchange rate (value of AUD versus USD)	Lower/higher	-73 ↑	-82
RBA cash rate	Lower/higher	-43 ↓	31
Level of wages growth	Lower/higher	-13 ↓	-6
Unemployment rate	Lower/higher	51 ↑	41
Expected change in ASX All Ordinaries index	Fall/rise	12 ↑	-4

# Summary of key indicators

89

(2 of 6)

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	12	15
Change in business investment levels	Decrease/increase	10	8
Change in business staffing levels/labour demand	Decrease/increase	-2	-1
Change in level of business exports	Decrease/increase	9	11
Change in level of outsourcing	Decrease/increase	16 ↓	20
Expectations of profits for Jul-Dec 2015 actual versus forecast*	Below/up	9	8
Confidence in general business outlook*	Pessimistic/opt	-20 ↑	-7
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	-5 ↓	0
Expected change in level of mergers and acquisitions	Fall/rise	62	59
<b>Infrastructure</b>			
Perception of level of government spending on infrastructure*	Low/high	-86 ↓	-79
<b>Taxation</b>			
Perception of current level of corporate taxation*	High/low	-28	-27
Perception of current level of personal taxation*	High/low	-49 ↑	-62

# Summary of key indicators

90

(3 of 6)

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>Regulation, legal issues, reporting</b>			
Expected change in level of 'red-tape' in coming 12 months	Increase/decrease	-17 ↓	-3
<b>Tax, credit, M&amp;A</b>			
Credit availability for investment purposes	Constrained/available	17 ↑	11
Credit availability for asset purchases	Constrained/available	32 ↑	20
Credit availability for working capital	Constrained/available	21 ↑	11
<b>Public Policy</b>			
Quality of current Public Policy debate in Australia	Poor/good	-80	New question
<b>Regulation, legal issues, reporting</b>			
Agreement with 'Federal Government understands business'*	Disagree/agree	-38 ↓	-4
<b>Regulation, legal issues</b>			
How is the current Federal Government's performance affecting your business decision making?	Negatively/Positively	-58 ↓	-37
How is the current Federal Government's performance affecting consumer confidence?	Negatively/Positively	-87 ↓	-60

# Summary of key indicators

(4 of 6)

Indicator	Scale	2 <sup>nd</sup> Half 2014 net balance	1 <sup>st</sup> Half 2014 net balance
<b>Regulation, legal issues</b>			
Perception of governance regulations	Onerous/weak	-52 ↑	-58
How is legislation affecting your business decision-making?	Negatively/positively	-29	-31
How is legislation affecting your willingness to continue on a board?	Negatively/positively	-33	-33
How is legislation affecting your willingness to accept new board appointments?	Negatively/positively	-48	-46
Extent legal judgments affect your business decision-making	Negatively/positively	-26 ↑	-31
Extent legal judgments affect your willingness to continue on a board	Negatively/positively	-31	-35
Extent legal judgments affect your willingness to accept new board appointments	Negatively/positively	-43	-44
Adequacy of business directorships and officers' insurance	Inadequate/adequate	-2 ↓	1
Risk-averse decision-making culture on Australian boards	Disagree/agree	61	58
Adequacy of public company remuneration reports	Inadequate/adequate	-22	-23
Priority of the reform of laws and regulations governing public company remuneration*	Low priority/high priority	34	30
Functionality of International Financial Reporting Standards (IFRS)	Dysfunctional/functional	-8 ↓	0
Functionality of current AGM system	Dysfunctional/functional	0 ↓	8

# Summary of key indicators

92

(5 of 6)

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>Ethics</b>			
Ethics of directors of Australian listed public companies (own perception)	Unethical/ethical	85	87
Ethics of directors of Australian non-listed and private companies (own perception)	Unethical/ethical	73	75
Ethics of directors of Overseas listed companies (own perception)	Unethical/ethical	47	50
Ethics of directors of Australian listed public companies (general public's perception)	Unethical/ethical	20 ↑	12
Ethics of directors of Australian non-listed and private companies (general public's perception)	Unethical/ethical	12 ↑	5
Ethics of directors of Overseas listed companies (general public's perception)	Unethical/ethical	-25	-27
<b>ESG regulation</b>			
Extent of regulation change for Climate change	Decrease/increase	41 ↑	9
Extent of regulation change for Workplace health and safety (OH&S)	Decrease/increase	45 ↑	35
Extent of regulation change for Industrial relations	Decrease/increase	30 ↑	22

# Summary of key indicators

93

(6 of 6)

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>Board diversity</b>			
Board actively seeking to increase diversity of gender on board	Not actively/actively	21	19
Board actively seeking to increase diversity of age on board	Not actively/actively	-5	-7
Board actively seeking to increase diversity of skills on board	Not actively/actively	49	53
Board actively seeking to increase diversity of ethnicity on board	Not actively/actively	-13	-15
<b>Directorship conditions</b>			
Impact of directors' liability on willingness to serve on a board*	Negatively/positively	-44 ↑	-50
Impact of compliance requirements on willingness to serve on a board*	Negatively/positively	-35 ↑	-41
Impact of remuneration on willingness to serve on a board*	Negatively/positively	2	2
Impact of contribution to economy/society on willingness to serve on a board*	Negatively/positively	83 ↑	78