



DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS SECOND HALF 2016

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Second half 2016 sample profile

Members of the Australian Institute of Company Directors were invited to take part in the survey between 20 – 31 October 2016. A total of 987 members participated. Results were weighted by gender to reflect the profile of the AICD member base.

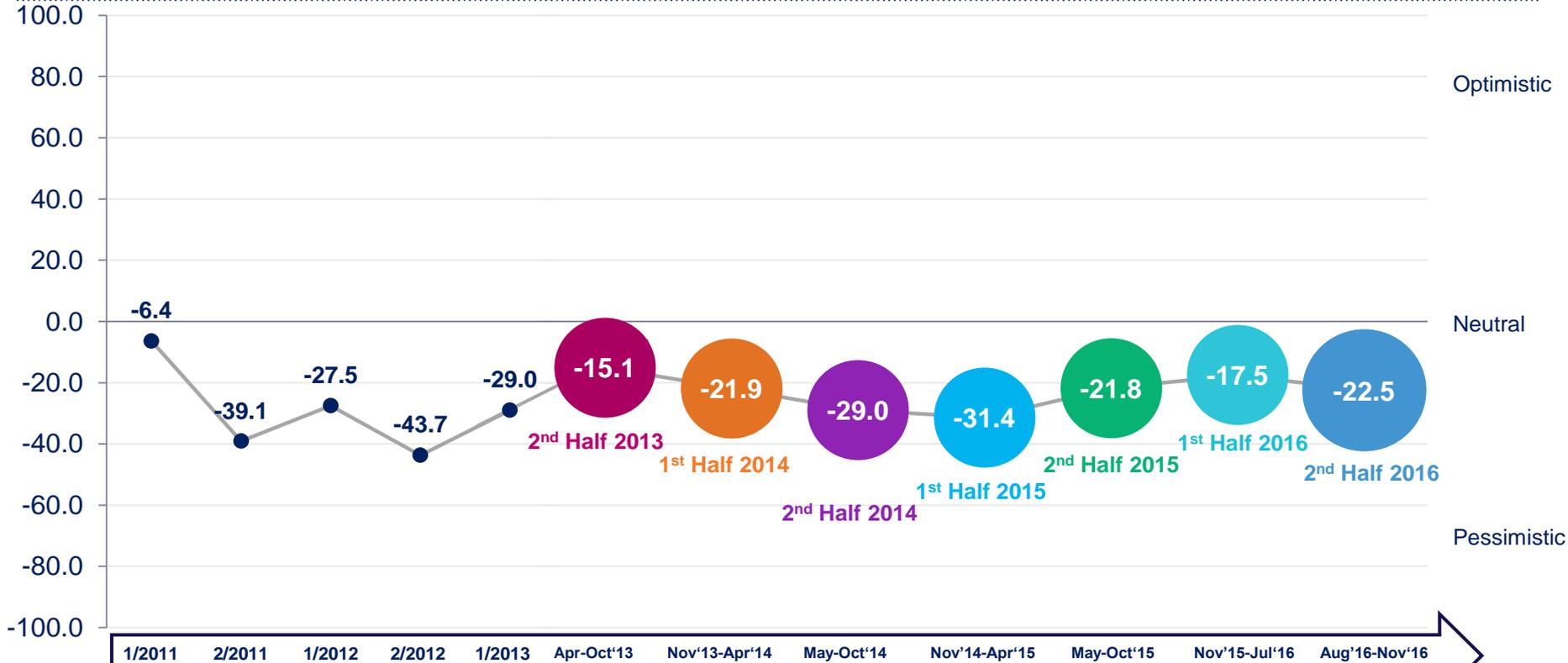
No. of current directorships	%
1	32 (32)
2	31 (31)
3 or more	36 (36)
Prefer not to say	1 (1)
Positions held on board(s)	
Executive Director	35 (37)
Non-Executive Director	68 (64)
Chairman	32 (34)
Other	7 (7)
Prefer not to say	2 (2)
Primary directorship company	
Publicly listed Australian entity	11 (11)
Private/non-listed Australian entity	43 (43)
Not-for profit entity	34 (33)
Public sector/ government body	7 (7)
Overseas entity	5 (5)
Prefer not to say	1 (1)

Primary directorship based	%
NSW	31 (34)
VIC	27 (25)
QLD	14 (16)
WA	11 (11)
TAS	2 (2)
SA/NT	6 (6)
ACT	4 (2)
Overseas	5 (4)
Gender	
Male	70 (70)
Female	30 (30)

Director Sentiment Index

Overall Director Sentiment Index

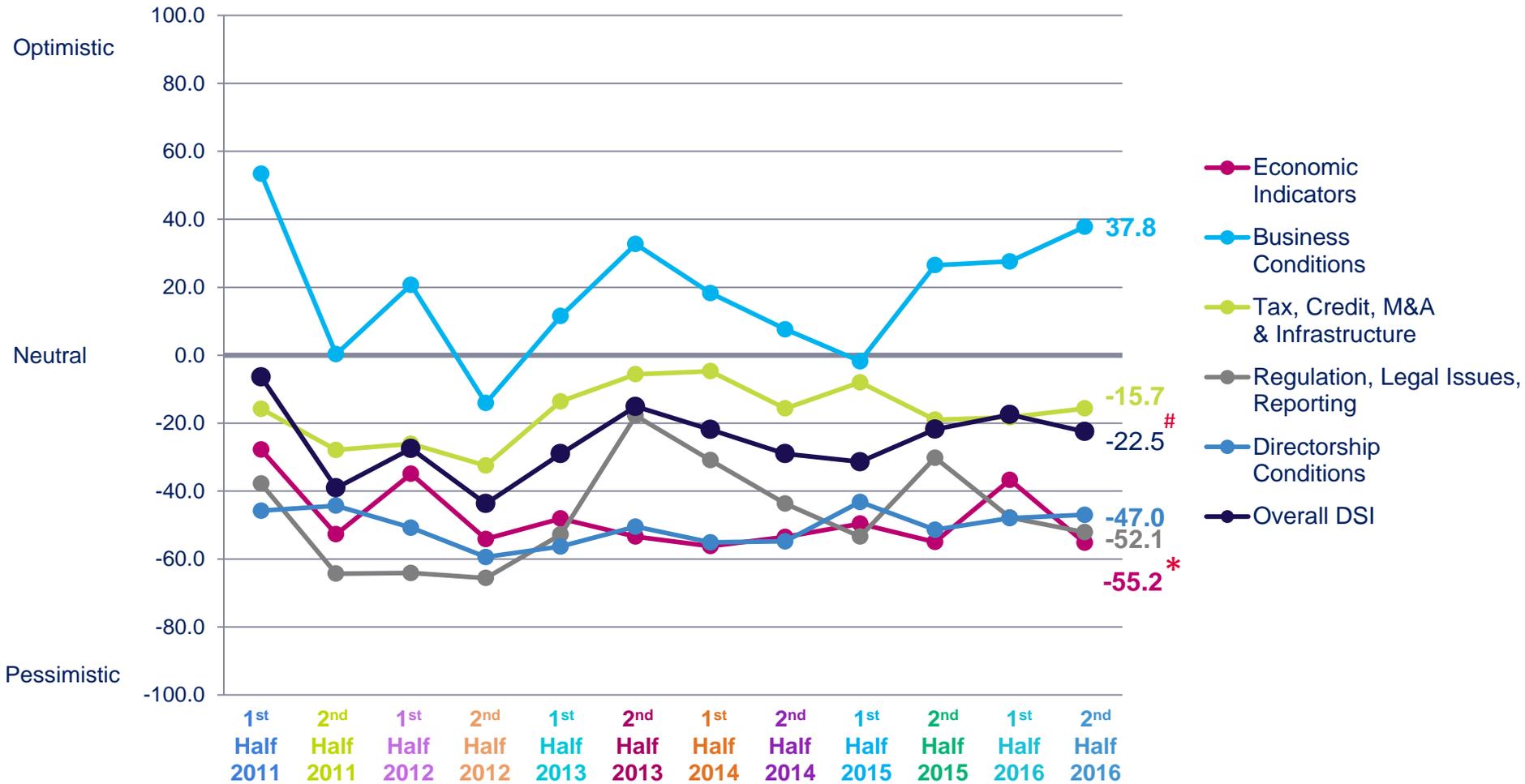
The overall sentiment in the 2nd half of 2016 is down 5 points on the last survey, returning to the similar level seen in 2nd half of 2015, at -22.5. Note that members were also asked their sentiment given a Hillary Clinton win in the US presidential election, and were that to have been the outcome, the index would have become less pessimistic, increasing by 3.6 points to -13.9.



Kevin Rudd takes over as PM (May)	Federal gov't school funding backflip (Dec)	Coalition gov't announces first budget (Jun)	Leadership spill (Feb)	RBA official cash interest rate reduced to record low (May)	Brexit- UK withdraws from the EU (Jun)	RBA official cash interest rate reduced to historic low (Aug)
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)	Chinese Stock Market Crash (Jun-Aug)	Malcolm Turnbull re-elected as PM (Jul)	Donald Trump wins US presidential election (Nov)
	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	Malcolm Turnbull takes over as PM (Oct)		

Overall Director Sentiment Index by segment

While sentiment has increased across Business Conditions, Tax, Credit, M&A & Infrastructure as well as Directorship Conditions, it has become more pessimistic for Economic Indicators and Regulation, resulting in an overall decrease in the DSI from the 1st half 2016 survey. In the event of Hillary Clinton winning the US presidential election, the Economic Indicators segment would have been relatively stable from the 1st half 2016, moving from -36.7 to -35.1 (vs. the current significant dip to -55.2).



Note: Respondents were also asked their sentiment given a Hillary Clinton win in the U.S. presidential election.
 *2nd half 2016 Economic indicators given a Clinton victory = -35.1 (vs. -55.2)
 # 2nd half 2016 Overall index given a Clinton victory = -13.9 (vs. -22.5)

Executive Summary

Executive Summary

Economic and Market Outlook

Health of economies

- Directors have become more pessimistic about the future health of major global economies in the 2nd half 2016. The majority expect the Australian economy to be weak, whilst expectations for the US economy continue the negative long term trend with a significantly sharper downturn in the 2nd half 2016. The Asian economy is also expected to suffer significantly over the next 12 months, whilst the European economy continues to be regarded very pessimistically.

Economic challenges

- Directors continue to view global economic uncertainty as the biggest economic challenge facing Australian business, followed by low productivity growth and the China slowdown.

Executive Summary

Business Forecast

Business growth

- Continuing the upward trend since the 1st half 2015, directors continue to report business growth over the last six months, and continue to feel optimistic about the growth of their business with almost 50 per cent of directors expecting growth in the coming year.

Changes in business

- Directors continue to be optimistic about the changes in the business over the coming year. There is increased optimism around staffing levels/labour demand and investment levels, whilst business exports and outsourcing remain relatively stable over time.

Profits

- No significant change in sentiment around actual profits for the current budget forecast, with about 30 per cent expecting an increase in profits for the current 6 months, and almost 35 per cent expecting an increase in profits for the second half of this year (Jan-Jul'17).

Business outlook

- The upward trend in directors' optimism regarding the overall business outlook continues on since 1st half 2015, with a more pronounced shift in optimism around the outlook for their own sector in 2nd half 2016.

Executive Summary

Government Policy

Budgetary

- Directors rate infrastructure and taxation reform as the top priorities the Federal Government should address in the short term, followed by productivity growth and the federal budget deficit. Infrastructure also continues to be the top long term priority the federal government should address, followed by taxation reform and the federal budget deficit

Taxation

- Directors feel less pessimistic regarding the level of corporate tax in Australia in 2nd half 2016, though over 50 per cent still hold the belief that both corporate and personal tax are too high.

Regulation

- Directors continue to feel pessimistic regarding the level of 'red-tape' in the next 12 months, with 40 per cent expecting an increase. Corporate reporting requirements is identified as the aspect of their business most affected by 'red-tape', followed by preparing/paying taxes and workplace health/ safety.

National productivity

- Directors continue to believe that less focus on short termism is the top measure for lifting national productivity, followed by more infrastructure spending and industrial relations reform.

Executive Summary

Government Policy (cont.)

Credit availability

- Expectations of credit availability in the future have remained relatively stable, with almost 45 per cent of directors predicting that credit for asset purchases will be somewhat or freely available over the coming year, and around 40 per cent expecting the same regarding credit for investment purposes and working capital purposes.

Industrial Relations

- Around 40 per cent of directors would continue to advise the government to pursue a significant industrial relations reform following an electoral mandate. Despite the drop in directors' sentiment, the key priority for an industrial relations reform is still penalty rates, followed by individual workplace arrangements.

Performance & business understanding

- Continuing a downward trend since 2nd half 2015, directors are increasingly pessimistic about the effect of the Federal Government's current performance, with almost 80 per cent perceiving a negative effect on consumer confidence. Close to 50 per cent of directors view the current Federal Government's performance as having a negative effect on their business decision making.
- Directors have become pessimistic about the Federal Government's understanding of business, with 45 per cent disagreeing that the current Federal Government understands business in 2nd half 2016, as opposed to just under 40 per cent agreeing.

Executive Summary

Government Policy (cont.)

Director liability

- Directors continue to feel pessimistic about the impact of legislation on director liability in 2nd Half 2016. While over 30 per cent feel that it has negatively affected their business decision making and willingness to continue on a board, about 45 per cent feel it impacts negatively on their willingness to accept new board appointments.
- Similar to 1st half 2016 results, about 70 per cent of directors perceive there to be a risk-averse decision-making culture on Australian boards. Whilst the majority of directors believe that the contribution they make to the economy and society influences their willingness to serve on a board, over half believe that director liability negatively impacts their willingness to serve on a board.

Board diversity

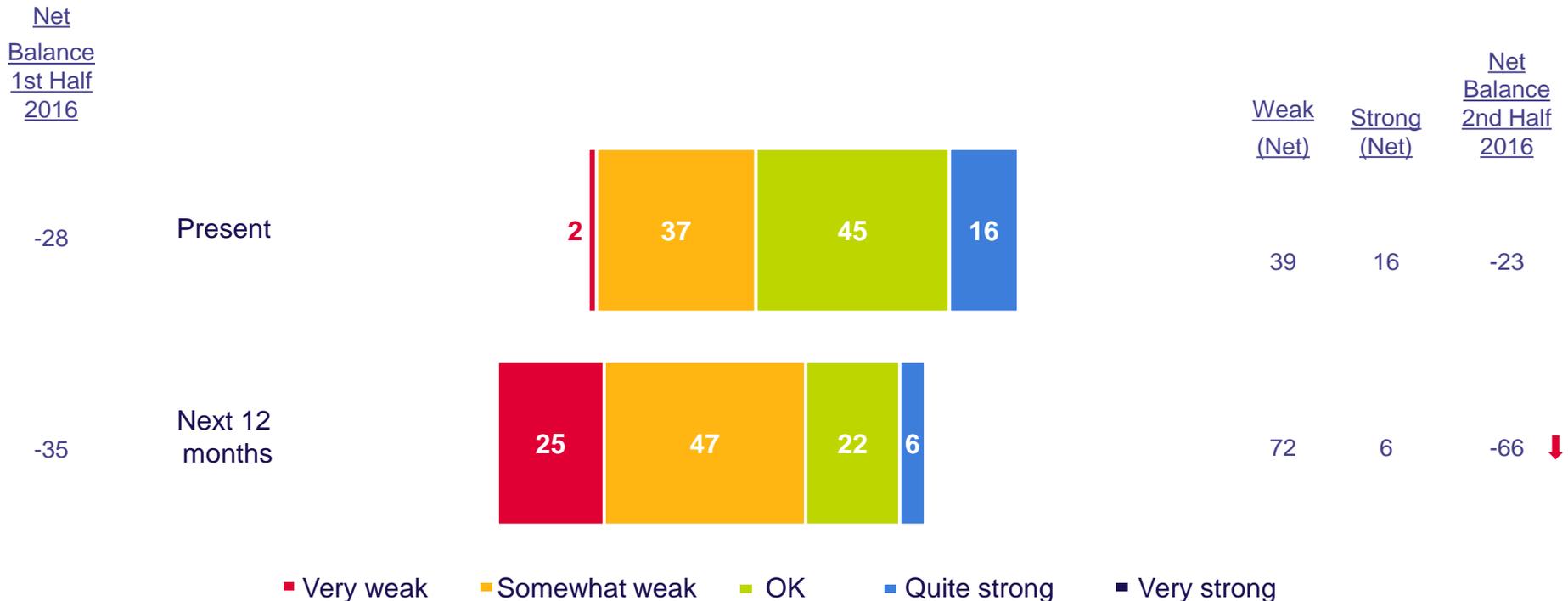
- Increasing diversity of skills in board membership is down from 1st half 2016, though about 70 per cent of directors still state that their business is actively seeking to improve in this area, whilst half indicate their business is actively trying to increase diversity in terms of gender.

Economic outlook and challenges

Health of the Australian economy

Directors are more pessimistic about the Australian economy compared to the 1st half 2016, with about 40 per cent of directors perceiving the economy as weak at present. When asked about their sentiment regarding the Australian economy in the next 12 months, around 70 per cent expect it to become even weaker.

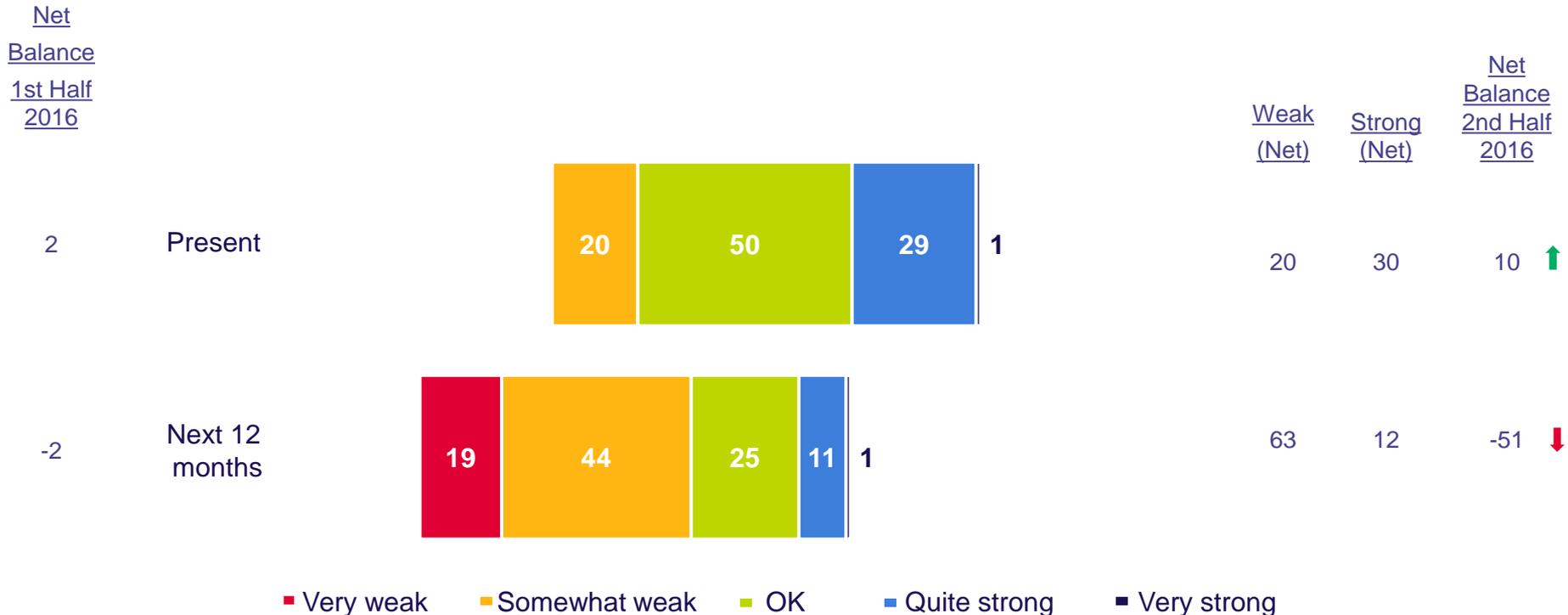
What is your assessment of the health of the Australian economy? (%)



Health of the Asian economy

Sentiment regarding the current state of the Asian economy continues to be more optimistic following the 1st half 2016, with 30 per cent of directors perceiving the Asian economy as currently strong. However, directors are more pessimistic about the future health of the Asian economy, with about 65 per cent expecting it to become weak over the next 12 months.

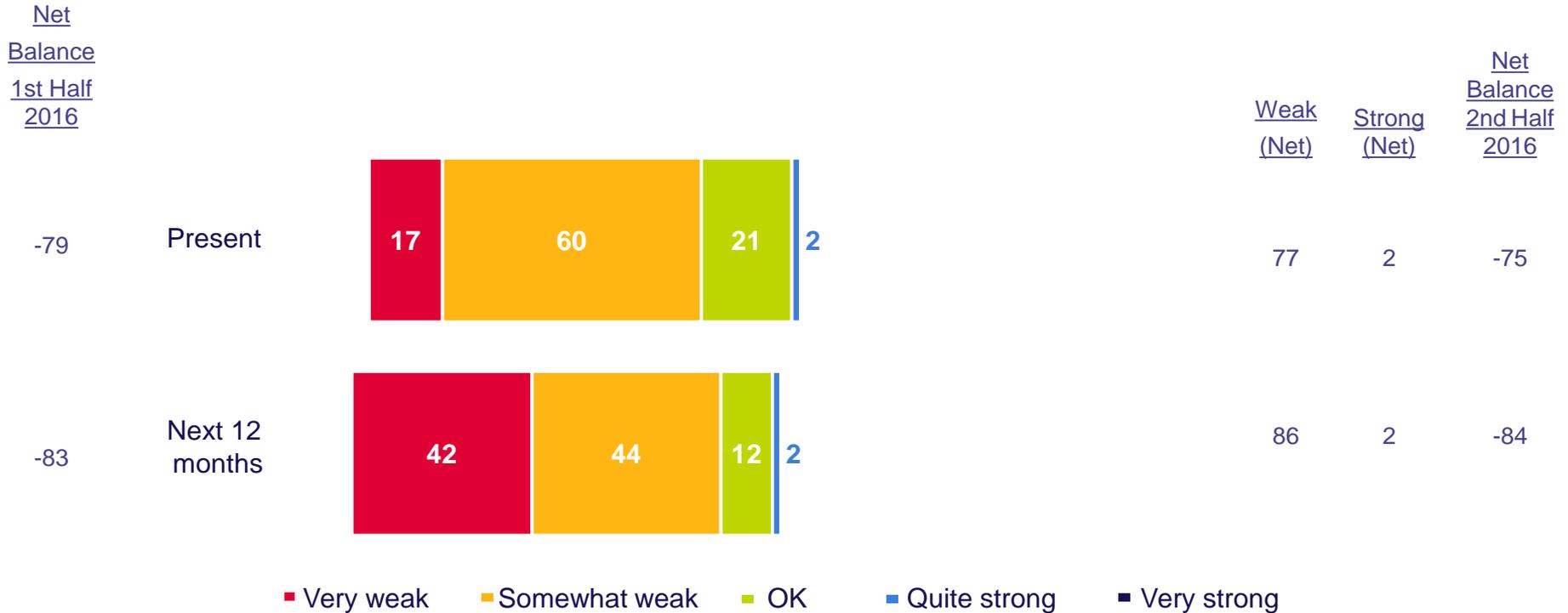
What is your assessment of the health of the Asian economy? (%)



Health of the European economy

Sentiment around the health of the European economy remains very pessimistic. About 80 per cent of directors perceive the economy as weak at present, while about 85 per cent expect it to remain weak in the next 12 months.

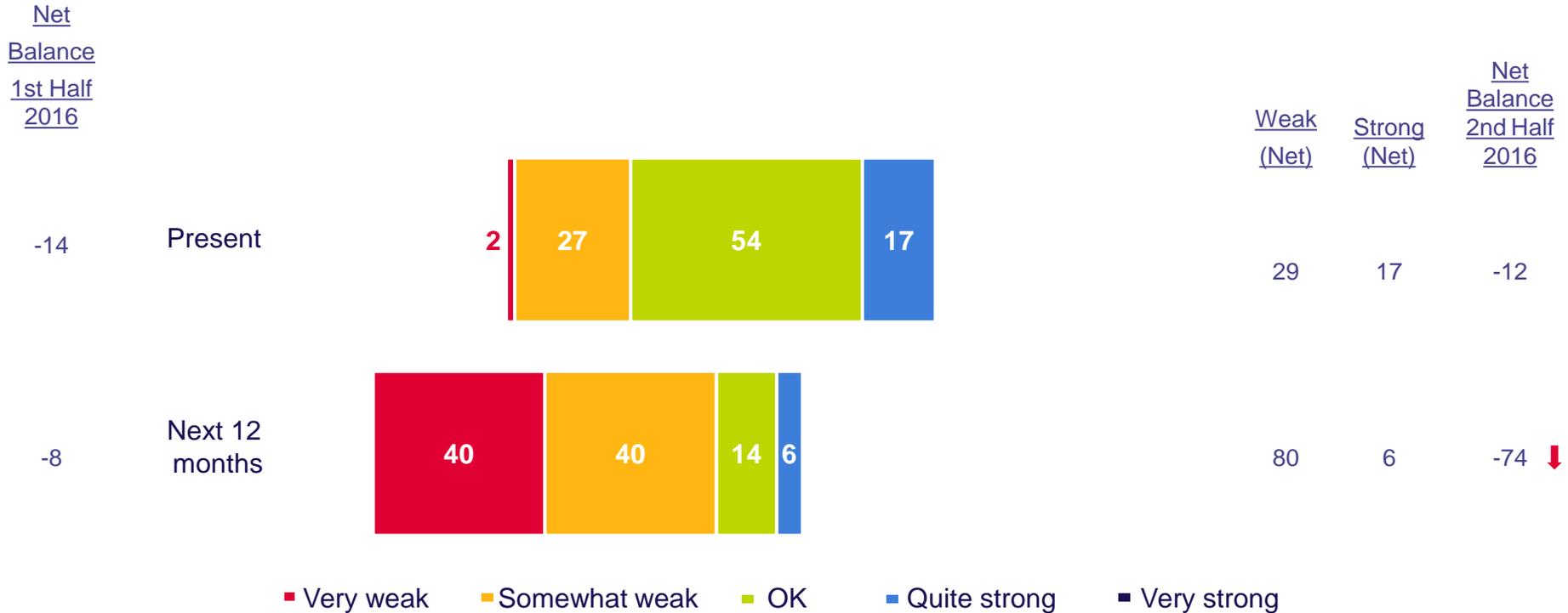
What is your assessment of the health of the European economy? (%)



Health of the US economy

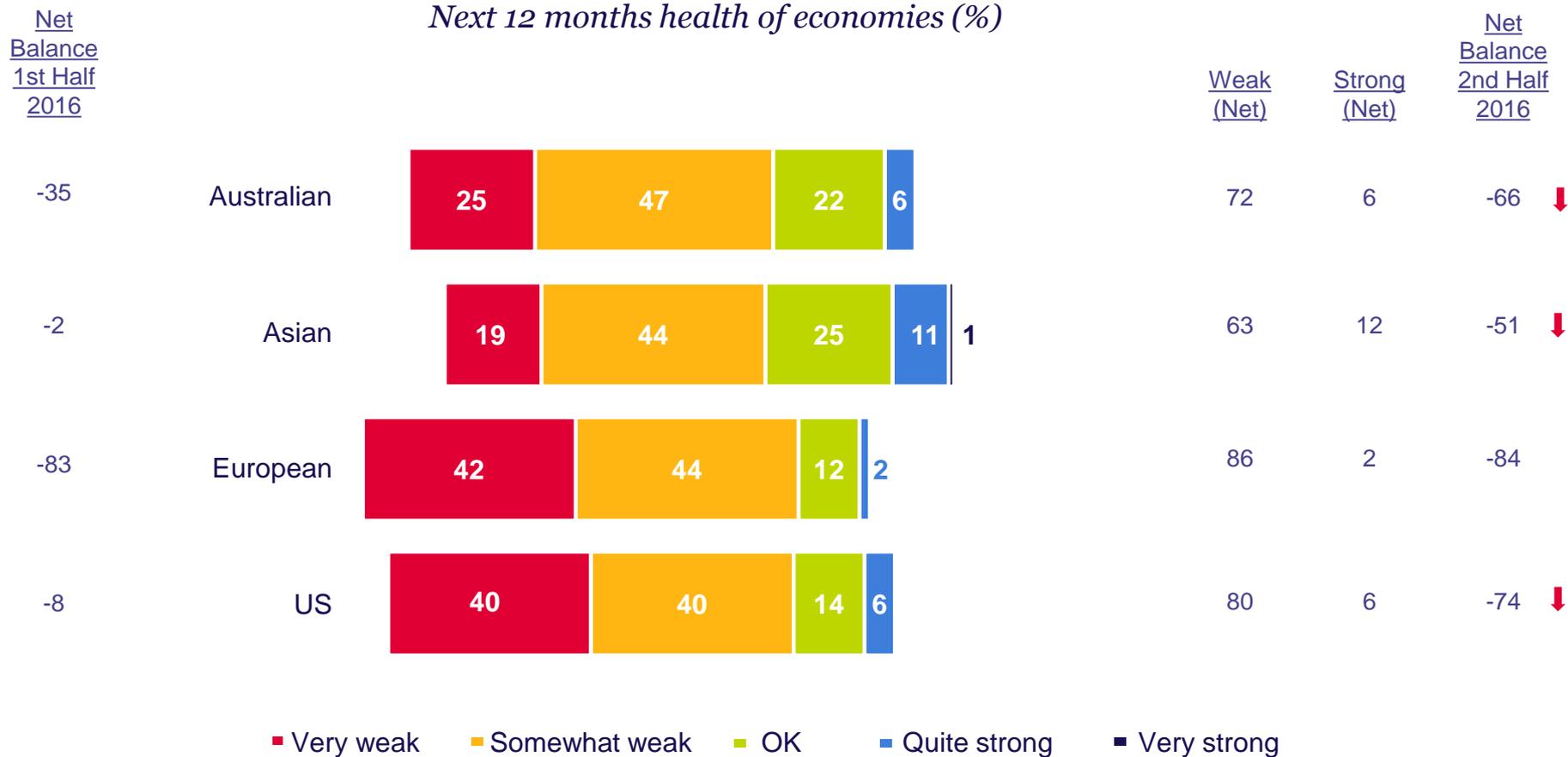
Directors' sentiment regarding the current health of the US economy remains relatively stable, with about 30 per cent of directors perceiving the economy as presently weak. When asked about the future US economy, directors are significantly more pessimistic than the 1st half 2016, with 80 per cent expecting the economy to be weak over the next 12 months.

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



Next 12 months health of economies: summary

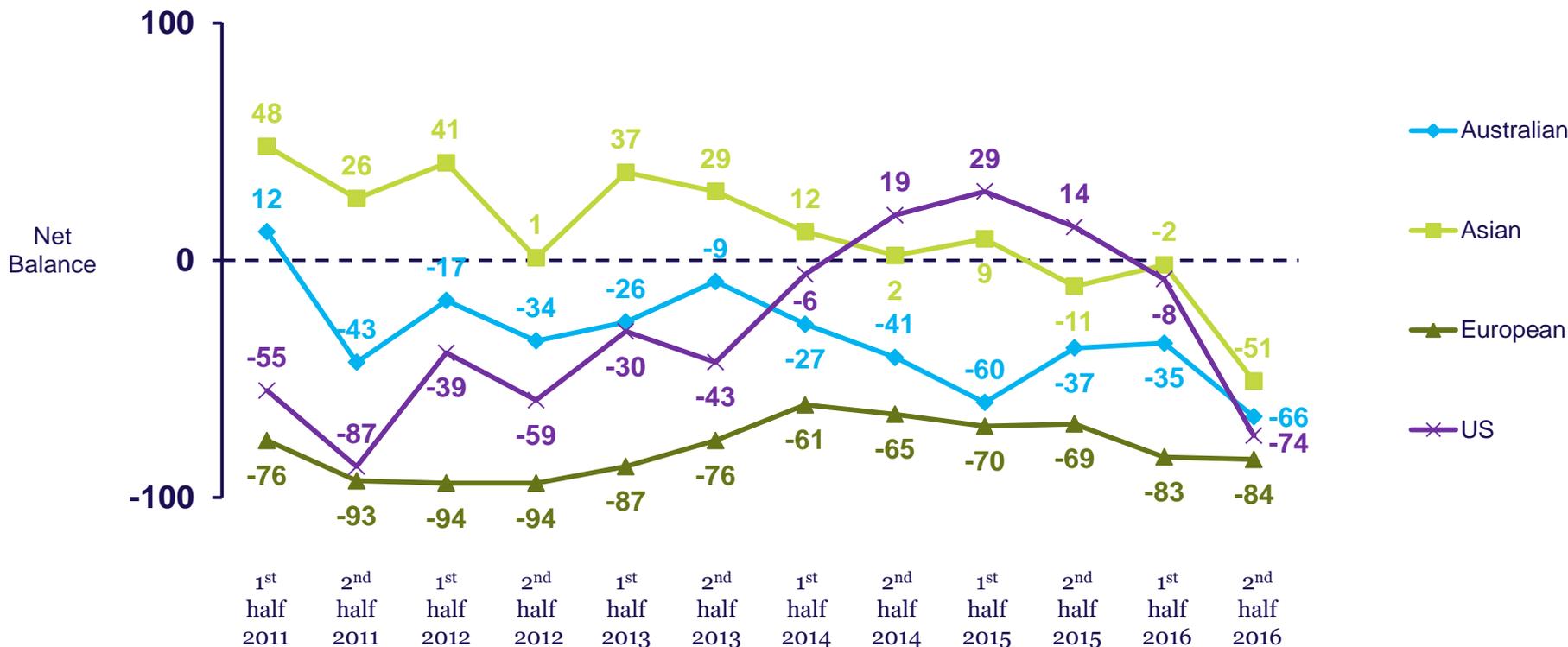
Compared to the 1st half 2016, directors have become more pessimistic about the future health of major global economies. Around 70 per cent of directors expect the Australian economy to be weak whilst 80 per cent expect the same of the US economy. The Asian economy is also expected to suffer significantly over the next 12 months.



Next 12 months health of economies – semi-annual trend

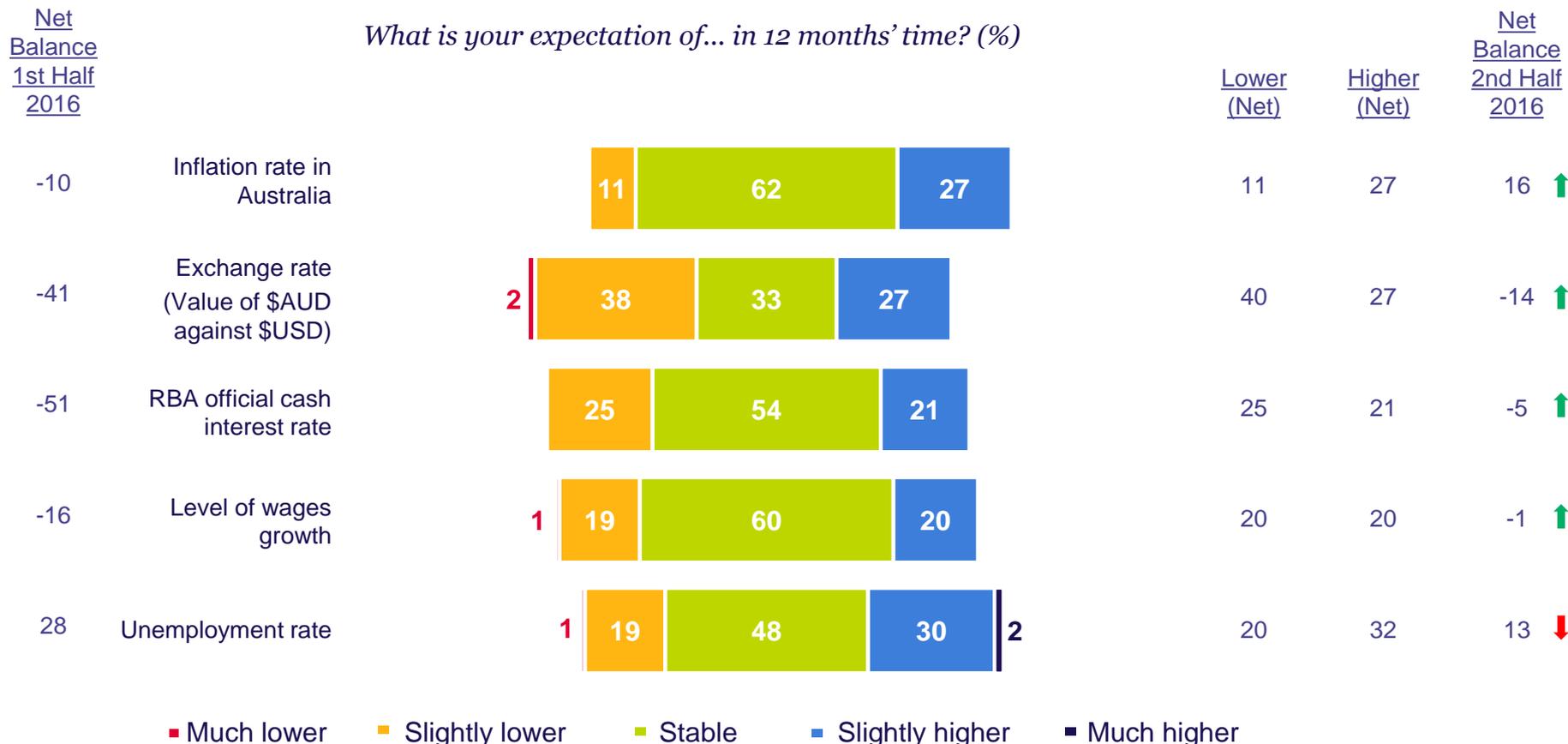
Expectations for the US economy continue the negative long term trend with a significantly sharper downturn in the 2nd half of 2016, while the Australian, Asian, and European economies are regarded with increased pessimism.

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



Economic indicators (Australia) – expectation in next 12 months

Directors expect an increase in inflation and unemployment and a decrease in the exchange rate.



Expected change to ASX All Ordinaries index - next 12 months

Expectations regarding the ASX All Ordinaries index have remained stable, with almost 45 per cent of directors expecting the index to rise in the next 12 months.

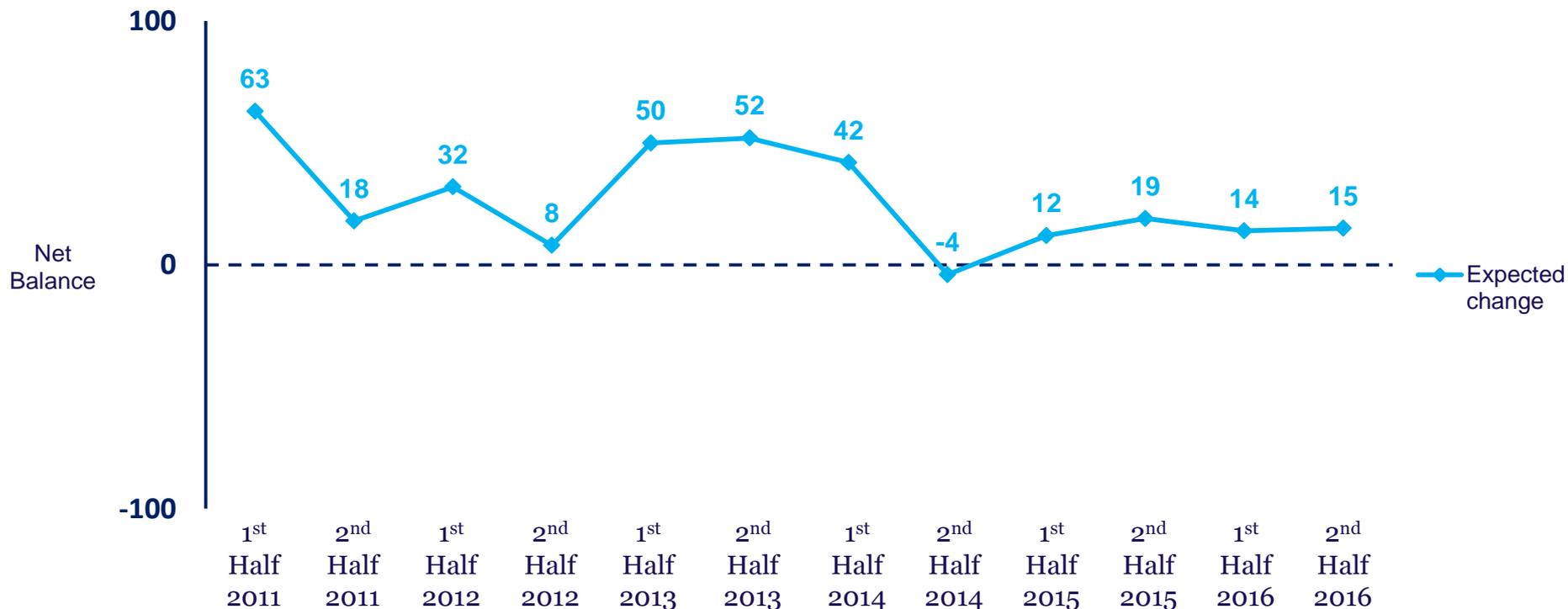
Expected change to ASX All Ordinaries index – next 12 months (%)



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

Sentiment regarding the ASX All Ordinaries index for the coming year has remained relatively stable in the 2nd Half 2016.

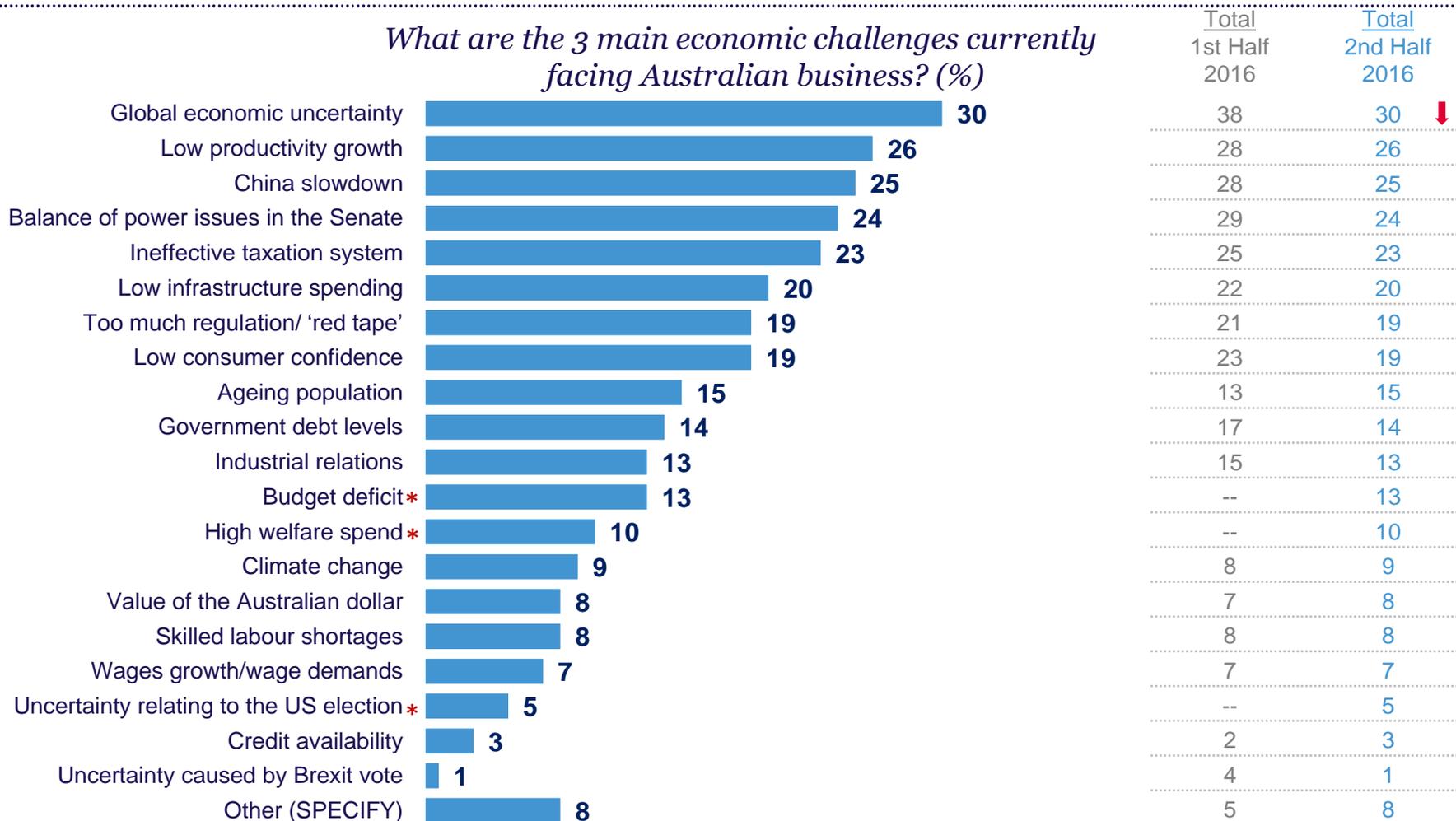
Expected change to ASX All Ordinaries index: next 12 months – semi-annual trend (net balance)



Main current economic challenges (Top 3)

Directors continue to view global economic uncertainty as the biggest economic challenge currently facing Australian business in the 2nd half 2016, followed by low productivity growth and the China slowdown.

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

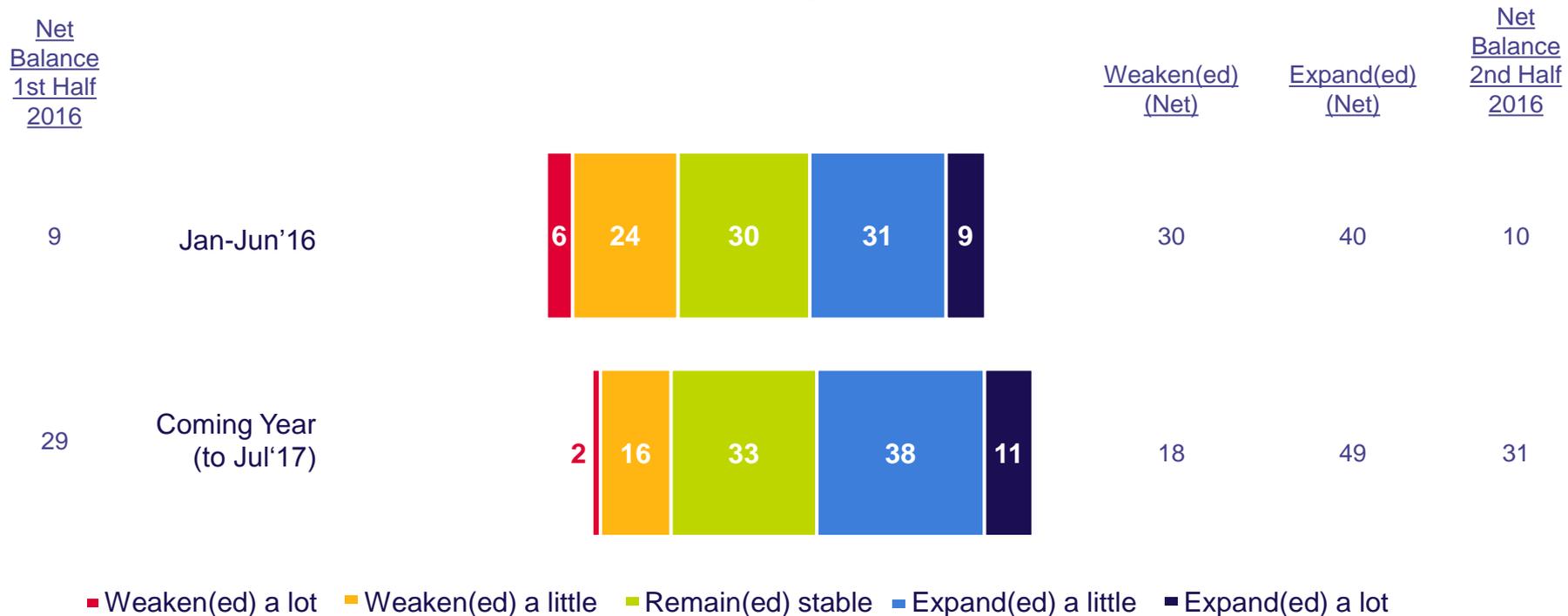


Business Forecast

Growth of the business (primary directorship company)

Directors continue to feel optimistic about the growth of their business with almost 50 per cent of directors expecting growth in the coming year.

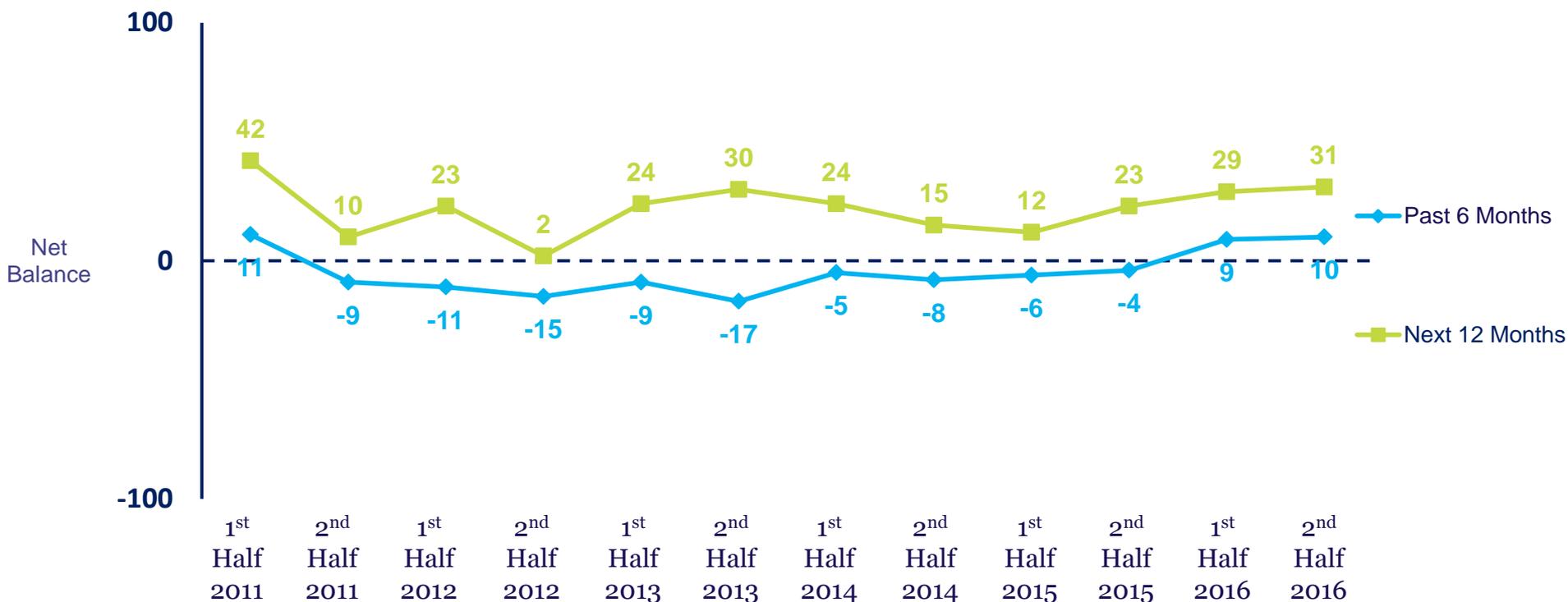
Growth of the business – past and future (%)



Past and future growth of business – semi-annual trend

Directors' optimism regarding past and future business growth continues its upward trend since the 1st of half 2015.

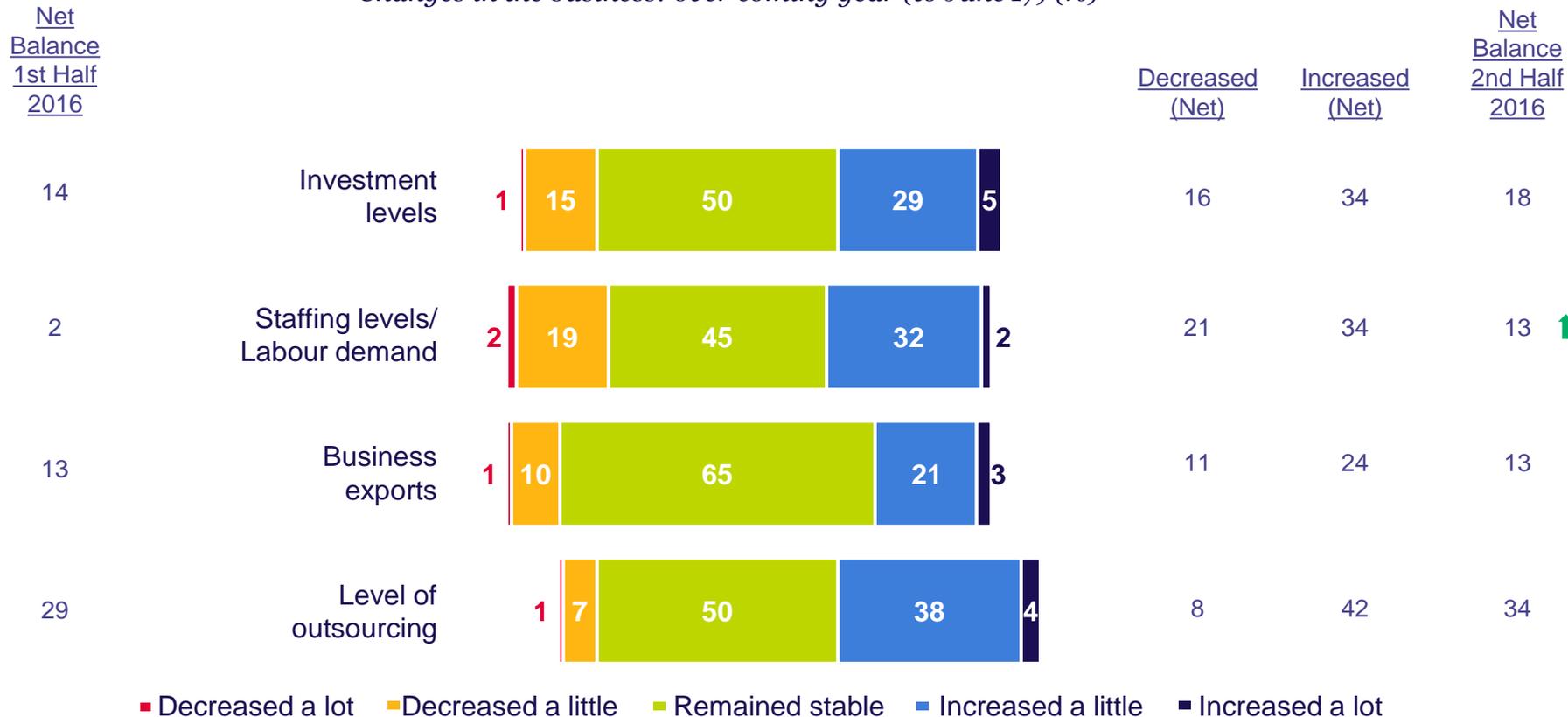
Growth of business (past 6 months and next 12 months) – semi-annual trend
(net balance)



Changes in the business – coming year (to June '17)

Directors continue to be optimistic about the changes in the business over the coming year. There is increased optimism around staffing levels/labour demand over the coming year (to June '17).

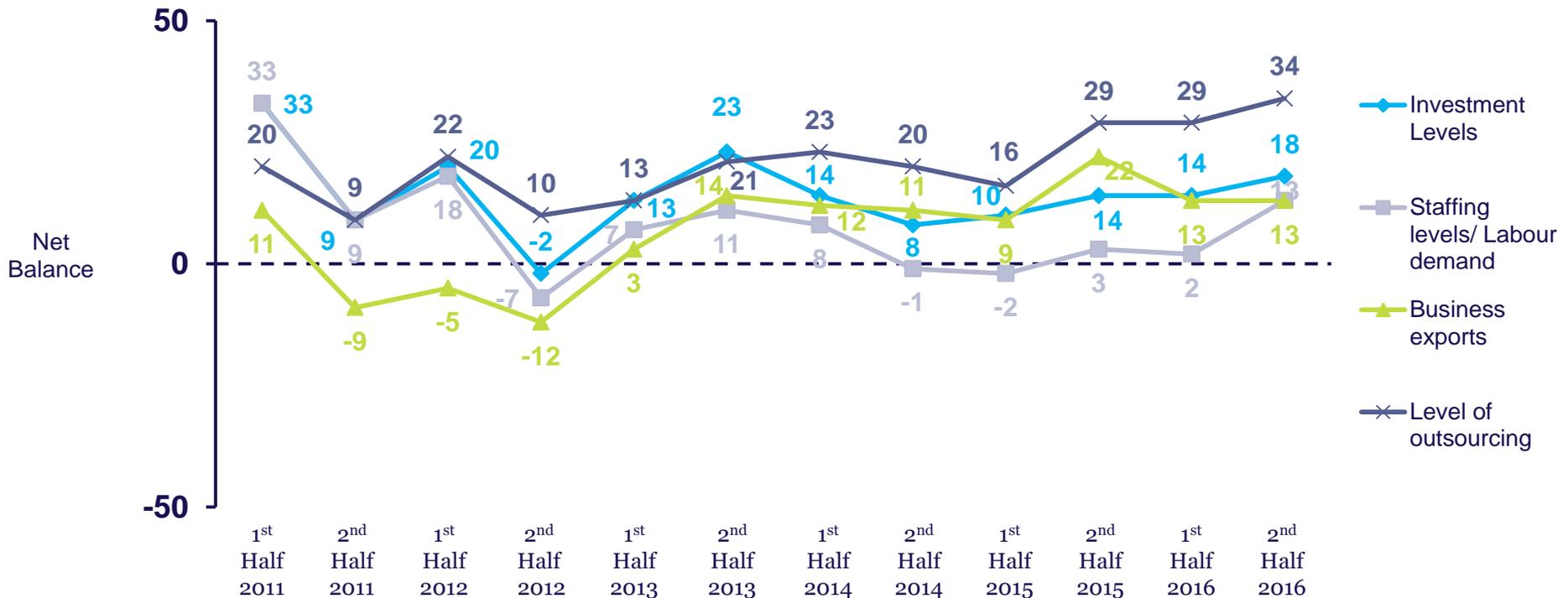
Changes in the business: over coming year (to June'17) (%)



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

Sentiments around changes in the business have increased in optimism in 2nd half 2016, except for business exports which has remained unchanged.

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



Main reason for change in staffing levels/labour demand

Significantly more directors identified a change in business conditions as the main reason for a change in staffing levels over the coming year, compared to 1st half of 2016, followed by a change in economic conditions.

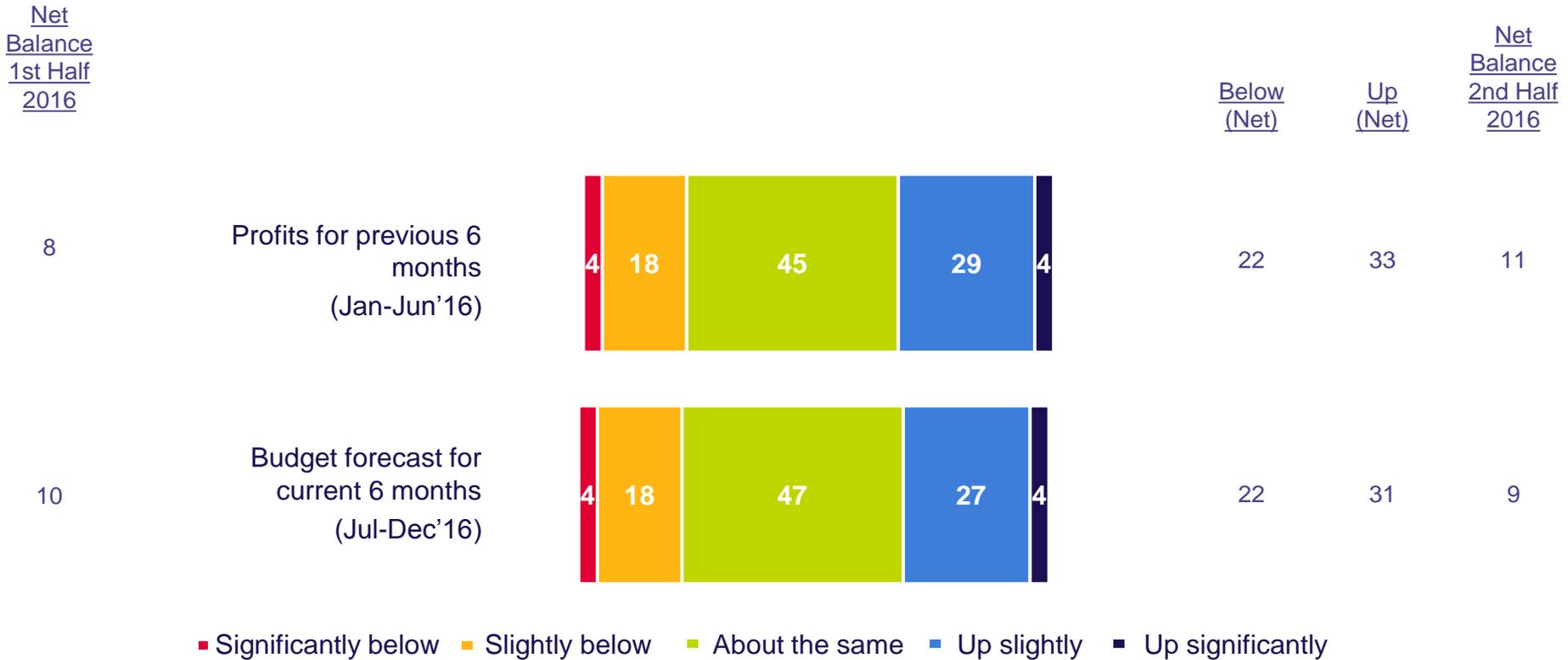
Main reason for expected change in staffing levels/labour demand (%)

Main reason for expected change in staffing levels/ labour demand (%)	Survey	Total (Those who expect change)	Those who expect decrease	Those who expect increase
Changed business conditions	1st Half 2016	54	41	65
	2 nd Half 2016	61 ↑	46	70
Changed economic conditions	1st Half 2016	29	45	15
	2 nd Half 2016	21 ↓	37 ↓	12
Changed wage levels	1st Half 2016	1	2	0
	2 nd Half 2016	2	2	1
Workplace laws	1st Half 2016	4	6	2
	2 nd Half 2016	2	4	1
Other	1st Half 2016	12	6	18
	2 nd Half 2016	14	11	15

Profits for current six months compared to...

No significant change in sentiment around actual profits for the current budget forecast, with about 30 per cent expecting an increase in profits for the current 6 months.

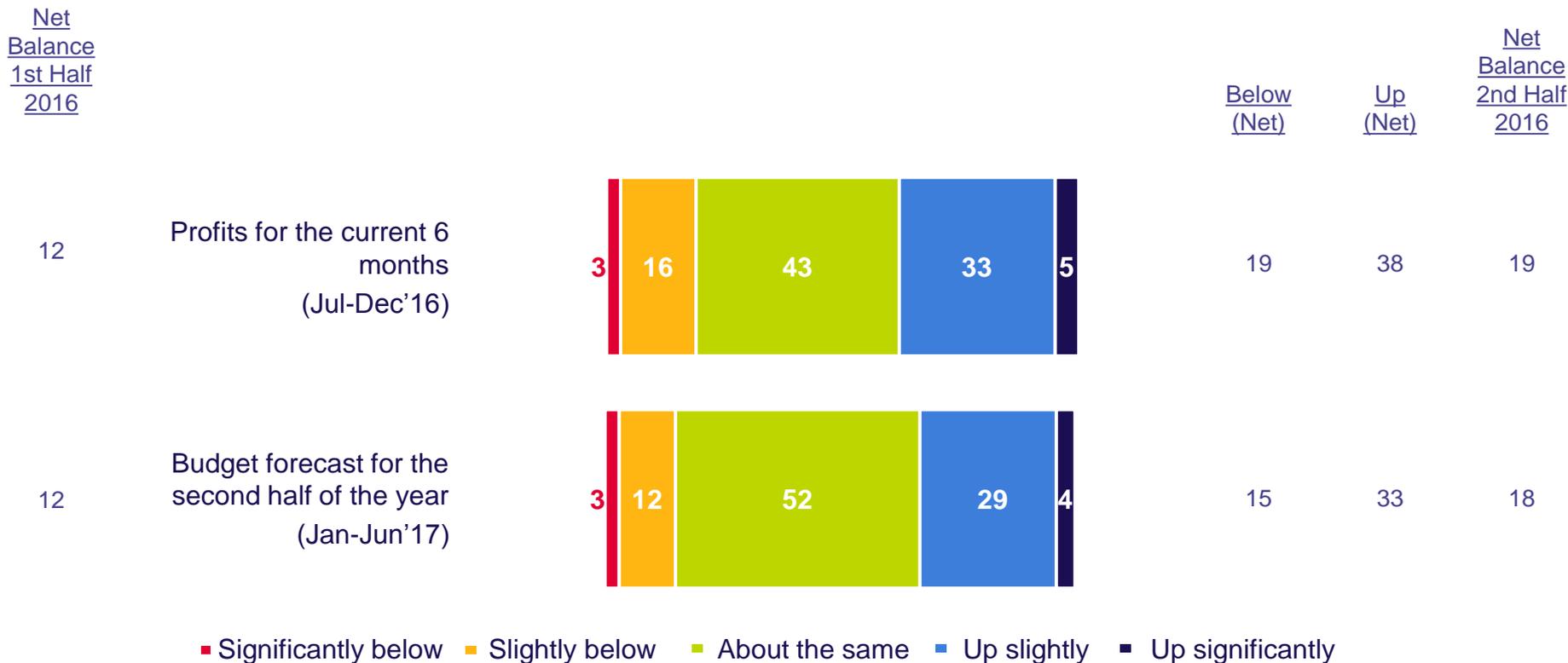
Actual profits for the current six months (Jul-Dec'16) compared to... (%)



Profits for second half of year compared to...

Expectations of profits for the second half of this year (Jan-Jul'17) are similar to that of the current 6 months, with almost 35 per cent of directors expecting an increase in profits.

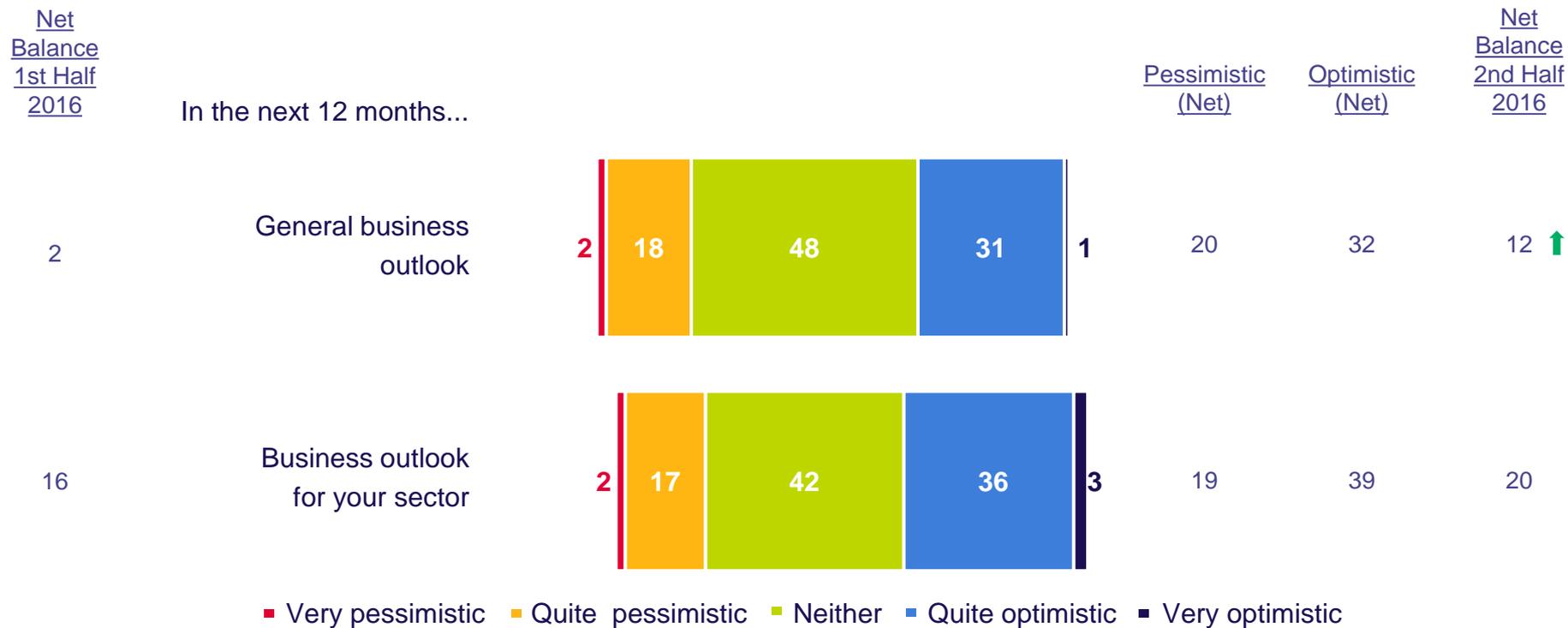
Expected profits for the second half of this year (Jan-Jul' 17) compared to... (%)



Confidence in business outlook – next 12 months

Directors are increasingly optimistic about the business outlook in the next 12 months, with about 30 per cent indicating they are optimistic about the general business outlook, and nearly 40 per cent indicating they are optimistic regarding the outlook for their sector.

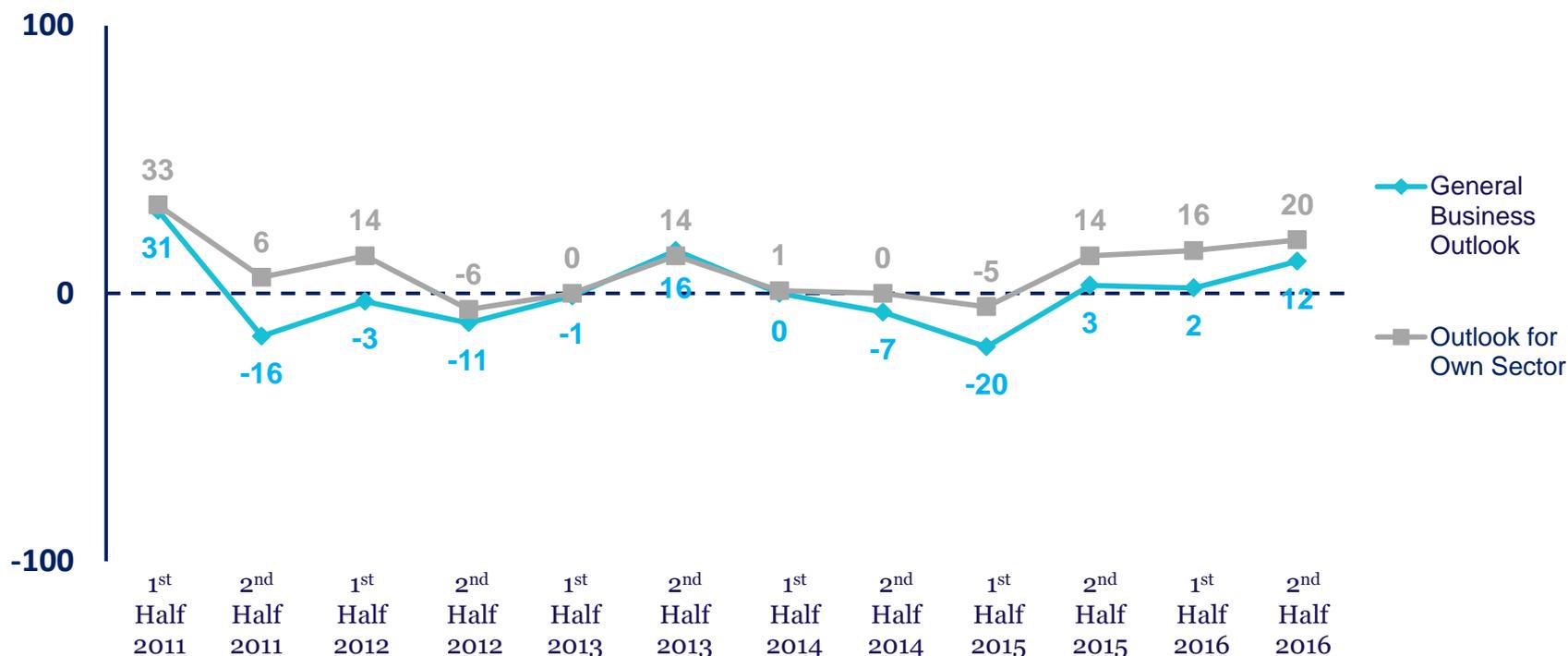
Confidence in business outlook – general and sector – next 12 months (%)



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

There has been an upward trend in directors' optimism regarding the overall business outlook since 1st half 2015, with a more pronounced shift in optimism around the outlook for their own sector in 2nd half 2016.

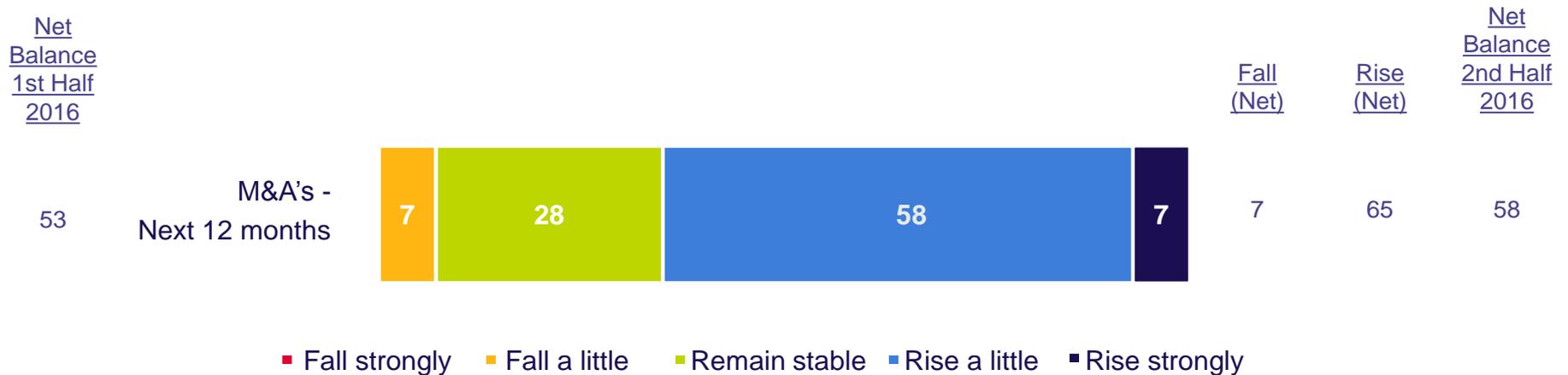
Confidence in business outlook: next 12 months – semi-annual trend (net balance)



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

Remaining stable from 1st half 2016, 65 per cent of directors expect a rise in the level of mergers and acquisitions over the coming year.

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



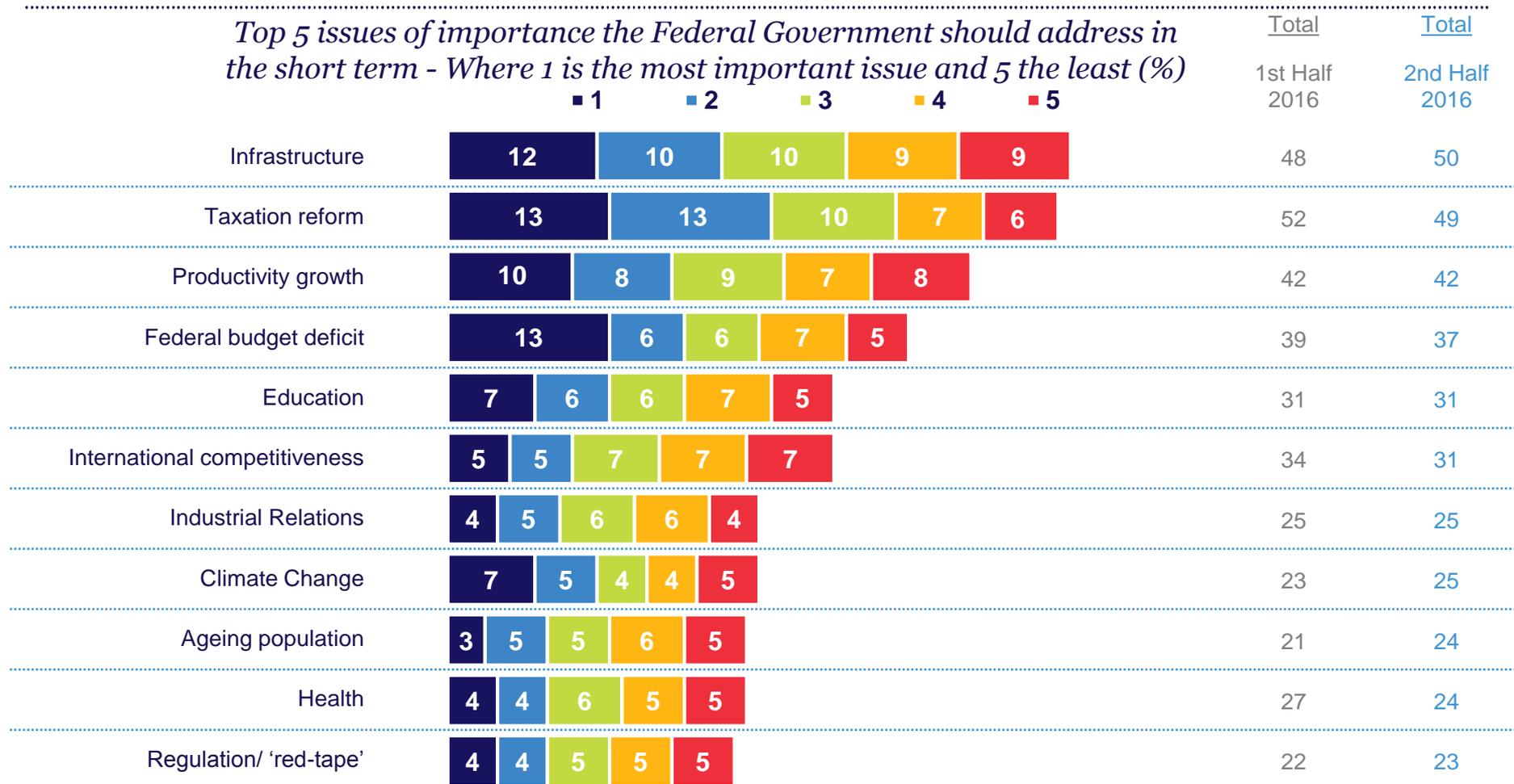
Government Policy

Budgetary

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

Directors rate infrastructure and taxation reform as the top priorities the Federal Government should address in the short term, followed by productivity growth and the federal budget deficit.

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)

Skilled immigration continued to be rated as the lowest short term priority for the Federal Government, followed by childcare policies and defence. Furthermore, directors are now less concerned about superannuation compared to the 1st Half 2016.

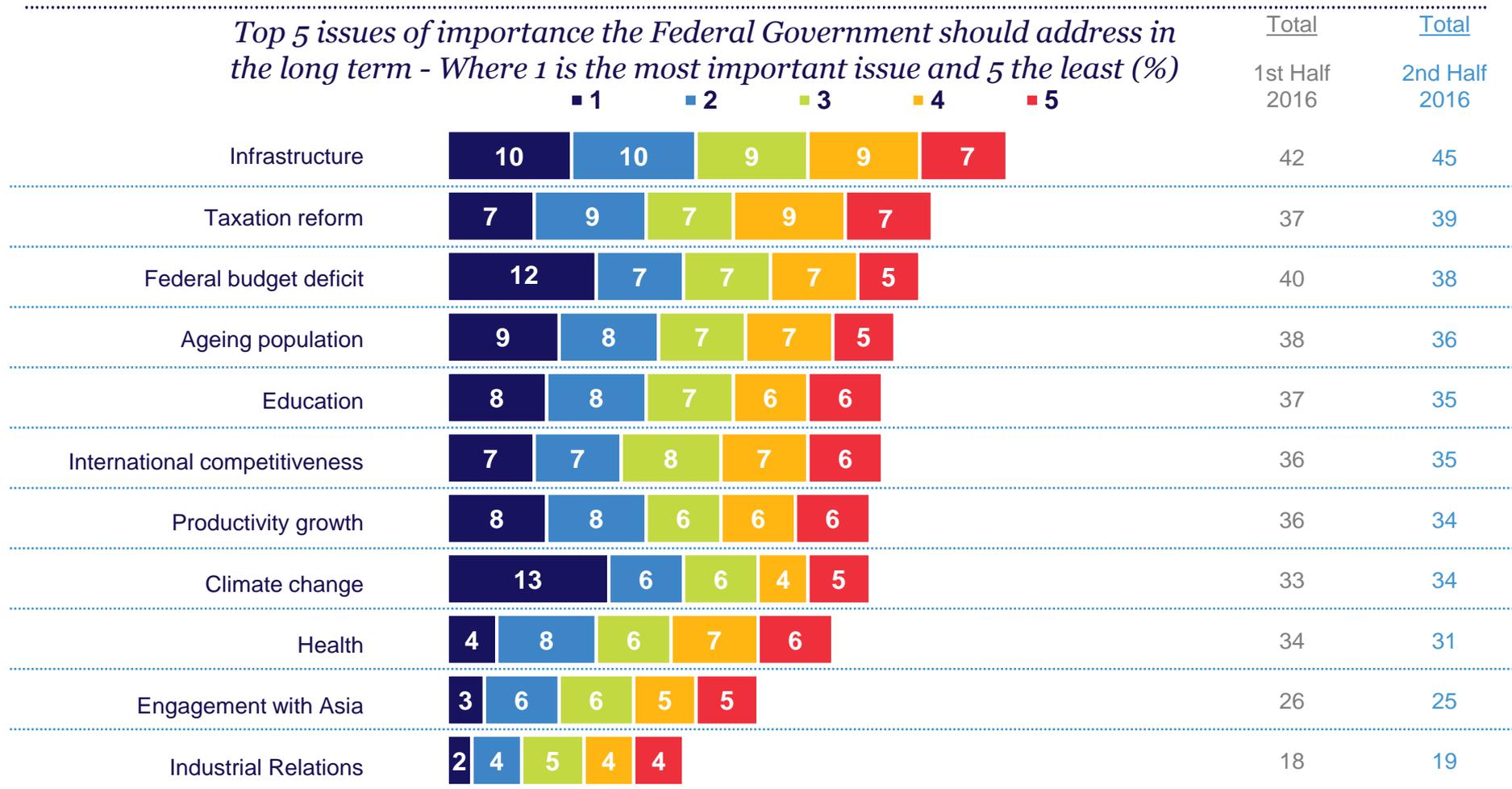
Top 5 issues of importance the Federal Government should address in the short term - Where 1 is the most important issue and 5 the least (%)

	■ 1	■ 2	■ 3	■ 4	■ 5	Total 1st Half 2016	Total 2nd Half 2016
NBN rollout	4	3	5	4	6	24	22
Engagement with Asia	2	6	3	5	5	17	21
Size of the Federal Government	3	4	2	4	4	14	17
Indigenous disadvantage	2	2	3	4	5	15	16
Lack of skills in workforce/ s	2	3	2	3	3	14	13
Superannuation	2	3	3	3	2	20	13 ↓
Foreign ownership	1	2	2	2	3	14	10
Border protection	1	1	2	1	3	9	8
Defence	1	1	2	2		5	6
Childcare policies	1	1	1	1	2	3	6
Skilled immigration	1	2	1	1		3	5

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

Directors continue to rate infrastructure as the top long term priority the federal government should address, followed by taxation reform and the federal budget deficit.

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)

Childcare policies is still rated as the lowest long-term priority the Federal Government should address. This is followed by skilled immigration and border protection.

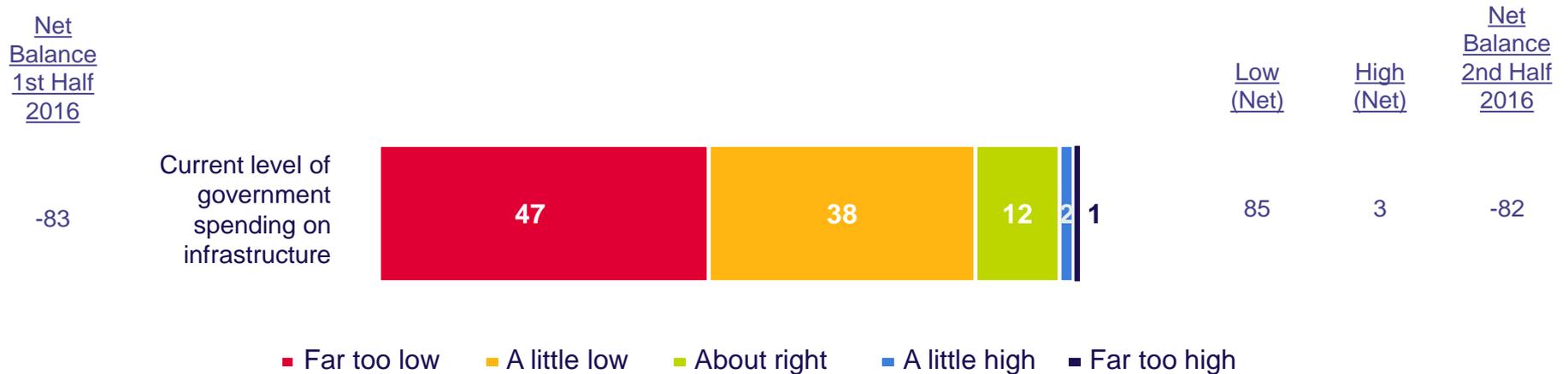
Top 5 issues of importance the Federal Government should address in the long term - Where 1 is the most important issue and 5 the least (%)

	■ 1	■ 2	■ 3	■ 4	■ 5	Total 1st Half 2016	Total 2nd Half 2016
Regulation/ red-tape	2	3	4	4	6	16	19
Indigenous disadvantage	3	3	3	4	6	18	19
Lack of skills in workforce	2	2	3	4	4	16	15
Superannuation	2	3	3	4	3	15	15
Size of the Federal Government	3	2	3	3	4	14	15
Foreign ownership	1	2	2	2	3	10	10
Defence	1	2	2	2	3	9	10
NBN rollout	1	1	1	2	3	9	8
Border protection	1	1	2	1	2	7	7
Skilled immigration	2	1	2	2		4	7
Childcare policies	1	1	1	1		3	4

Current level of government spending on infrastructure

Sentiment regarding the level of government spending on infrastructure is in line with 1st half 2016, with 85 per cent of directors maintaining the belief that government spending on infrastructure is too low.

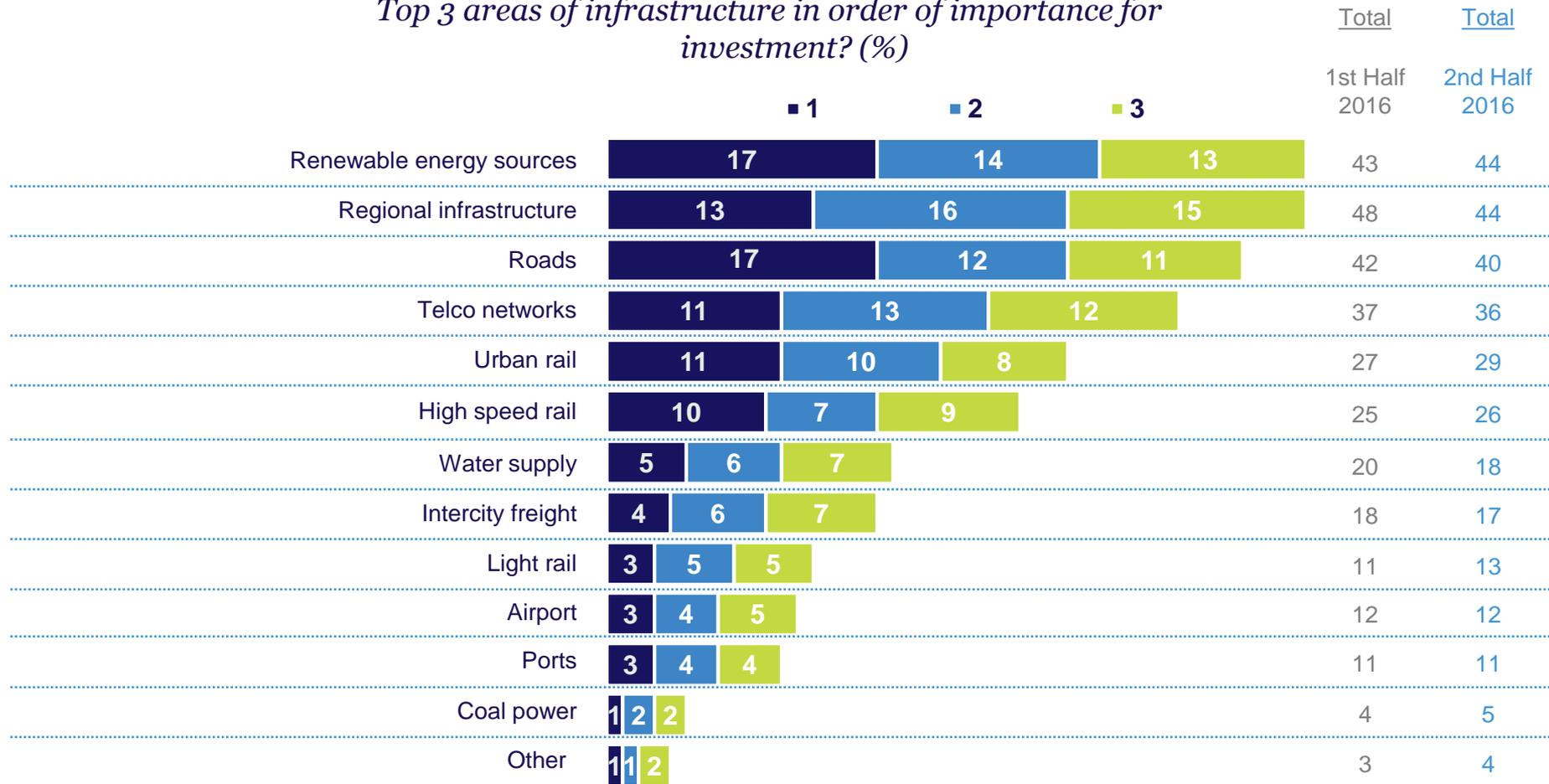
Opinion on current level of government spending on infrastructure (%)



Investment in Infrastructure (Top 3)

Almost 45 per cent of directors rate both renewable energy sources and regional infrastructure as the top area of importance for infrastructure, followed closely by roads and telco networks.

Top 3 areas of infrastructure in order of importance for investment? (%)



Federal Government's move towards a budget surplus

Around 70 per cent of directors believe that the Federal Government should move towards a budget surplus within the next 5-10 years. Almost 15 per cent believe it to be more urgent – within the next three years, whilst around 20 per cent believe a budget surplus is not a priority.

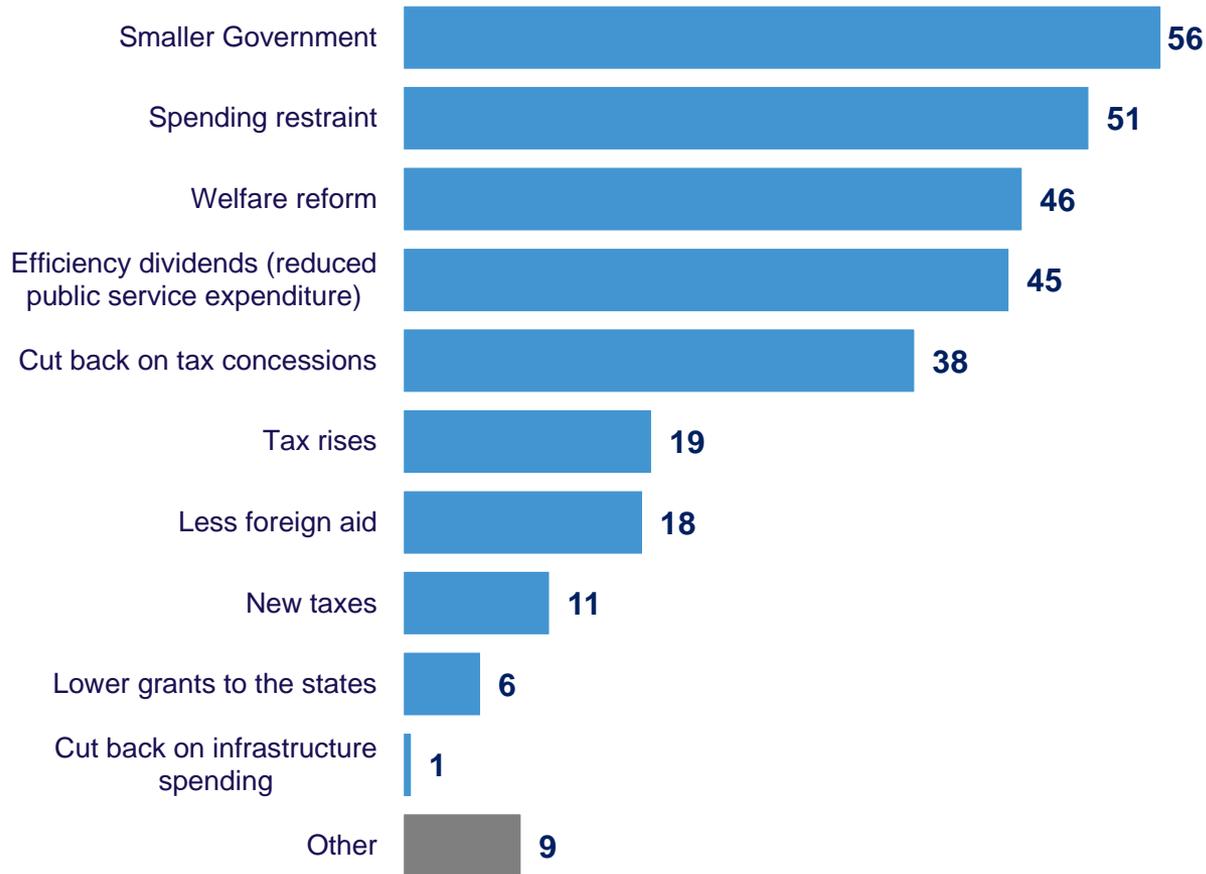
Federal Government's move towards a budget surplus (%)

	<i>1st Half 2016</i>	<i>2nd Half 2016</i>
Within the next three years	12	13
Within the next five years	41	39
Within the next ten years	29	29
A budget surplus is not a priority	18	19

Methods for Federal Government to return to budget surplus

Around 55 per cent of directors rate smaller government as the main method the Federal Government should concentrate on initially to return the budget to surplus, followed closely by spending restraint. Welfare reform and efficiency dividends are also considered as key methods that should be utilised.

Main methods to return the budget to surplus (%)



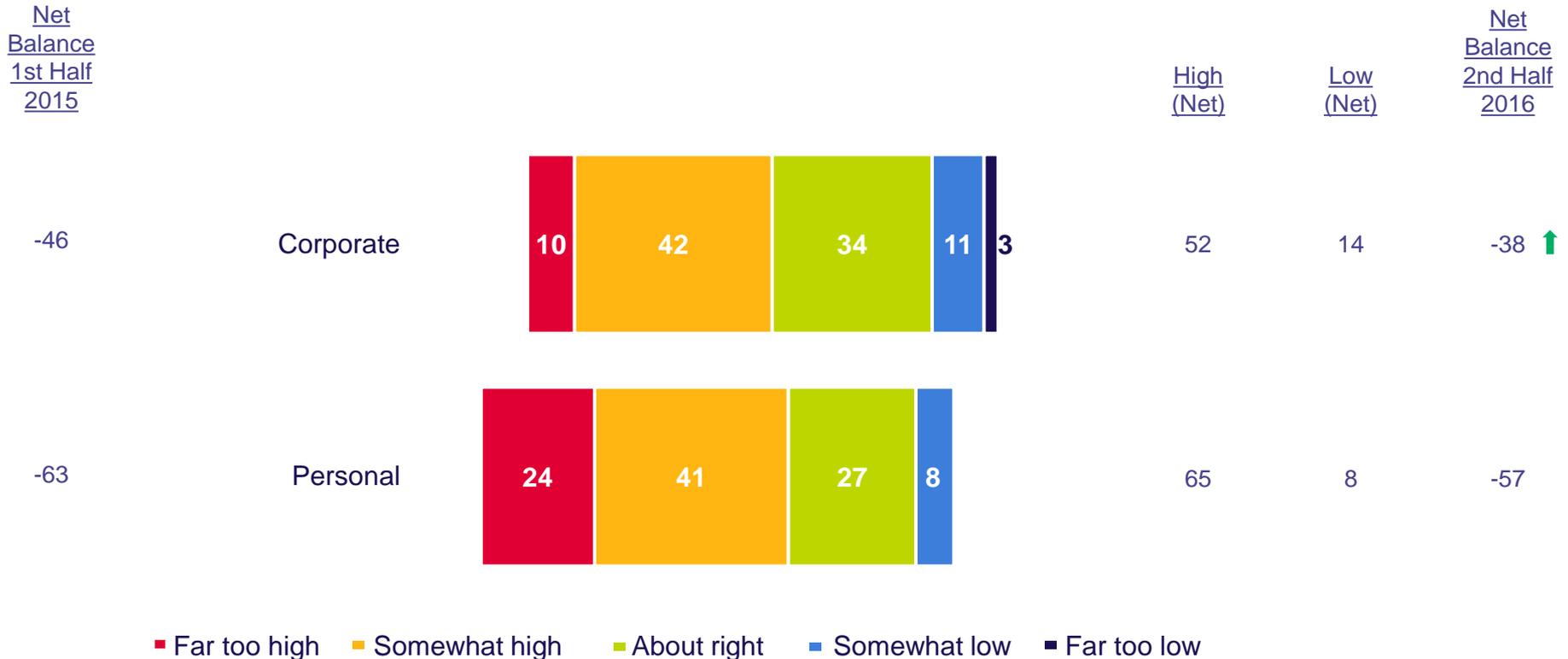
Government Policy

Taxation

Level of taxation in Australia

Although directors feel less pessimistic regarding the level of corporate tax in Australia in the 2nd half 2016, over 50 per cent still hold the belief that both corporate and personal tax are too high.

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



Reform of taxation system

Directors rated multinational tax arrangements, followed by state based taxes and company tax as the top three priorities for reform in any future comprehensive review of the current taxation system.

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

		Total 1st Half 2016	Total 2nd Half 2016
Multinational tax arrangements, e.g. transfer pricing	50	50	50
State based taxes e.g. payroll tax	47	45	47
Company tax	45	45	45
Personal income tax	41	45	41
GST	32	37	32
Superannuation taxation	30	30	30
Negative gearing	26	24	26
Capital gains tax	17	14	17
Tax arrangement for NFPs	9	6	9
Dividend imputation	1	1	1

Note: Question format changed from top 3 by rank, to a simple nominated top 3 in 1st Half 2016

30. Please nominate the top 3 priorities for reform, in your opinion, in any future comprehensive review of the current taxation system.

Base: All respondents n=987

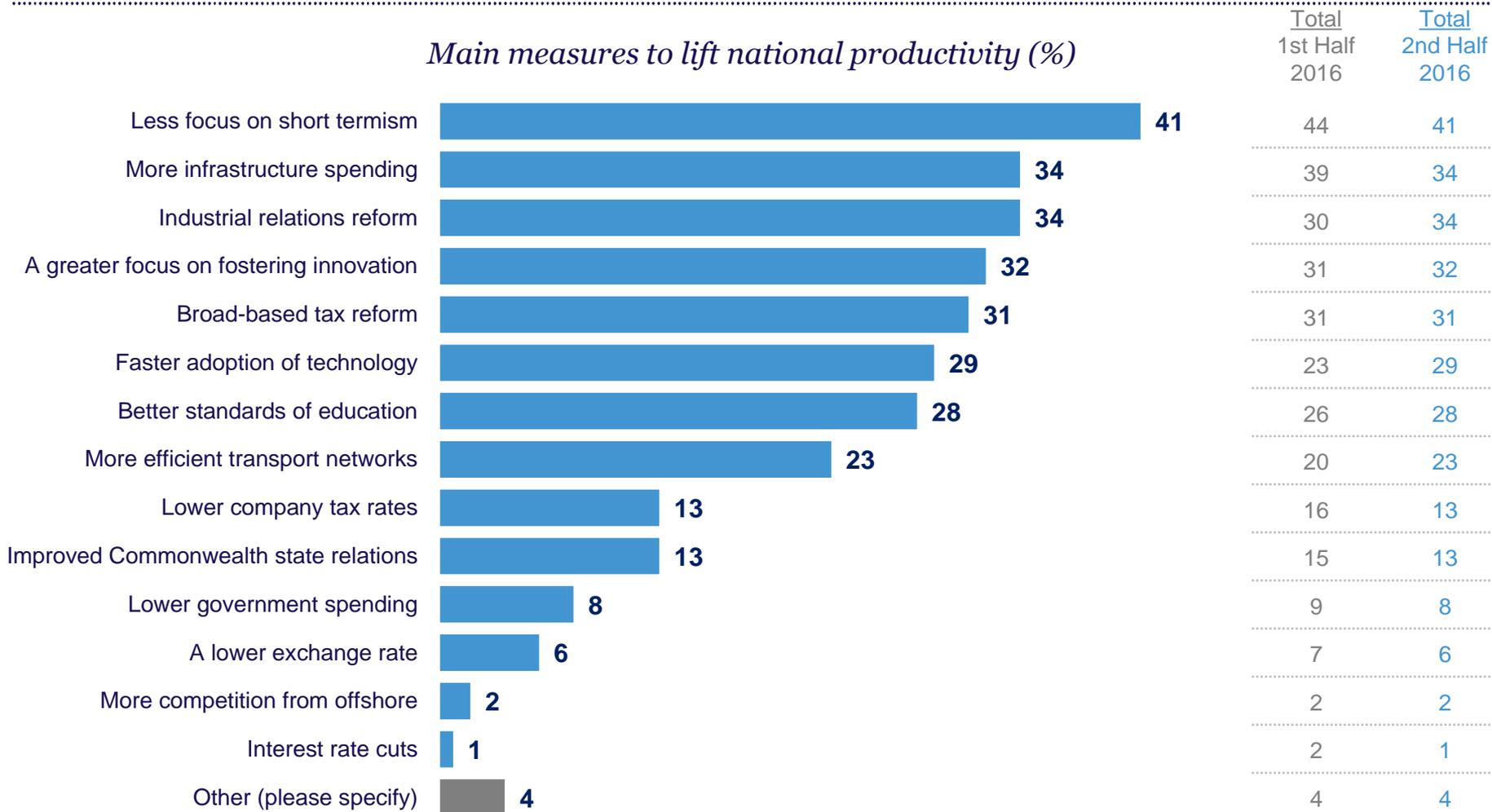
Government Policy

Regulation

Main measures to lift national productivity

Directors continue to rate less focus on short termism as the top measure for lifting national productivity, followed by more infrastructure spending and industrial relations reform.

Main measures to lift national productivity (%)



Level of 'red-tape' in next 12 months

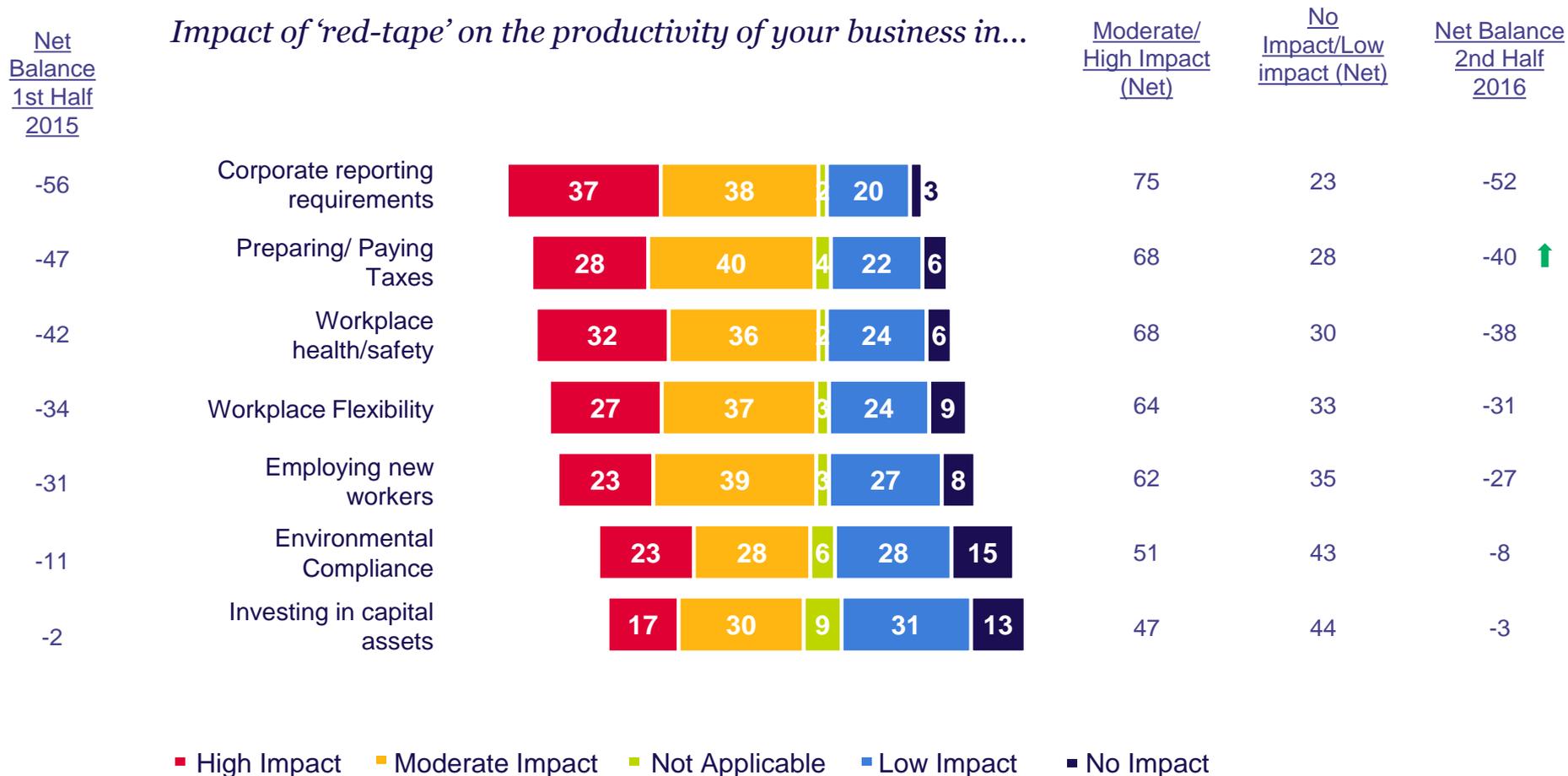
Directors continue to feel pessimistic regarding the level of 'red-tape' in the next 12 months, with 40 per cent expecting an increase.

Level of 'red-tape' – next 12 months



Impact of 'red-tape' on business productivity

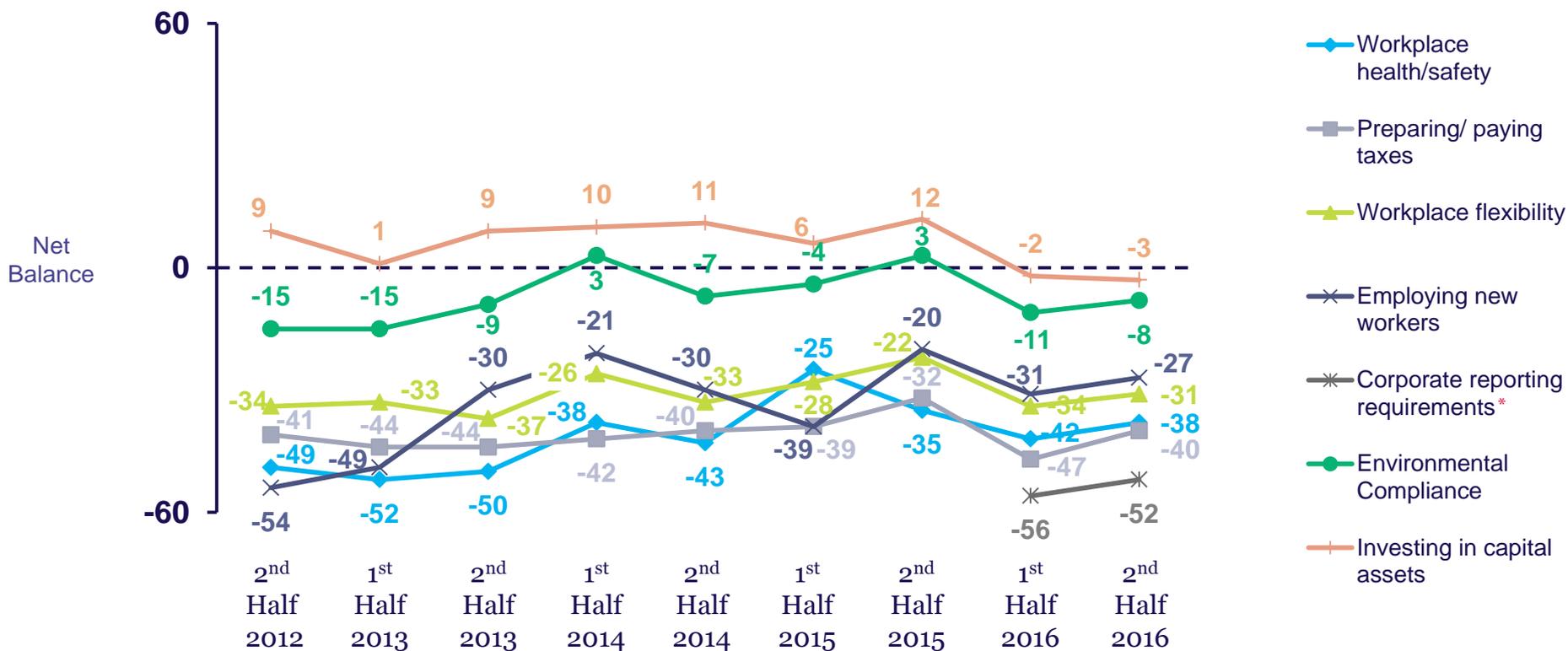
75 per cent of directors identify corporate reporting requirements as the aspect of their business most affected by 'red-tape'. This is followed by preparing/paying taxes, though it is seen as having much less impact compared to 1st half 2016.



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

Since the 2nd Hhlf 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 corporate reporting requirements and preparing/paying taxes.

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

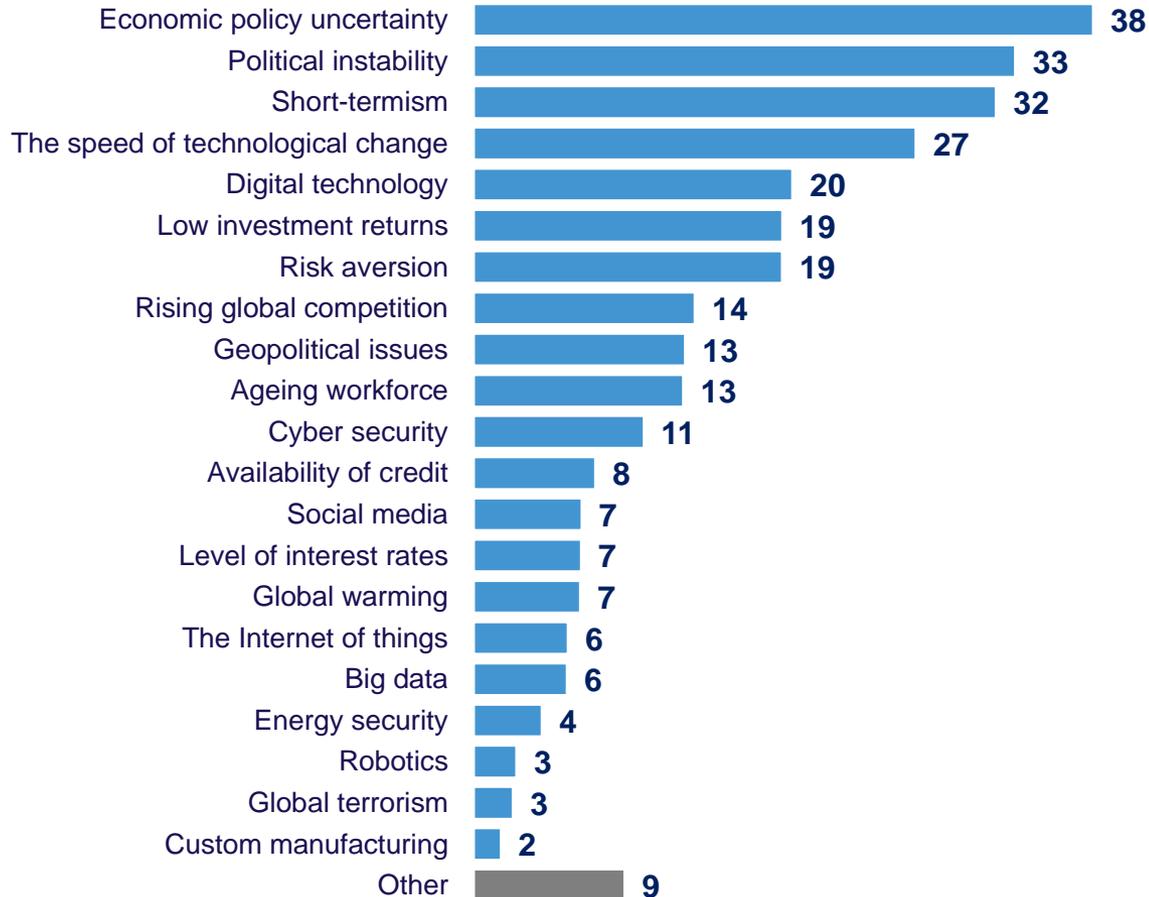


*Note new statement inserted in 1st Half 2016

Business disruption over the next decade

Directors feel that economic policy uncertainty is the top issue that is most likely to be most disruptive to their business over the next decade, followed closely by political instability and short-termism.

Top 3 issues most likely to be most disruptive to your business over the next decade (%)



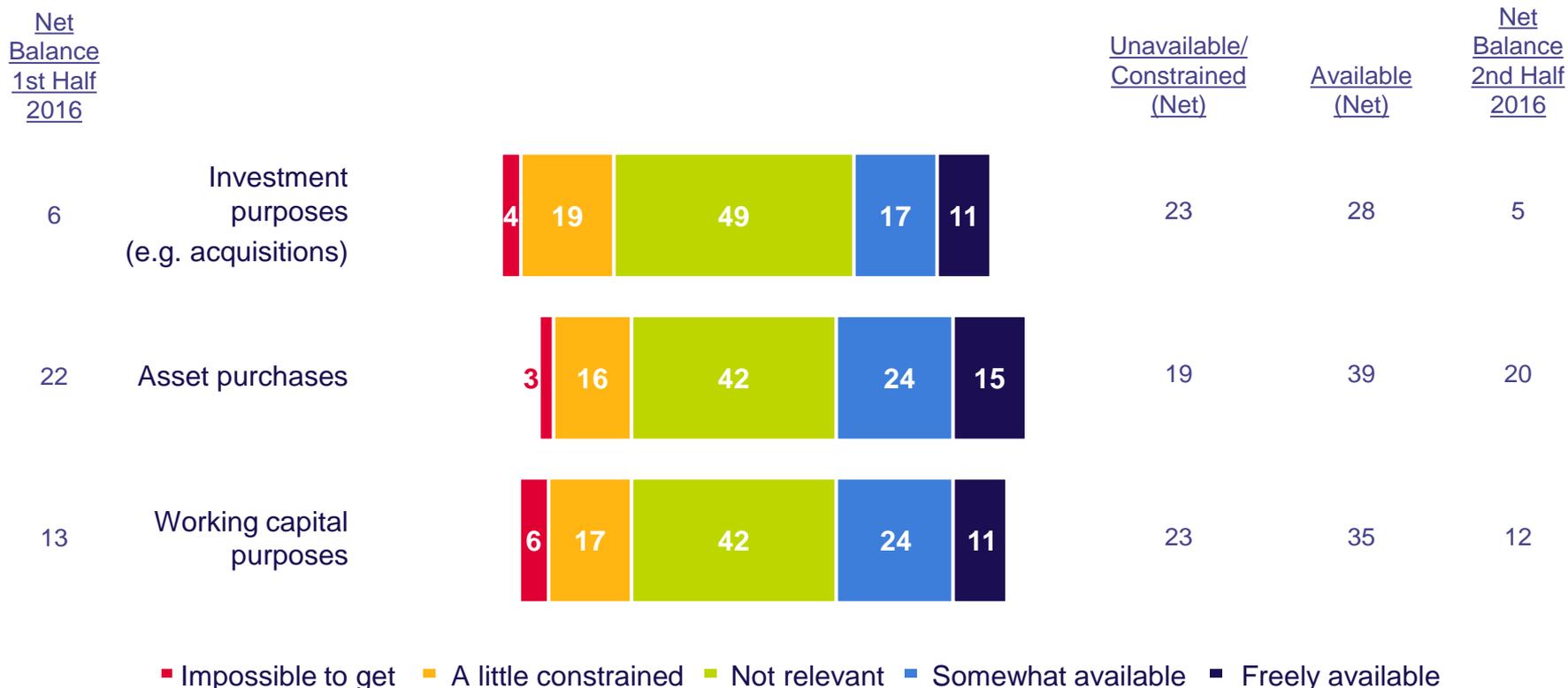
Government Policy

Credit Availability

Credit availability for business – Jan-Jun'16

Sentiment around credit availability for businesses over the past six months has remained similarly optimistic from 1st half 2016.

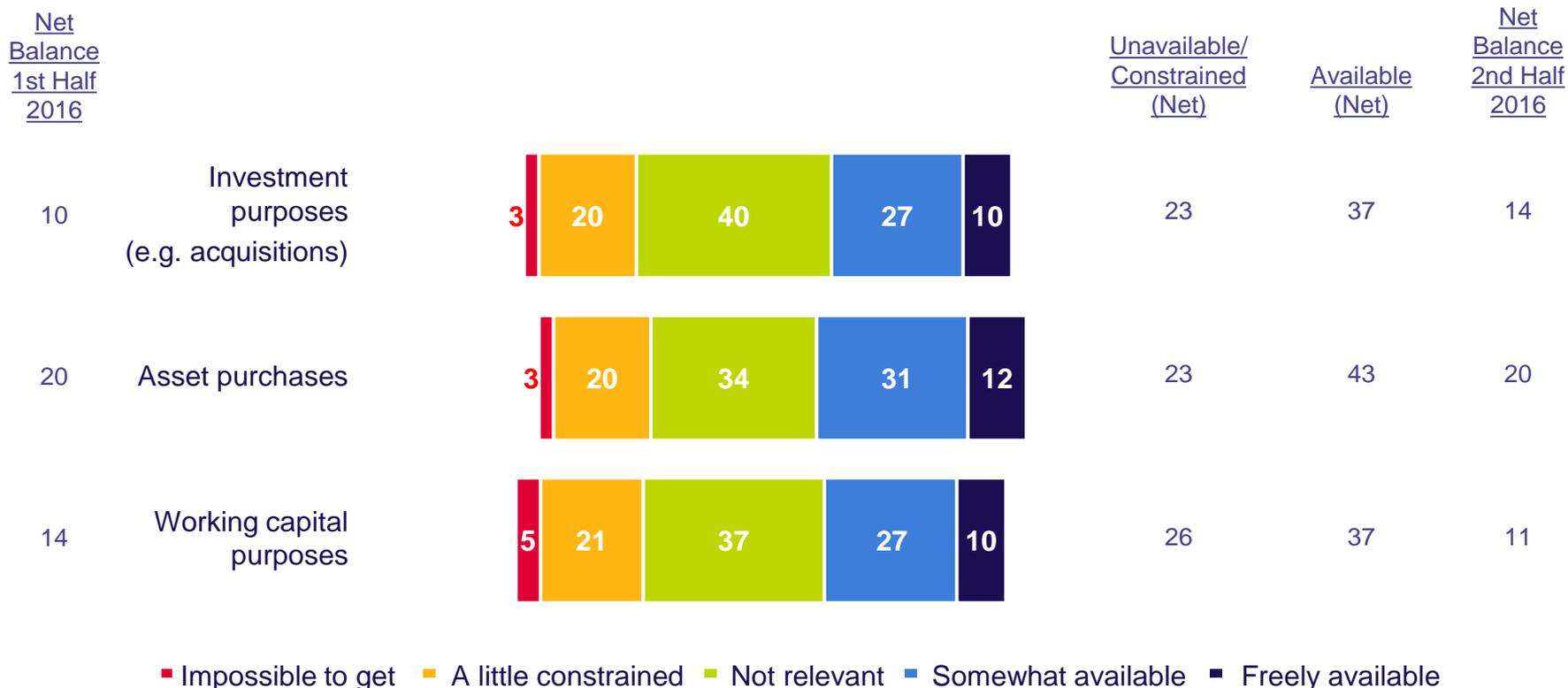
Credit availability for business – Jan-Jun'16 (%)



Credit availability for business – next 12 months

Expectations of credit availability in the future have remained relatively stable, with almost 45 per cent of directors predicting that credit for asset purchases will be somewhat or freely available over the coming year, and around 40 per cent expecting the same regarding credit for investment purposes and working capital purposes.

Credit availability for business - next 12 months (%)



Government Policy

Industrial Relations

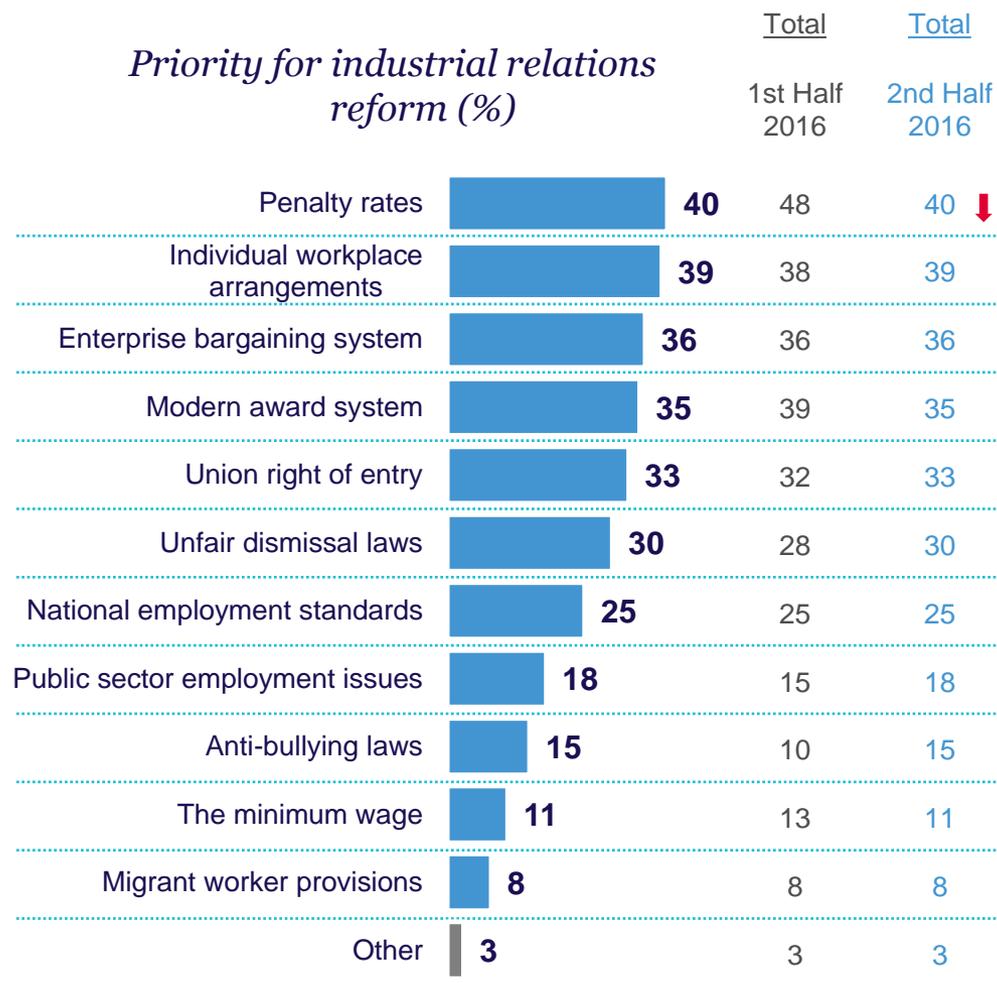
Priority of industrial relations reform

Around 40 per cent of directors would continue to advise the government to pursue a significant industrial relations reform following an electoral mandate. Despite the drop in directors' sentiment, the key priority for an industrial relations reform is still penalty rates, followed by individual workplace arrangements.

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

	1 st Half 2016	2 nd Half 2016
Significant reform in the next term of government, following an electoral mandate	43	41
Significant reform in the current term of government	28	32
No significant reform is required	29	27

Priority for industrial relations reform (%)



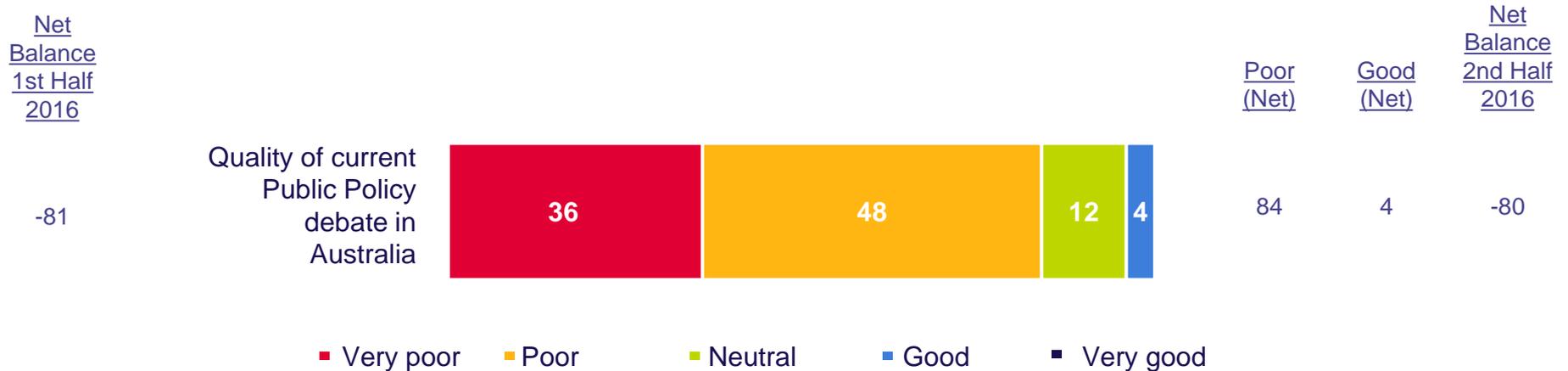
Government Policy

Public Policy

Quality of Public Policy debate

Similar to the 1st half 2016, about 85 per cent of company directors believe the current quality of public policy debate in Australia is poor.

Opinion on Public Policy debate (%)



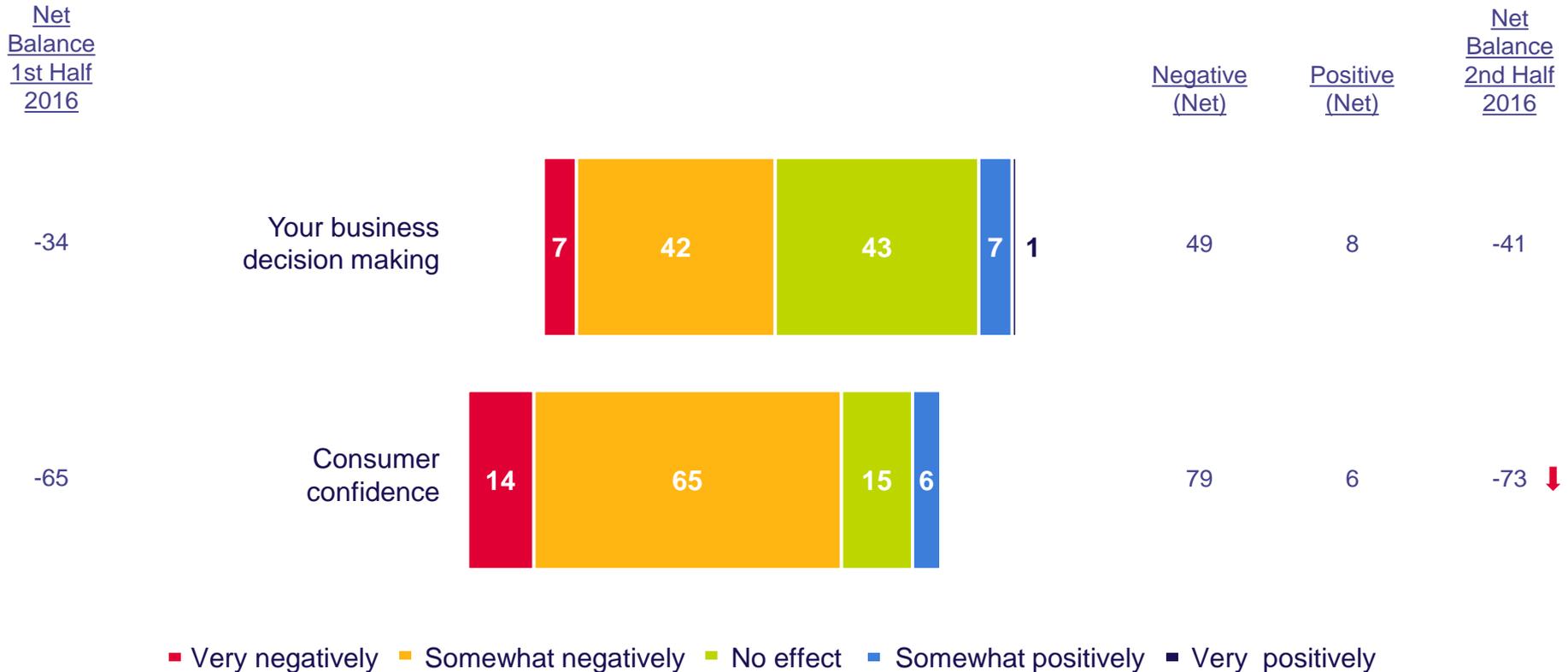
Government Policy

Performance & Business Understanding

Impact of Federal Government's performance on business

Directors are increasingly pessimistic about the effect of the Federal Government's current performance, with almost 80 per cent perceiving a negative effect on consumer confidence. Close to 50 per cent of directors view the current Federal Government's performance as having a negative effect on their business decision making.

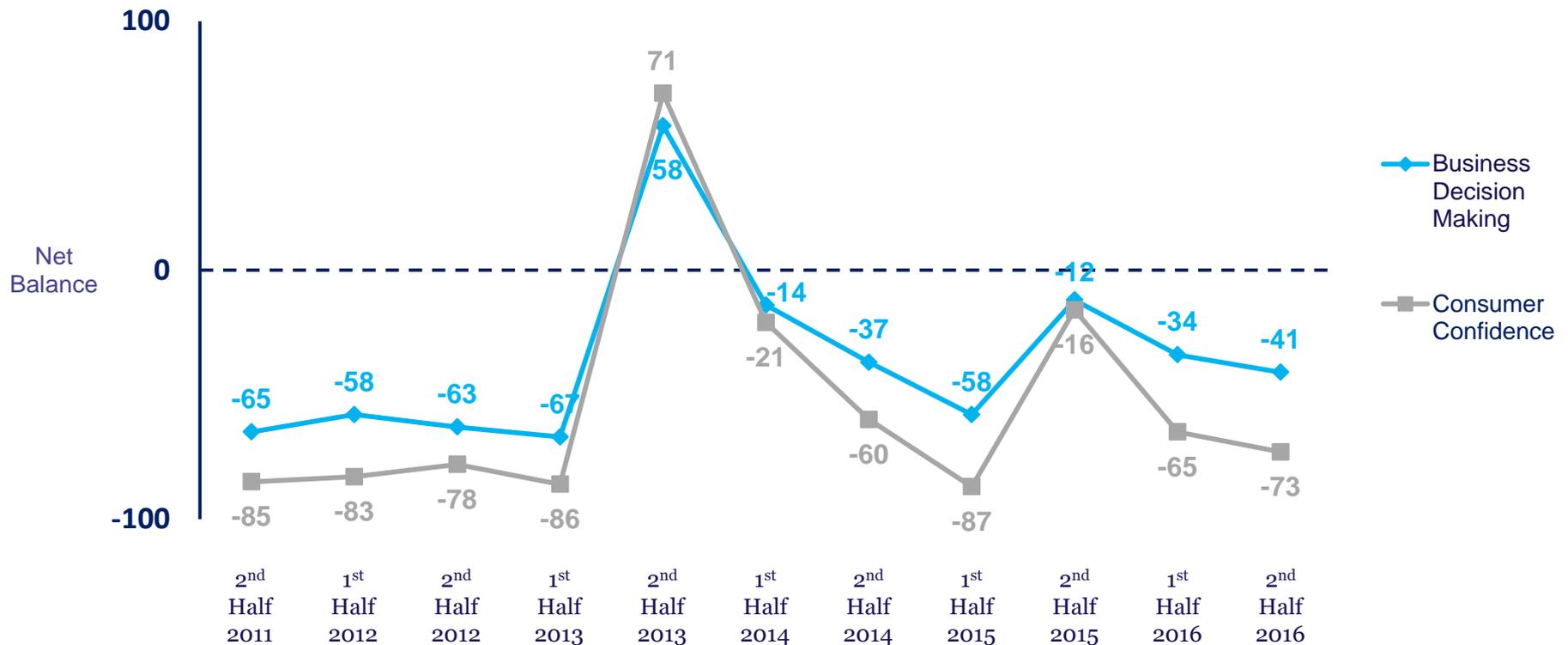
Effect of current federal government's performance on... (%)



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 more pessimistic, continuing a downward trend since the latest peak seen in the 2nd half 2015.

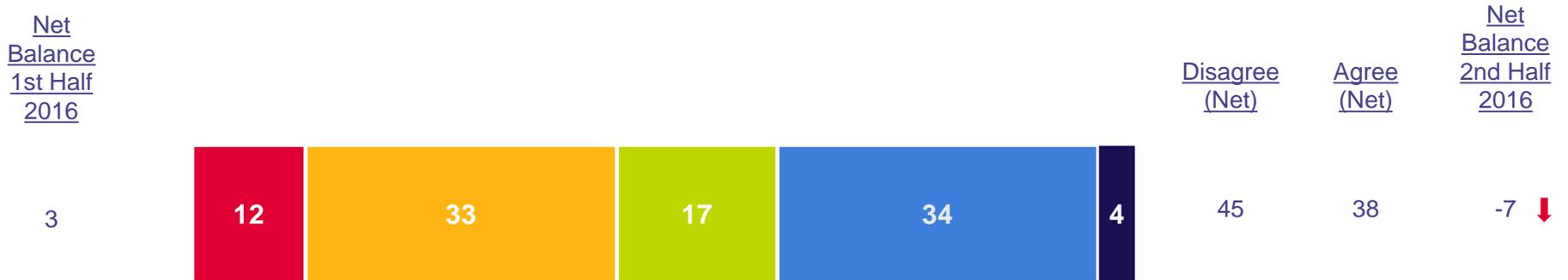
Federal government's performance affecting... – semi-annual trend (net balance)



Federal government understanding of business

Directors have become pessimistic about the Federal Government's understanding of business, with 45 per cent disagreeing that the current Federal Government understands business in 2nd half 2016, as opposed to just under 40 per cent agreeing.

Does the current federal government understand business? (%)

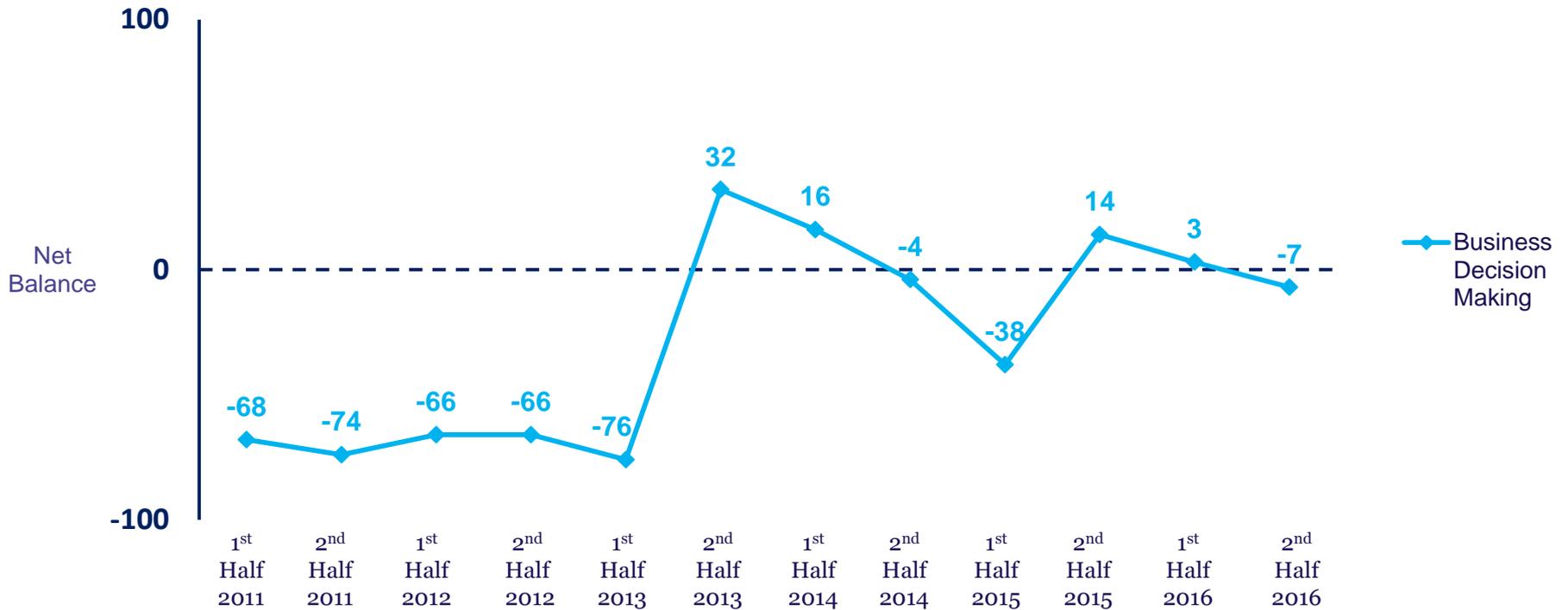


- Strongly disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Strongly agree

Federal government understanding of business – semi-annual trend

The downward trend in sentiment continues regarding the Federal Government's understanding of business.

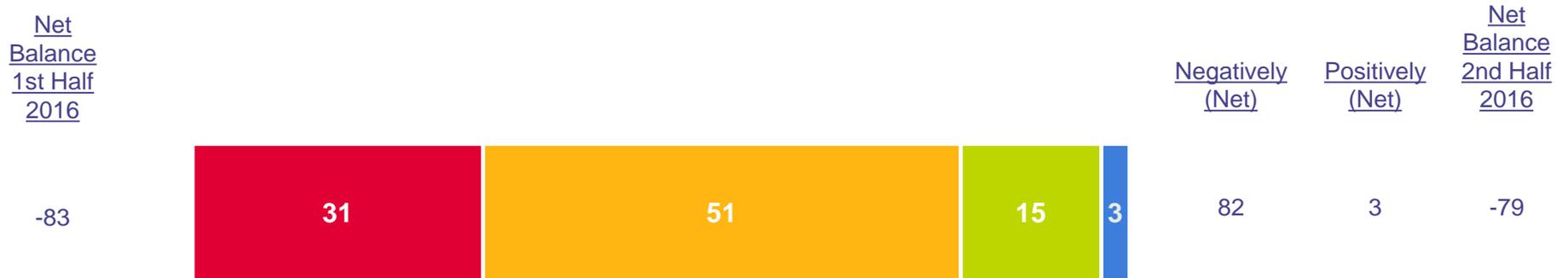
Does the current federal government understand business? – semi-annual trend (net balance)



Senate's effect on business confidence

About 80 per cent of directors feel that the make up of the Senate is negatively affecting business confidence.

Senate's effect on business confidence (%)



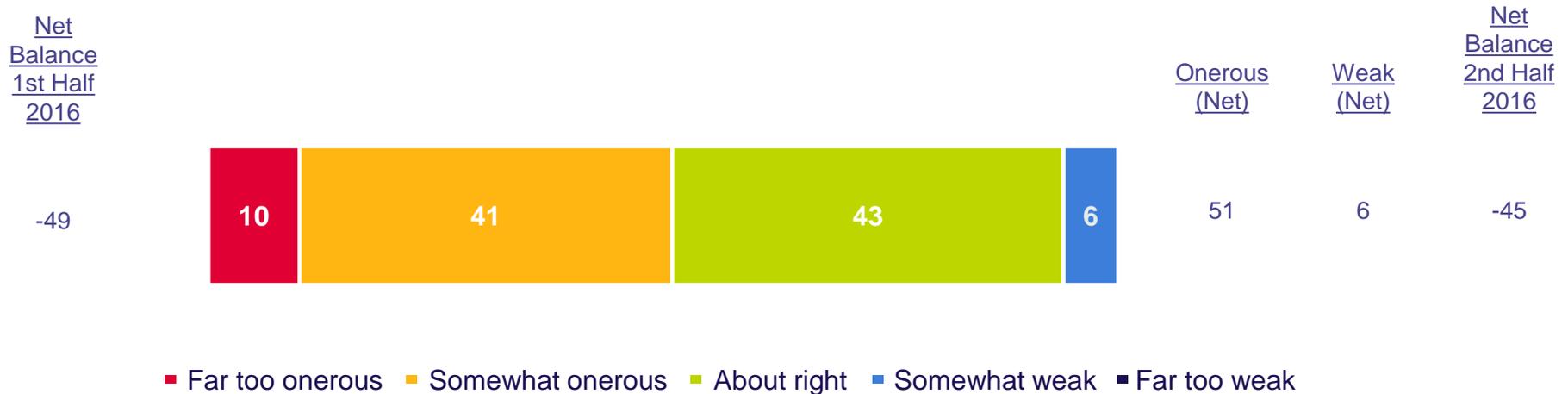
■ Very negatively
 ■ Somewhat negatively
 ■ No effect
 ■ Somewhat positively
 ■ Very positively

Key issues for Directors and Boards

Current governance regulations under the corporations act

Not much change in sentiment compared to the 1st half 2016. Directors continue to feel pessimistic about current governance regulations, with about 50 per cent perceiving them to be onerous.

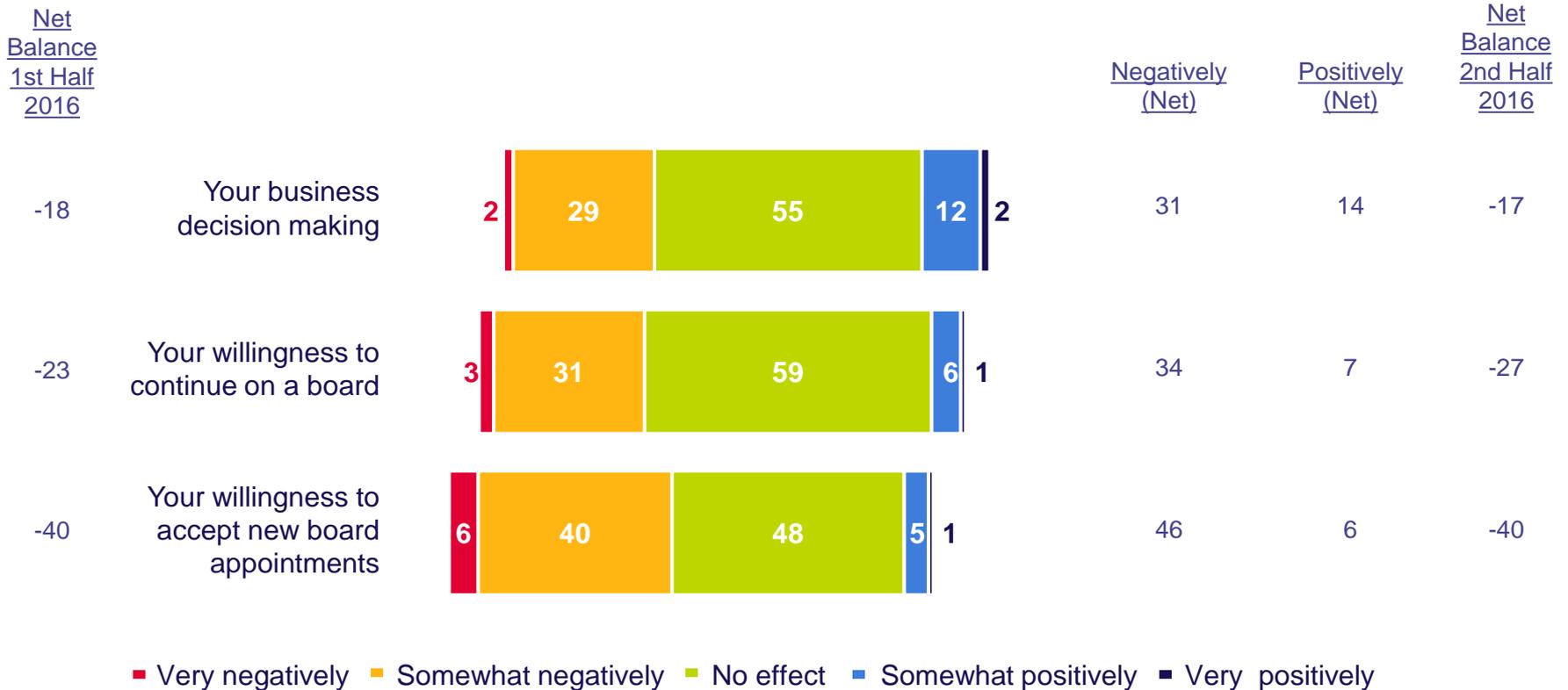
Are current governance regulations...? (%)



Impact of legislation on director liability

Directors continue to feel pessimistic about the impact of legislation on director liability in 2nd half 2016. While over 30 per cent feel that it has negatively affected their business decision making and willingness to continue on a board, about 45 per cent feel it impacts negatively on their willingness to accept new board appointments.

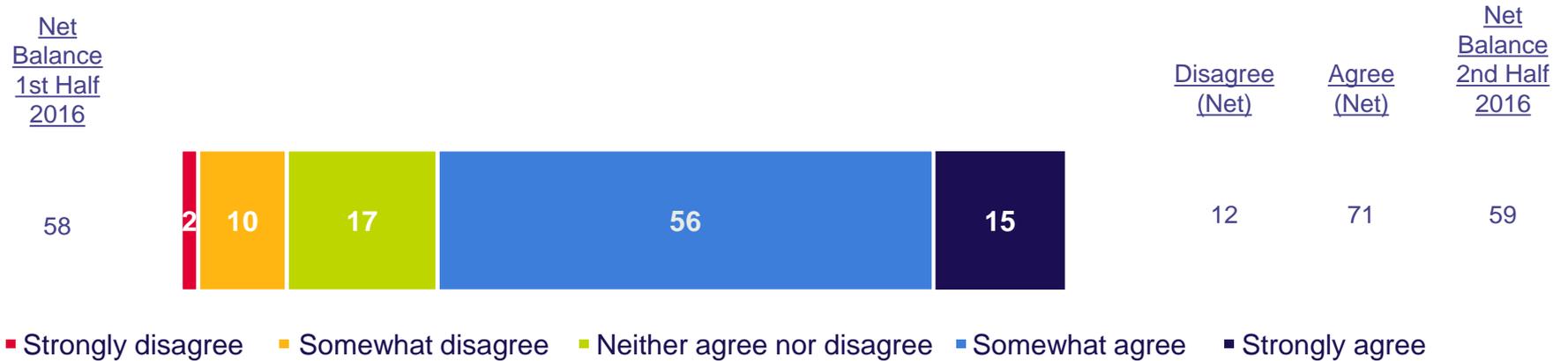
How legislation on directors' liability is affecting... (%)



Business decision making and risk aversion

Similar to 1st half 2016 results, about 70 per cent of directors perceive there to be a risk-averse decision-making culture on Australian boards.

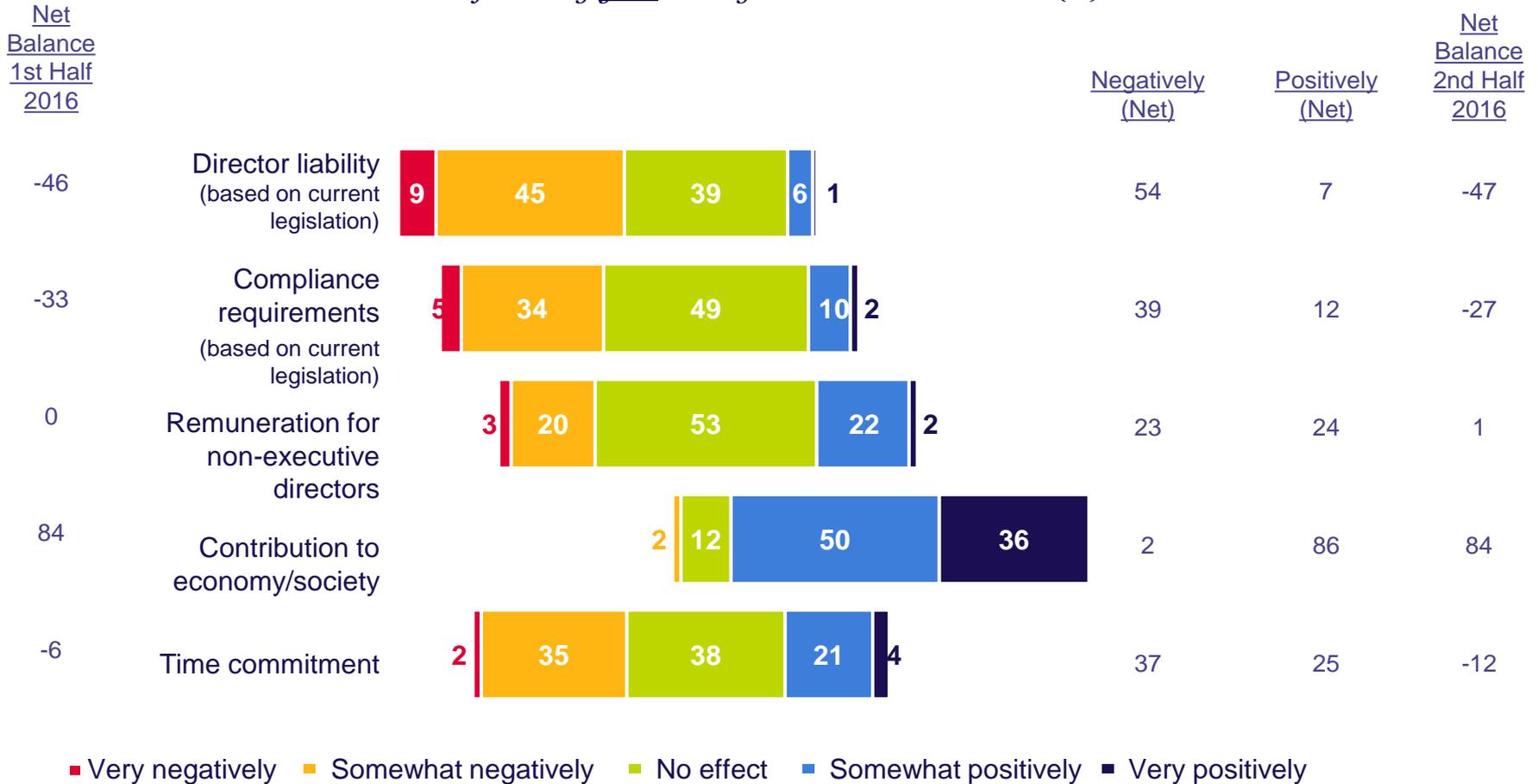
Is there a risk-averse decision-making culture on Australian boards? (%)



Factors influencing your willingness to serve on a board

Consistent with 1st half 2016, around 85 per cent of directors believe that the contribution they make to the economy and society influences their willingness to serve on a board, whilst over half believe that director liability negatively impacts their willingness to serve on a board.

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



Adequacy of public company remuneration reports

Directors' pessimism remains unchanged, with around 40 per cent of directors perceiving public company remuneration reports to be somewhat or wholly inadequate in 2nd half 2016.

Adequacy of public company remuneration reports (%)

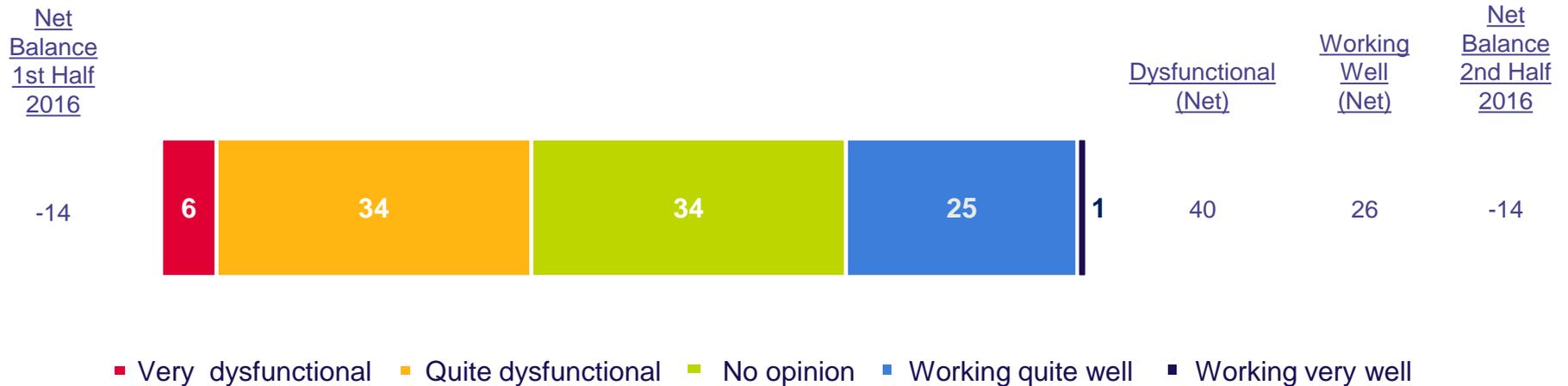


■ Wholly inadequate
 ■ Somewhat inadequate
 ■ About right
 ■ Somewhat adequate
 ■ Very adequate

Current AGM system

No change in sentiment regarding the current AGM system in 2nd half 2016, with only around 25 per cent of directors of the opinion that the current AGM system is working well.

Functionality of the current AGM system (%)



Support of AGM-related reforms

Eighty five per cent of directors support the reform of a discretionary right for all listed companies to hold a hybrid AGM, whilst about 80 per cent support a requirement that all directors standing for election at an AGM be available to answer questions from members.

AGM-related reforms directors would support (%)

	Yes	No	Undecided/ Don't know
A discretionary right for all listed companies to hold a hybrid AGM (i.e. a physical meeting which also allows participation via technology).	85	6	9
A requirement that all directors standing for election at an AGM be available to answer questions from members.	81	11	8
A requirement that listed companies offer direct voting for AGMs (i.e. so that members not attending can vote without using a proxy).	75	11	14
A requirement that all voting at listed company AGMs take place via a poll (i.e. instead of on a show of hands).	65	18	17
A requirement that proxy advisers provide a copy of any 'abstain' or 'vote against' recommendations to the relevant company at least 24 hours before the AGM.	57	15	28
A discretionary right for all listed companies to hold a virtual-only AGM (subject to guidance on protecting shareholder participation in the AGM).	52	31	17

Board diversity: policy and efforts to increase

Increasing diversity of skills in board membership is down from 1st half 2016, though about 70 per cent of directors still state that their business is actively seeking to improve in this area, whilst half indicate 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? (%)



Topical Issues

Topical Issues

Sustainability and long term growth prospects is the main issue that keeps directors “awake at night”, followed by structural change/changing business models. Corporate culture, business reputation in the community and legal and regulatory compliance are also pertinent.

Main issues that would “keep you awake at night”(%)



APPENDIX

Summary of Key Indicators

Summary of key indicators

(1 of 6)

Indicator (expected change in coming 12 months)	Scale	2 nd Half 2016 net balance	1 st Half 2016 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-66 ↓	-35
Health of the Asian economy	Weak/strong	-51 ↓	-2
Health of the European economy	Weak/strong	-84	-83
Health of the US economy	Weak/strong	-74 ↓	-8
Inflation rate (Australia)	Lower/higher	16 ↑	-10
Exchange rate (value of AUD versus USD)	Lower/higher	-14 ↑	-41
RBA cash rate	Lower/higher	-5 ↑	-51
Level of wages growth	Lower/higher	-1 ↑	-16
Unemployment rate	Lower/higher	13 ↓	28
Expected change in ASX All Ordinaries index	Fall/rise	15	14

Summary of key indicators

(2 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	2 nd Half 2016 net balance	1 st Half 2016 net balance
Business conditions			
Growth of primary directorship business	Weak/strong	31	29
Change in business investment levels	Decrease/increase	18	14
Change in business staffing levels/labour demand	Decrease/increase	13 ↑	2
Change in level of business exports	Decrease/increase	13	13
Change in level of outsourcing	Decrease/increase	34	29
Expectations of profits for Jul-Dec 2016 actual versus forecast*	Below/up	19	12
Expectations of profits for Jan-Jun 2017 actual versus forecast*	Below/up	18	12
Confidence in general business outlook*	Pessimistic/opt	12	2
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	20 ↑	16
Expected change in level of mergers and acquisitions	Fall/rise	58	53
Infrastructure			
Perception of level of government spending on infrastructure*	Low/high	-82	-83
Taxation			
Perception of current level of corporate taxation*	High/low	-38 ↑	-46
Perception of current level of personal taxation*	High/low	-57	-63

Summary of key indicators

(3 of 6)

Indicator	Scale	2 nd Half 2016 net balance	1 st Half 2016 net balance
<i>Regulation, legal issues, reporting</i>			
Expected change in level of 'red-tape' in coming 12 months	Increase/decrease	-31	-27
Impact of 'red-tape' on workplace health/safety	High impact/low impact	-38	-42
Impact of 'red-tape' on preparing/ paying taxes	High impact/low impact	-40 ↑	-47
Impact of 'red-tape' on workplace flexibility	High impact/low impact	-31	-34
Impact of 'red-tape' on employing new workers	High impact/low impact	-27	-31
Impact of 'red-tape' on corporate reporting requirements	High impact/low impact	-52	-56
Impact of 'red-tape' on environmental compliance	High impact/low impact	-8	-11
Impact of 'red-tape' on investing in capital assets	High impact/low impact	-3	-2

Summary of key indicators

(4 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	2 nd Half 2016 net balance	1 st Half 2016 net balance
Tax, credit, M&A			
Credit availability for investment purposes	Constrained/available	14	10
Credit availability for asset purchases	Constrained/available	20	20
Credit availability for working capital	Constrained/available	11	14
Public Policy			
Quality of current Public Policy debate in Australia*	Poor/good	-80	-81
Regulation, legal issues, reporting			
Agreement with 'Federal Government understands business'*	Disagree/agree	-7 ↓	3
Regulation, legal issues			
How is the current Federal Government's performance affecting your business decision making?*	Negatively/positively	-41	-34
How is the current Federal Government's performance affecting consumer confidence?*	Negatively/positively	-73 ↓	-65

Summary of key indicators

(5 of 6)

Indicator	Scale	2 nd Half 2016 net balance	1 st Half 2016 net balance
<i>Regulation, legal issues</i>			
Perception of governance regulations	Onerous/weak	-45	-49
Extent legislation on directors affect your business decision-making	Negatively/positively	-17	-18
Extent legislation on directors affect your willingness to continue on a board	Negatively/positively	-27	-23
Extent legislation on directors affect your willingness to accept new board appointments	Negatively/positively	-40	-40
Risk-averse decision-making culture on Australian boards	Disagree/agree	59	58
Adequacy of public company remuneration reports	Inadequate/adequate	-24	-22
Functionality of current AGM system	Dysfunctional/ functional	-14	-14

Summary of key indicators

(6 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	2 nd Half 2016 net balance	1 st Half 2015 net balance
Board diversity			
Board actively seeking to increase diversity of gender on board	Not actively/actively	31	34
Board actively seeking to increase diversity of age on board	Not actively/actively	3	6
Board actively seeking to increase diversity of skills on board	Not actively/actively	60 ↓	67
Board actively seeking to increase diversity of ethnicity on board	Not actively/actively	-9	-5
Directorship conditions			
Impact of directors' liability on willingness to serve on a board	Negatively/positively	-47	-46
Impact of compliance requirements on willingness to serve on a board	Negatively/positively	-27	-33
Impact of remuneration on willingness to serve on a board	Negatively/positively	1	0
Impact of contribution to economy/society on willingness to serve on a board	Negatively/positively	84	84
Impact of time commitment on willingness to serve on board	Negatively/positively	-12	-6

Explanation of charts – example only

