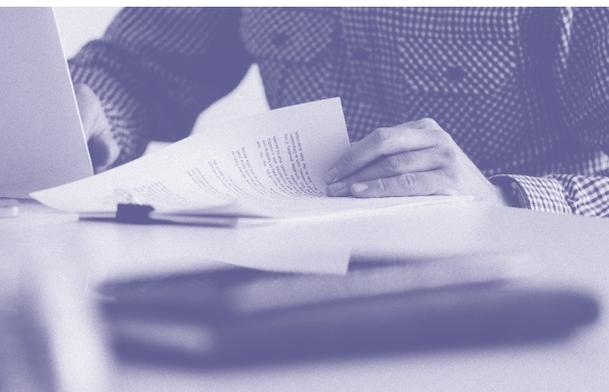


# DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS FIRST HALF 2016

Delivered by Ipsos Media CT



## Methodology

The Director Sentiment Index (DSI) results are statistically representative of the Australian Institute of Company Directors (AICD) membership.

The Australian Institute of Company Directors' DSI is the only indicator measuring the opinions and future intentions of directors on a range of issues including the Australian and world economies, Government regulations and governance regimes.

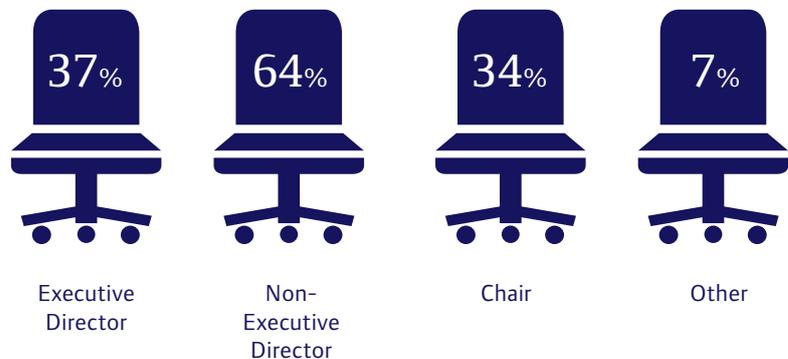
The survey was conducted with 833 members between 20 to 28 July 2016 following the outcome of the Federal Election.

Results have been weighted by gender to reflect the profile of the AICD member base.

### Gender



### Positions held on board(s)



### Primary directorship company



11%  
Publicly listed  
Australian  
entity



43%  
Private/non-  
listed Australian  
entity



33%  
Not-for-  
profit entity



7%  
Public sector/  
government body



5%  
Overseas  
entity

# Sentiment has increased but directors have concerns

Driven largely by an optimism about the current health of the Australian economy and conditions for their business, director sentiment has risen 4.3 points to -17.5 and is at its highest point since the second half of 2013.

However, directors have expressed a number of concerns about short-termism in policy making, the ability of

the incoming Federal Parliament to progress long-term reforms and stability of the 45th Parliament.

The following pages represent a summary of results for this round of the DSI. A full set of results can be found on AICD's website.



# Directors urge long-term reforms

Directors continue to urge long-term reform on “big issues” – infrastructure investment, tax reform and budget repair. The AICD has called for action on these and other national priorities in our Blueprint for Growth to tackle reform inertia.

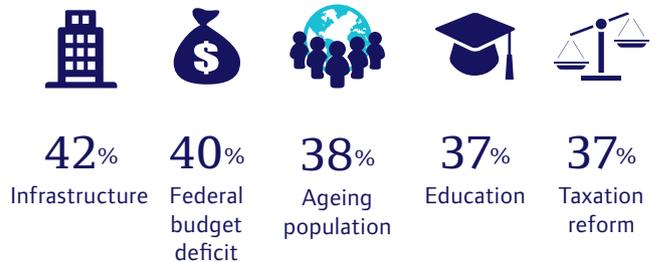
Directors continue to rate infrastructure as the priority issue the Federal Government should address in the long term.

Eighty-five per cent of directors believe that the level of Government spending on infrastructure is too low. Directors identified regional infrastructure (48 per cent), renewable energy sources (43 per cent) and roads as the priorities for further infrastructure investment. Directors have also listed an increase in infrastructure spending as the second most likely measure to lift national productivity (only behind less focus on short-termism).

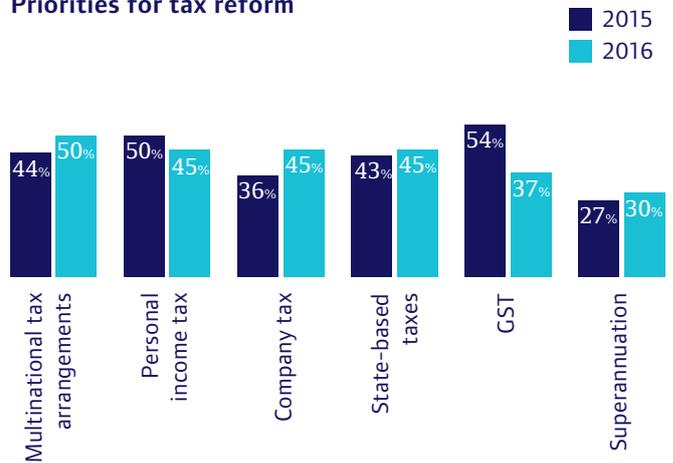
Directors concerns about the state of the Nation’s finances have heightened. Addressing the federal budget deficit is now rated as the second most important issue for the Federal Government to address in the long term. Eighty-two per cent of directors believe the Government needs to address the issue and deliver a budget surplus in the next ten years.

A comprehensive reform of the taxation system remains a key priority for directors. Multinational tax arrangements (50 per cent) are now the top priority for reform followed by personal income tax (45 per cent), company tax (45 per cent) and state-based taxes (45 per cent).

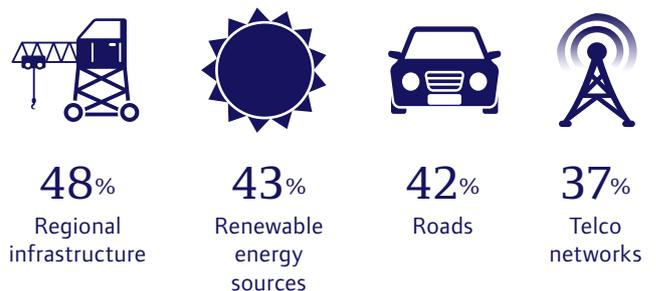
## Top 5 issues Government should address in the long term



## Priorities for tax reform



## Infrastructure priorities



# Concerns parliament may not be able to deliver reforms

Directors doubt the ability of Government to deliver on long-term reform. Poor quality public policy debate, potential Senate road-blocks and reduced confidence in the Government's understanding of business are common concerns.

Directors see a move away from short-termism as the key way to lift national productivity (44 per cent).

Confidence in the ability of the incoming Parliament to drive long-term reform, however, is low.

When asked to identify the main economic challenges facing Australia, directors identified balance of power issues in the Senate as the number two issue, behind global economic uncertainty. Almost 90 per cent of directors feel that the make-up of the Senate is likely to negatively affect business confidence.

Less than a third (28 per cent) of directors believe that the incoming Parliament will deliver stable government for the next three years.

Directors show limited appetite for the protectionist policies reflected in some minor party platforms. Only 21 per cent of directors support government protection for ailing industries.

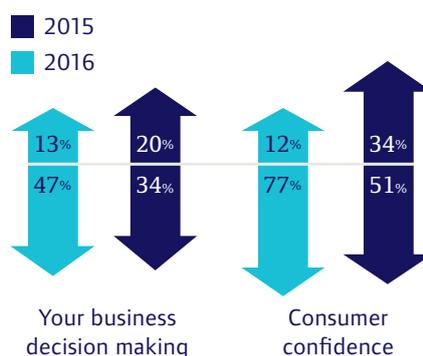
Directors have become more pessimistic about the effect of the Federal Government's performance on both business and consumer

confidence. Forty-one per cent of directors believe that the Government's performance is impacting negatively on business decision making, and 77 per cent perceive a negative impact on consumer confidence.

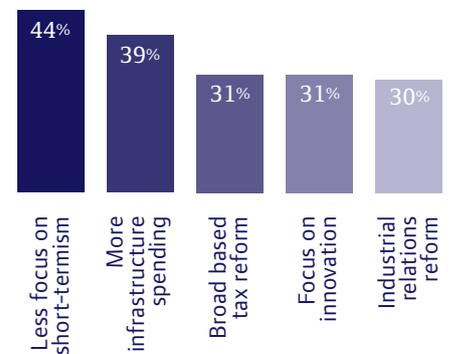
In addition, only 44 per cent of directors agree that the Federal Government understands business.

Overall, the quality of public policy debate in Australia continues to be viewed negatively, with 85 per cent of directors characterising the quality of debate is either poor or very poor.

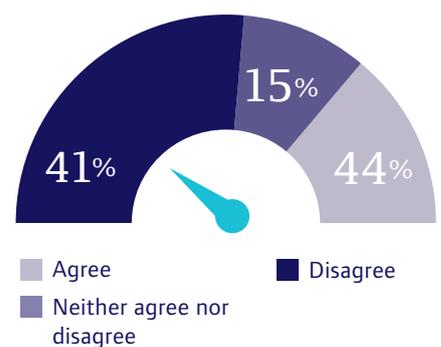
## Government's impact on business and consumer confidence



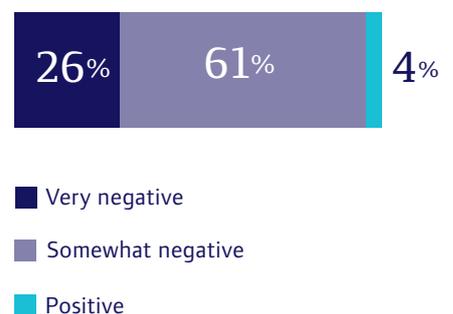
## Priorities to boost productivity



## Does the Government understand business?



## Senate's effect on business confidence



# Economic outlook and business forecast

While directors are more upbeat about current economic conditions the forecast is subdued, both for the Australian and international economies. Reforms to drive productivity and growth will be critical to boosting business confidence and sentiment across the board.

Directors are less pessimistic about the current health of the Australian economy than in the second half of 2015. However, 43 per cent of directors still see the outlook as weak.

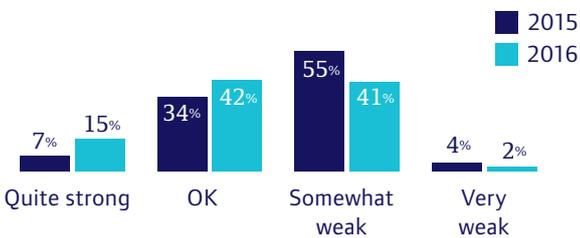
Looking ahead, the outlook is subdued. Forty-eight per cent of respondents predict weakness in the domestic economy over the next 12 months. Directors have become even more pessimistic about the European economy with

more respondents predicting weak economic conditions. Directors have stable but subdued views on the US and Asian economies.

Directors remain more optimistic about the prospects for their own firms: 48 per cent expect growth in their business in the 12 months to December 2016, with a third expecting a lift in profits. A majority of directors forecast that staffing and investment will remain stable or increase in the coming six months.

Directors rank global economic uncertainty as the most significant challenge facing the economy, as was the case in our last survey, followed by balance of power issues in the Senate (ranked eighth previously). Low productivity growth and China's economic slowdown are also seen as major challenges.

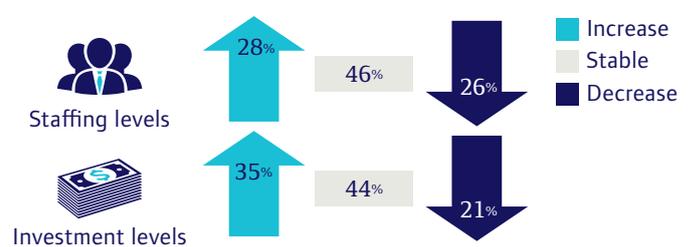
## Current health of the Australian economy



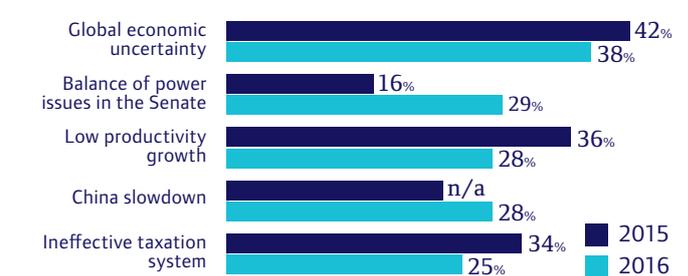
## Forecast for weak economic conditions



## Predictions for staffing and investment levels



## Economic challenges for Australia



# Board and director issues

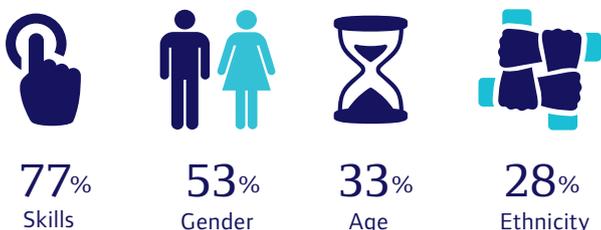
Confidence in the functionality of the AGM system continues to wane, increasing the case for comprehensive reform and modernisation. Australia’s reporting and innovation settings are also ripe for reform, with directors highlighting complexity and risk-aversion as consequences of our current settings. In a welcome move, over half of all directors report an active focus on gender diversity on boards, a priority for the AICD.

Directors are increasingly pessimistic about the efficacy of the AGM system, with only 24 per cent believing it is “working quite well”. A third of directors (32 per cent) believe that corporate reporting in Australia is ineffective.

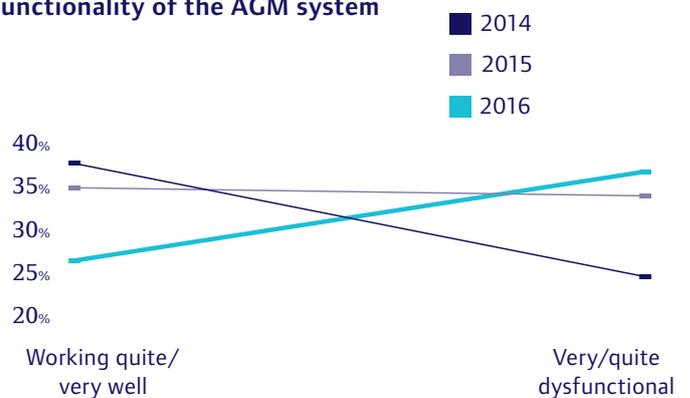
Efforts to increase board diversity are intensifying, particularly in relation to skills (up eight per cent to 77 per cent) and gender (up four per cent to 53 per cent). Boards are also reportedly focusing more on improving their age and ethnic diversity (up two per cent to 33 per cent and up five per cent to 28 per cent, respectively).

Seventy per cent of directors believe there is a risk-averse decision-making culture on Australian boards. Additionally, excessive risk-aversion is ranked by directors as one of the main impediments to productivity growth in their business.

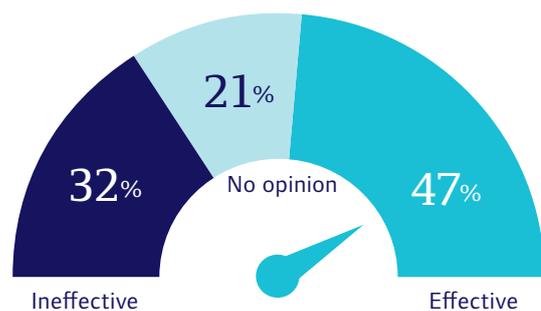
## Are Australian boards actively seeking diversity?



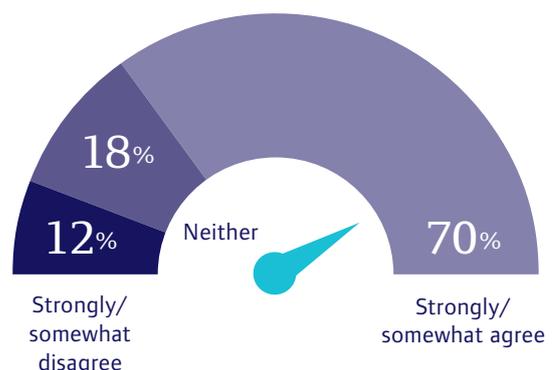
## Functionality of the AGM system



## Is corporate reporting effective?



## Are Australian boards risk averse?



# AICD's Blueprint for Growth

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In March 2016 the AICD released *Governance of the Nation: A Blueprint for Growth* – a forward-looking agenda of national reform priorities to boost growth and prosperity. The AICD's reform prescription is a call for a focus on the long term – combating the short-termism in policy debate and settings that underscore many of the DSI responses.

The Blueprint recommends national reform in six key areas:

- **Governance of the nation:** including introducing fixed, four-year terms for Federal Parliament.
- **Fiscal sustainability:** including spending constraint and comprehensive tax reform to address the structural budget deficit and boost overall economic growth.
- **Innovation and Entrepreneurialism:** including regulatory reforms to combat short-termism and risk-aversion in business decision making.
- **Partnership with the NFP Sector:** including a shift to five-year funding cycles and nationally consistent regulatory settings for Australia's diverse and significant NFP sector.

- **Human Capital:** including boosting diversity and workplace law reform.
- **National infrastructure:** including boosting productive infrastructure investment and cross government commitment to long-term planning on national infrastructure needs.

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## About us

The Australian Institute of Company Directors is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 38,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

For more information please contact

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