

# DIRECTOR SENTIMENT INDEX: RESEARCH SUMMARY SECOND HALF 2016

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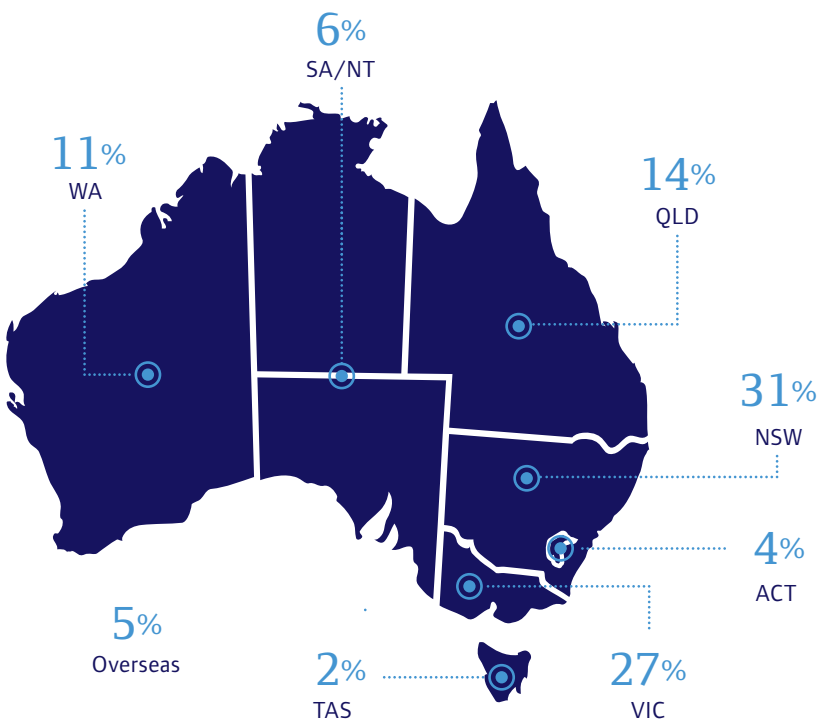
# Methodology

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

The AICD's 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 policy and governance regulations. The survey was conducted with 987 members between 20 to 31 October 2016.

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

## Primary directorship based



## Primary directorship company



11%  
Publicly listed  
Australian entity



43%  
Private/non-listed  
Australian entity



34%  
Not-for-profit  
entity



7%  
Public sector/  
government body



5%  
Overseas entity

## Gender



70%  
Male



30%  
Female

# US election has dampened confidence

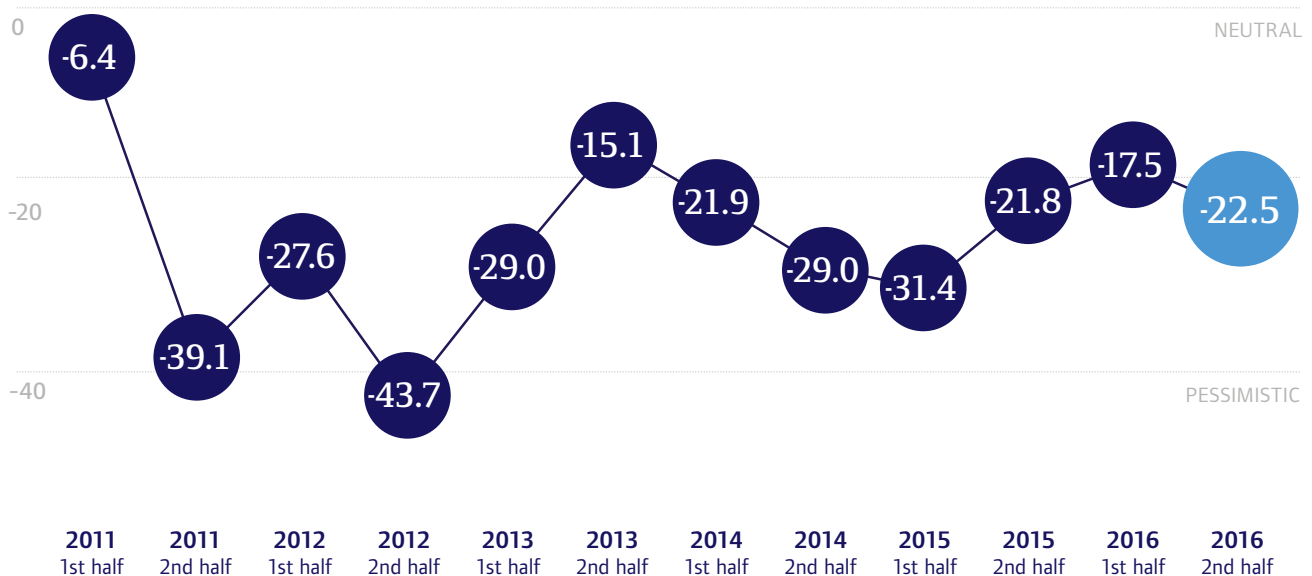
Director sentiment has fallen five points largely as a result of uncertainty relating to world economies following the election of President-elect Donald Trump in the US.

Despite sentiment about major world economies plummeting due to the uncertainty of President-elect Trump’s economic policies, directors are actually more optimistic about business conditions domestically. In some instances, key indicators are at their highest point in three years.

The better domestic conditions likely reflect directors’ focus on contemporary domestic conditions, which have been improving and Australia’s economic distance from the US policies.

As the study was taken prior to the US election, directors were asked to rate the health of world economies under the scenario of both a Donald Trump Presidency and a Hillary Clinton Presidency. Directors were far more pessimistic about the health of world economies under a Trump Presidency and this has had a significant impact on the overall index.

Had Hillary Clinton won the US election the overall index actually would have increased by 3.6 points from last wave.



# Directors say global economies a significant concern

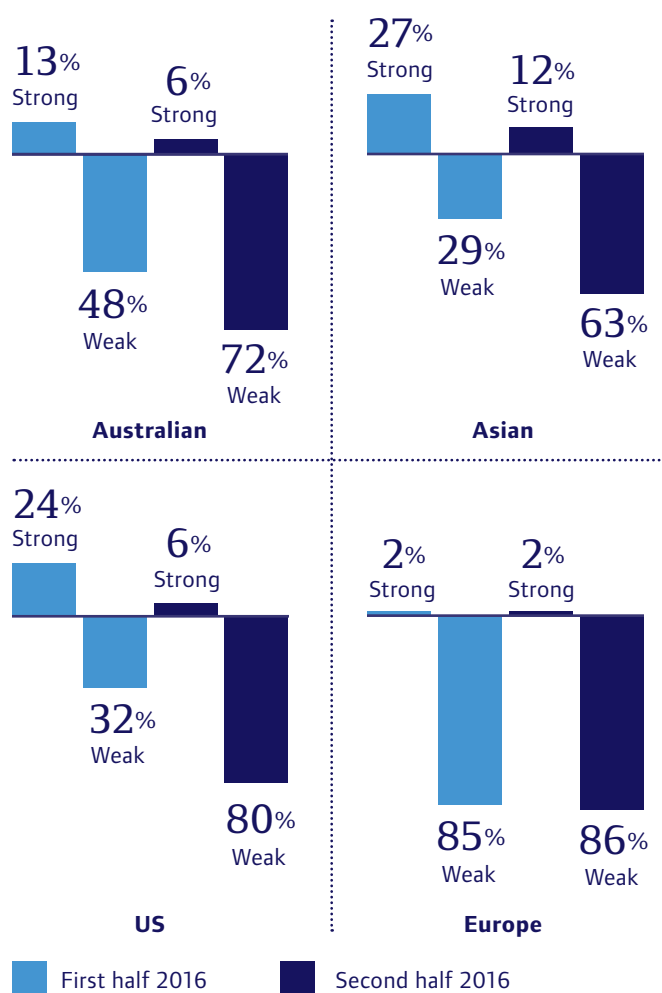
The results of the US election and Brexit are denting director confidence in the health of global economies. The lack of certainty and increased political instability have directors on edge.

The recent US election result has directors increasingly concerned with the health of major world economies. When asked about the prospect of a Trump Presidency director sentiment on the global outlook plummeted relative to sentiment from earlier this year.

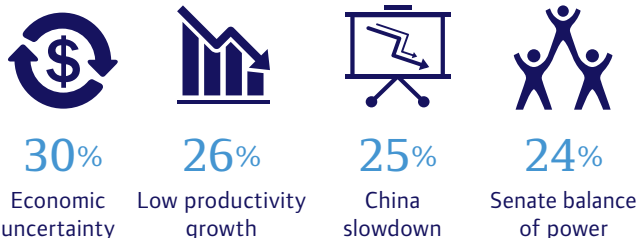
Compared to the first half of 2016, directors assessing the health of the Australian (72 per cent), Asian (63 per cent) and US (80 per cent) economies as very weak or somewhat weak over the next 12 months has significantly increased. The outlook for the US had the largest deterioration.

When asked to identify the main economic challenges facing Australian business, directors identified global economic uncertainty as the number one challenge. In addition, when asked what issues were most likely to disrupt their business over the next decade, directors identified economic policy uncertainty as their top concern, with political instability rated as the second most likely disruptor.

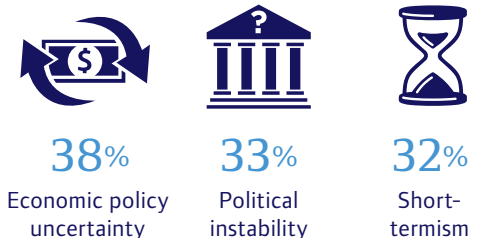
## Health of world economies



## Main economic challenges



## Business disruption over next decade



# Directors upbeat about domestic business conditions

Despite global headwinds, directors are feeling more upbeat about domestic business conditions and the growth of their business than they have for a number of years. Indeed, while global uncertainty has directors concerned, there are positive signs that business may be ready to take greater risks, invest more and hire more staff.

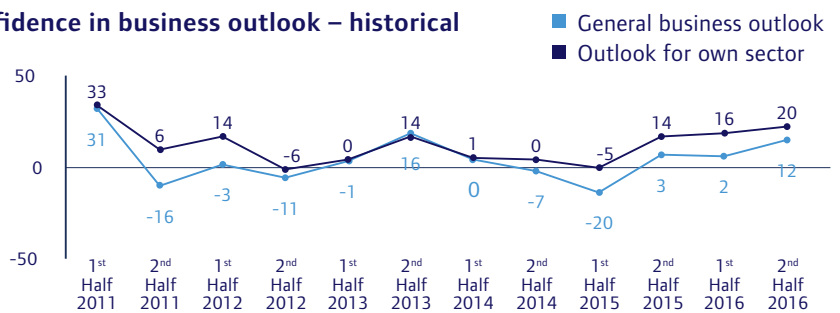
Despite the uncertainty about global economic conditions, directors are feeling more upbeat about business conditions locally.

Confidence relating to the general business outlook over the next 12 months has increased 10 points from earlier this year and confidence relating to the outlook for respondents' own sector has increased four points. Confidence in general business outlook is now at its highest point in three years.

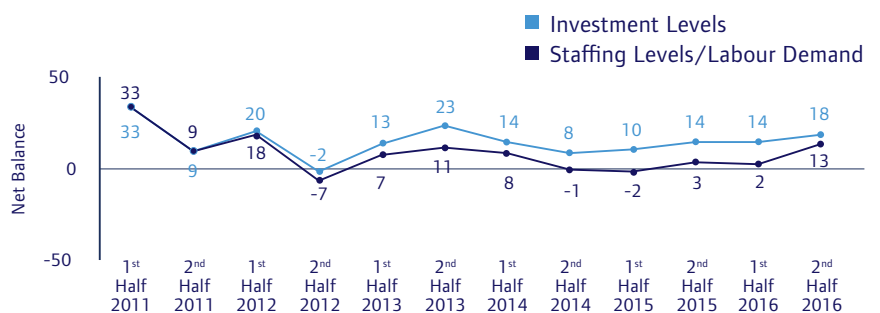
This confidence has translated into increased sentiment relating to the key indicators of staffing and investment levels. Both indicators are at their highest point since 2013, with directors expecting to employ more staff and increase investment over the next 12 months.

Crucially, directors are also increasingly optimistic about the growth of their business in the next 12 months, with only 18 per cent expecting their business to weaken in the coming year. Sentiment relating to the growth of their business is at its highest point since 2011.

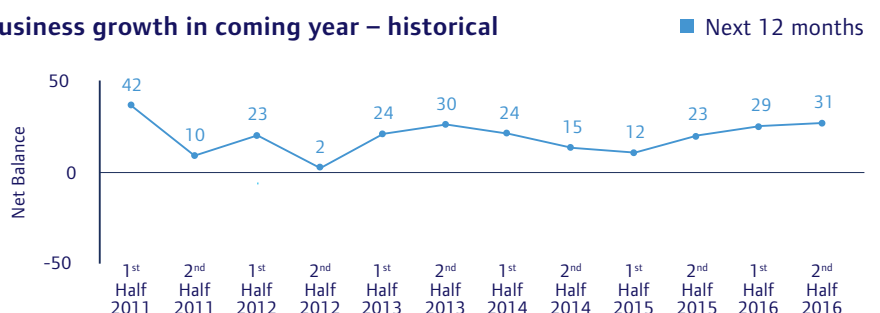
**Confidence in business outlook – historical**



**Expectation of staffing and investment levels – historical**



**Business growth in coming year – historical**



## Directors' priorities for Government

Directors' priorities for government haven't changed. With interest rates at an all-time low, directors are looking for the Government to invest more in productivity enhancing infrastructure. Interestingly, renewable energy is now seen as the area directors would most like to see government invest in.

Directors continue to rate infrastructure as the number one issue the Federal Government should address in the long term. This is followed by taxation reform and the budget deficit.

Interestingly, directors now identify renewable energy sources as the top area of importance for infrastructure investment, just ahead of regional infrastructure. The next highest priorities are roads and telecommunications networks.

Directors were also asked to nominate the methods through which the Federal Government should address the Federal Budget deficit. Respondents said that smaller government (56 per cent), spending restraint (51 per cent) and welfare reform (46 per cent) should be top priorities for the government to consider.

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 also view the current Federal Government's performance as having a negative effect on their business decision making.

### Govt's impact on business

#### Business decision-making

##### First half 2016

Positive	Negative
13%	47%

##### Second half 2016

Positive	Negative
8%	49%

#### Consumer confidence

##### First half 2016

Positive	Negative
12%	77%

##### Second half 2016

Positive	Negative
6%	79%

### Methods to address budget deficit



56%  
Smaller government



51%  
Spending restraint



46%  
Welfare reform



45%  
Efficiency dividends



38%  
Reduce tax concessions

### Investment in infrastructure



44%  
Renewable energy sources



44%  
Regional infrastructure



40%  
Roads



36%  
Telco networks

### Issues Federal Government should address in long term



45%  
Infrastructure



39%  
Taxation reform



38%  
Federal budget deficit



36%  
Ageing population

# Director and board issues

Recent coverage about business practices and the relationship business has with the community is weighing heavily on the minds of directors, as is the need for reform of the AGM system.

Directors continue to be pessimistic about the state of the current AGM system with only around 25 per cent of directors of the opinion that the current AGM system is working well.

When asked to identify what reforms to the current AGM system they would support, 85 per cent of directors said yes to a discretionary right for all listed companies to hold a hybrid AGM. About 80 per cent support a requirement that all

directors standing for election at an AGM be available to answer questions from members.

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.

### Functionality of the AGM system



40

Dysfunctional



26

Working well

### What’s keeping directors awake?



40%

Sustainability and long-term growth prospects



26%

Structural change/ changing business models



23%

Corporate culture



22%

Business reputation in the community



22%

Legal and regulatory compliance



18%

CEO succession

Support for AGM changes	Yes	No	Undecided
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

For more information please contact

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