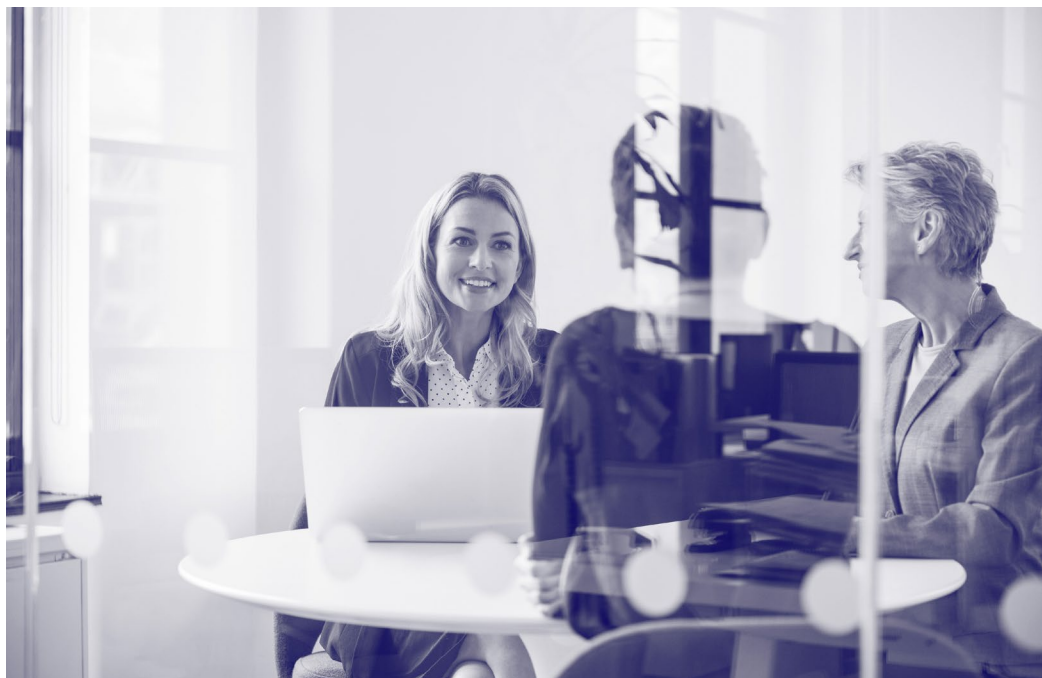


# DIRECTOR SENTIMENT INDEX: RESEARCH SUMMARY FIRST HALF 2017

Delivered by Ipsos



# Methodology

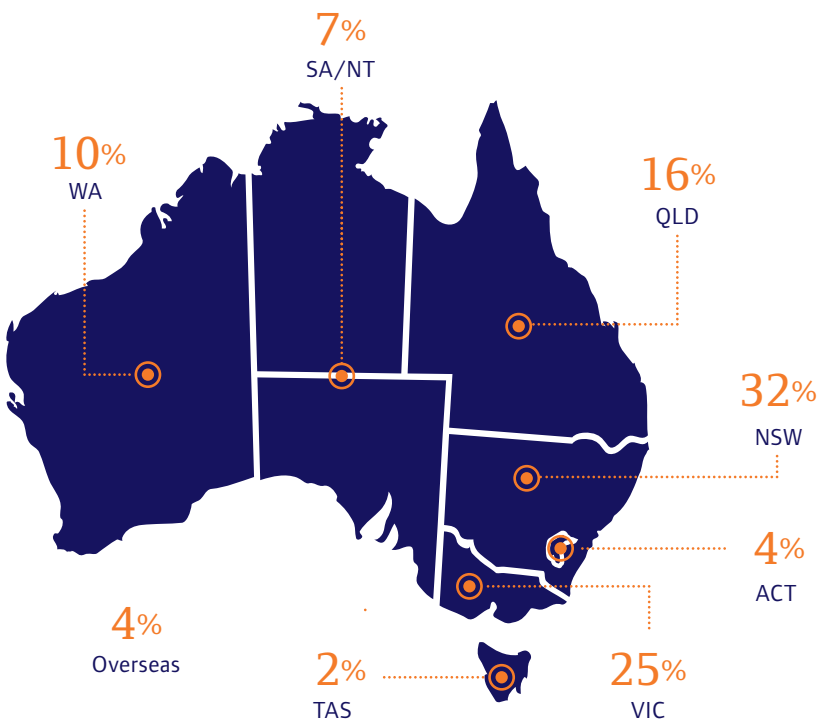
## The Director Sentiment Index results are representative of the Australian Institute of Company Directors membership.

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 policy and governance regulations.

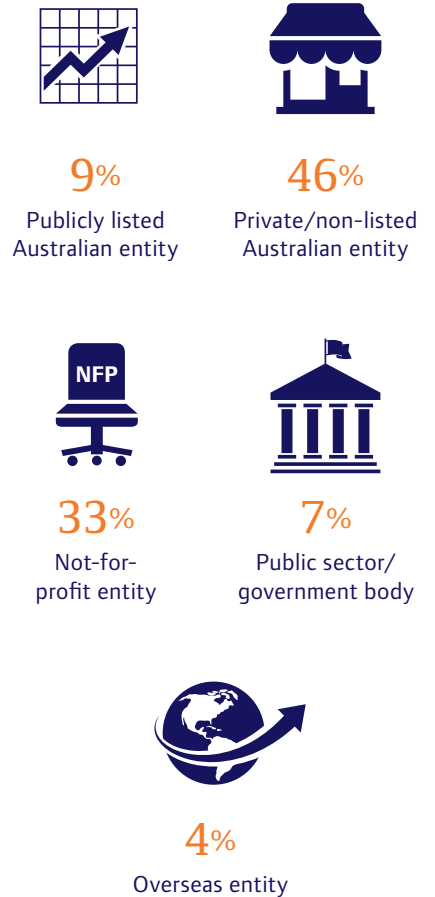
The survey was conducted with 1,106 members between 24 March and 3 April 2017.

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

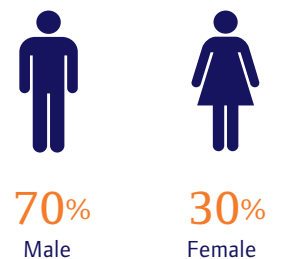
### Primary directorship location



### Primary directorship company



### Gender



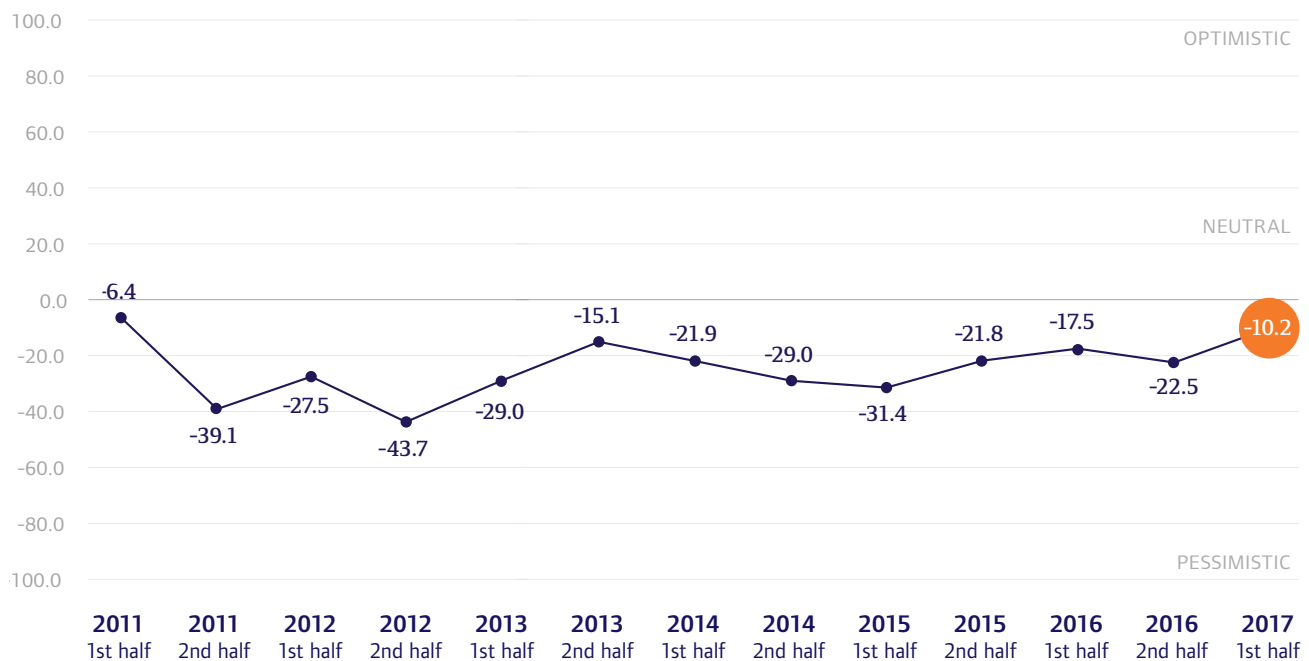
# Sentiment takes a sharp upward turn

Director sentiment has reached its highest point since 2011 largely due to increased confidence about the health of the Australian, Asian and US economies.

Directors are feeling particularly bullish about domestic conditions with sentiment about investment levels and staff hires at their highest point since 2011.

Despite directors feeling more optimistic about economic and business conditions, they remain concerned with the level of public policy debate in Australia and the effect the Federal Government is having on business decision-making and consumer confidence.

Overall Director Sentiment Index



# Directors upbeat about outlook for world economies

Directors have become far less pessimistic regarding the Australian and US economies and far more optimistic about the Asian economy over the next 12 months.

Directors have become far less pessimistic about the health of the Australian and US economies over the next 12 months and far more optimistic about the health of the Asian economy.

Given the previous survey results reflected uncertainty and concern relating to the possible election of President Donald Trump in the United States, it is unsurprising to see director sentiment about the health of the US bounce back from a record low in the second half of 2016.

However, while sentiment about the Australian and US economies remains pessimistic overall, the percentage of directors who think the outlook is strong over the next 12 months has significantly increased.

Compared to the second half of 2016, directors assessing the health of the Australian (19 per cent), Asian (44 per cent) and US (29 per cent) economies as strong over the next 12 months has significantly increased. The outlook for the Asian economy experienced the strongest turnaround with only 13 per cent of directors expecting a weak outlook compared to 63 per cent in the second half of 2016.

Decreased concern about the health of world economies was reflected in the list of main economic challenges facing Australia. The percentage of directors rating global economic uncertainty and a China slowdown as main economic challenges fell 13 and 11 points respectively.

**Health of world economies** (percentage of respondents expecting strong performance over next 12 months)

	2nd half 2016	1st half 2017
Australian	6	19
Asian	12	44
US	6	29
Europe	2	6

**Main economic challenges (%)**



↑ ↓ Significant increase/decrease since second half of 2016

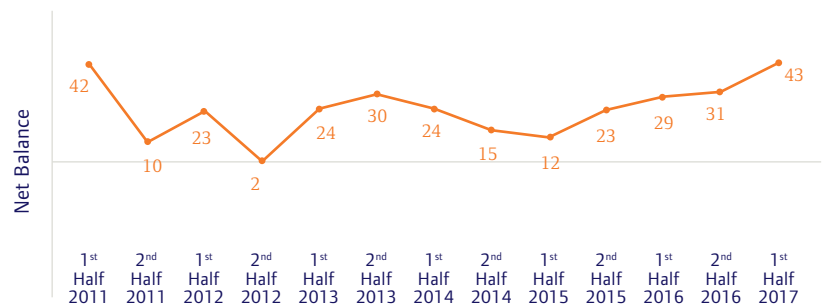
# Directors bullish about domestic business conditions

Continuing the trend from the second half of 2016, directors are feeling far more optimistic about domestic business conditions.

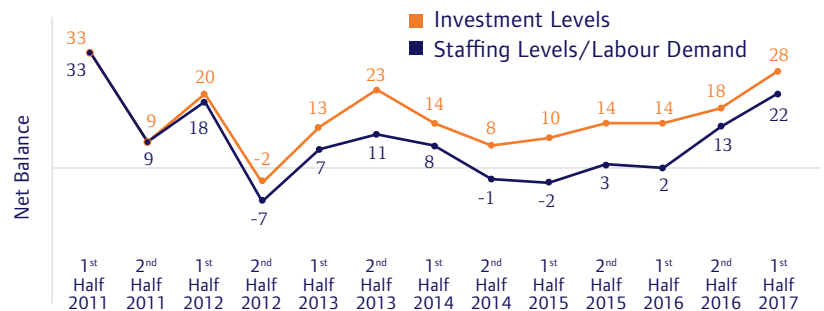
Directors are expecting to invest more and hire more staff over the next 12 months. Confidence relating to these two measures has increased ten points and nine points respectively since the second half of 2016 and are at their highest point in five years.

Directors' confidence about the growth of their primary business over the next 12 months is at its highest ever levels, increasing 12 points in this period. Furthermore, 57 per cent of directors expect their business to grow over the next 12 months.

**Business growth in coming year – historical**



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



**Staffing and investment levels over coming year (%)**

	Decrease	Increase
Investment levels	15	43
Staffing levels	18	40

# Priorities for Government

Unsurprisingly energy policy has been highlighted as an issue the Federal Government needs to address in the short term. Directors remain concerned with the quality of public policy debate and the effect the Federal Parliament is having on business decision-making and consumer confidence.

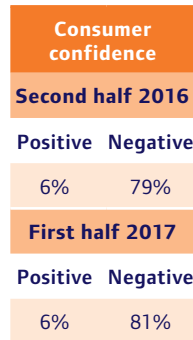
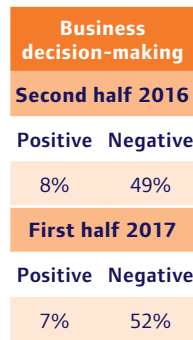
Directors have highlighted taxation reform, energy policy and infrastructure investment as the top three issues the Federal Government should address in the short term.

Directors remain concerned with the level of public policy debate in Australia with 86 per cent of directors believing the current quality of public policy debate in Australia is poor.

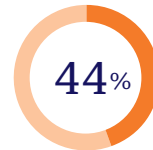
Directors are increasingly pessimistic about the effect of the Federal Government’s current performance, with 81 per cent perceiving a negative effect on consumer confidence. Close to 50 per cent of directors view the current Federal Government’s performance as having a negative effect on their business decision making.

Given the current issues around housing affordability directors have nominated tighter controls on foreign purchases, a boost to housing supply through streamlined construction approvals and reform of negative gearing arrangements as the three top measures governments should prioritise to address housing affordability.

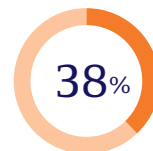
### Govt’s impact on business



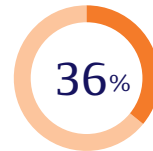
### Measures to address housing affordability



Tighter controls on home purchases by foreigners



Boost housing supply through streamlined approvals



Reform of negative gearing arrangements on housing

### Issues Federal Government should address in short term



49%

Taxation reform



48%

Energy policy



46%

Infrastructure

### Quality of current Public Policy debate in Australia



Very poor Poor Neutral Good Very good

# Board and director issues

Governance regulations and legal and compliance issues are leading to a risk-averse decision making culture in Australian boardrooms.

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

Directors continue to believe that there is a risk-averse decision making culture on Australian boards with nearly 70 per cent agreeing with that statement.

Directors are concerned with matters of legal and regulatory compliance with it appearing as the third most likely issue to keep them awake at night. Half of directors also feel that the current governance regulations under the Corporations Act are too onerous.

## Functionality of the AGM system

42



Dysfunctional

25



Working well

## What's keeping directors awake?



42%

Sustainability and long-term growth prospects



28%

Structural change/ changing business models



21%

Legal and regulatory compliance



20%

Business reputation in the community



20%

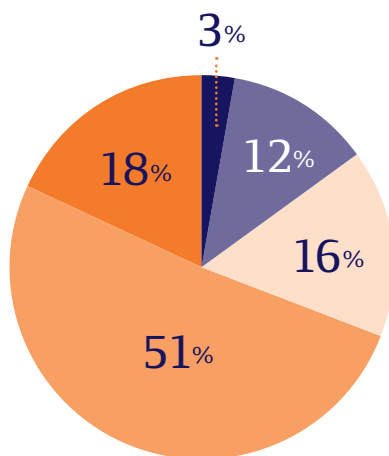
Corporate culture



19%

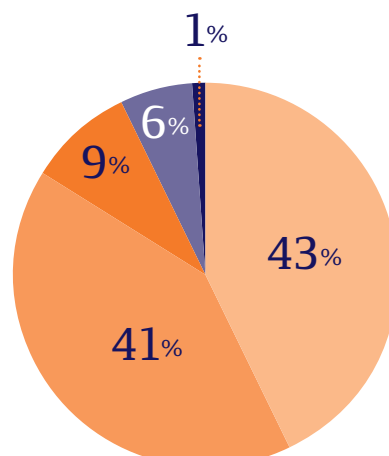
Cybercrime

## Are Australian boards risk averse?



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

## Governance regulations



- Far too onerous
- Somewhat onerous
- About right
- Somewhat weak
- Far too weak

# A Blueprint for Growth

In April 2017 the AICD released our updated *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 – combatting the short-termism in policy debate and settings that underscore many of the DSI responses.

The Blueprint recommends national reform in six key areas:

- **Reforming national governance:** to modernise our machinery of government and encourage a longer-term perspective in policy settings and implementation.
- **Fiscal sustainability:** calling for bold policy action to address the nation's unsustainable fiscal position through spending restraint and comprehensive tax reform.
- **Innovation and Entrepreneurialism:** urging push back against protectionism and ongoing improvements to Australia's 'innovation system'
- **Human capital:** to simplify industrial relations regulation, boost female participation, and enhance and improve Australia's investment in skills and training.
- **Not-for-profit partnership:** recognising the vital role that the sector plays, the need for funding certainty, and a fit for purpose regulatory system for its effective operation and governance.
- **National infrastructure:** urging investment in national infrastructure priorities through 'good' government borrowing, infrastructure bonds and asset recycling.

To read more, visit [companydirectors.com.au](http://companydirectors.com.au)

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