



# DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS FIRST HALF 2017

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# Director Sentiment Index

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# First half 2017 sample profile

Members of the Australian Institute of Company Directors were invited to take part in the survey between 24 March – 3 April 2017. A total of 1106 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	37 (35)
Non-Executive Director	63 (68)
Chairman	31 (32)
Other	8 (7)
Prefer not to say	2 (2)
Primary directorship company	
Publicly listed Australian entity	9 (11)
Private/non-listed Australian entity	46 (43)
Not-for profit entity	33 (34)
Public sector/ government body	7 (7)
Overseas entity	4 (5)
Prefer not to say	1 (1)
Gender	
Male	70 (70)
Female	30 (30)

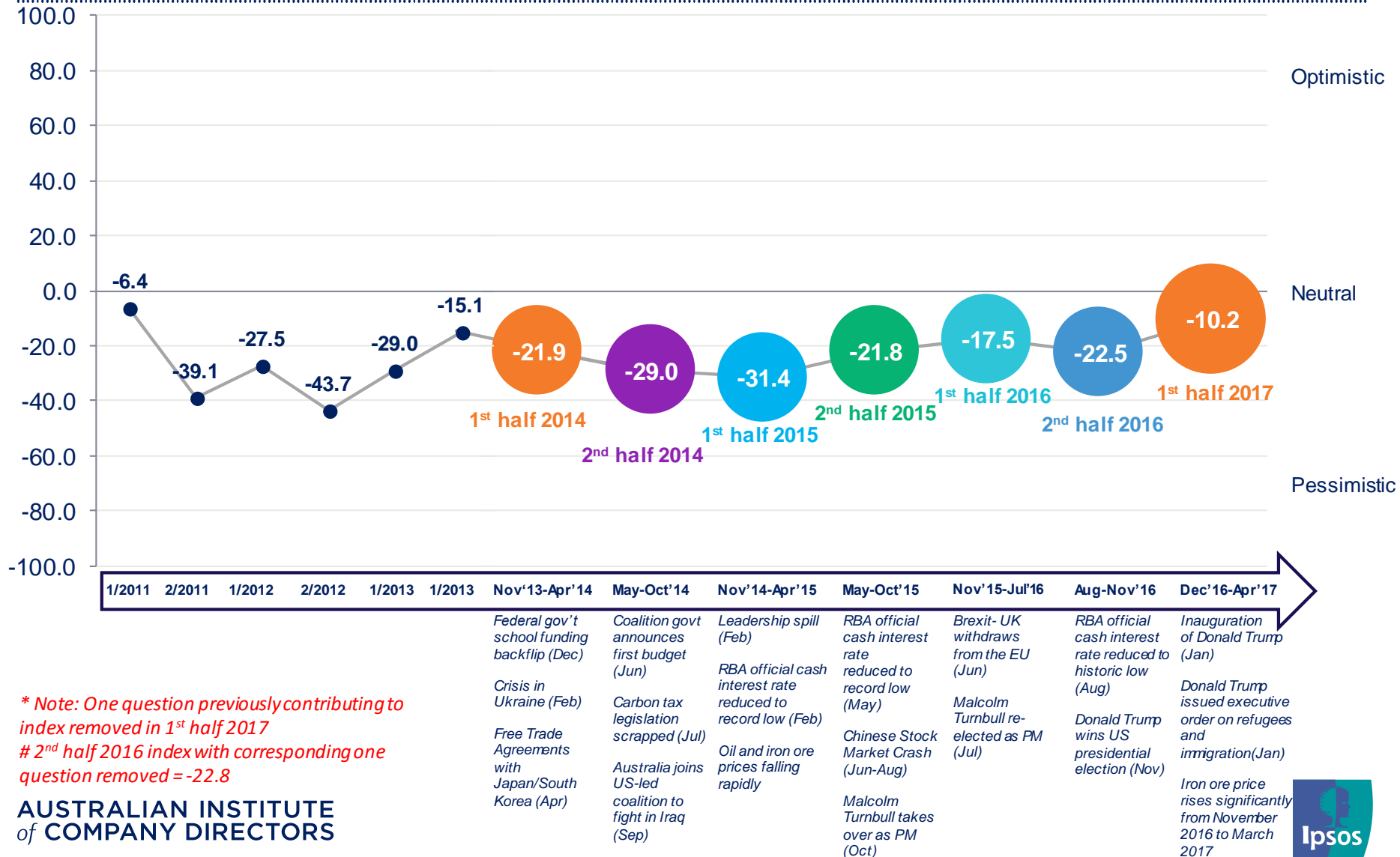
Primary directorship business sector(s)*	%
Health and Community Services	21
Finance and Insurance	17
Property and Business Services	10
Education	8
Mining	6
Manufacturing	5
Agriculture, Forestry and Fishing	5
Construction	4
Personal and Other Services	4
Energy	3
Cultural and Entertainment industry	3
Communication Services	3
Transport and Storage	3
Retail Trade	2
Government Administration and Defence	2
Wholesale Trade	2
Accommodation, Cafes and Restaurants	2
Primary directorship based	%
NSW	32 (31)
VIC	25 (27)
QLD	16 (14)
WA	10 (11)
TAS	2 (2)
SA/NT	7 (6)
ACT	4 (4)
Overseas	4 (5)

# Director Sentiment Index

# Overall Director Sentiment Index

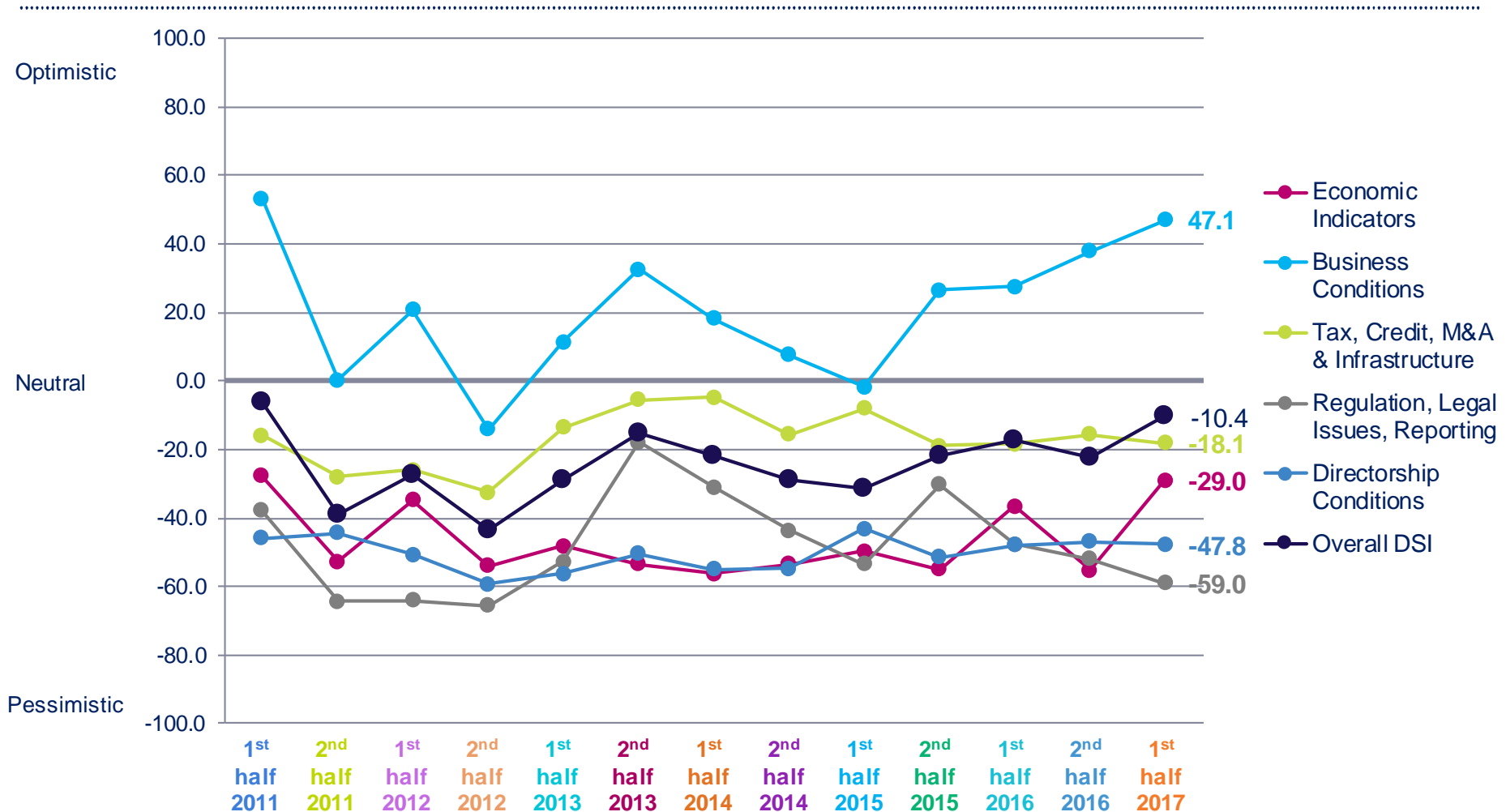
5

The overall sentiment in the 1<sup>st</sup> half of 2017 while continuing to be pessimistic, is up 12.3 points on the last survey, with the Director Sentiment Index reaching -10.2, its highest point since 1<sup>st</sup> half of 2011.



# Overall Director Sentiment Index by segment

Sentiment has increased across Business Conditions and Economic Indicators, while Tax, Credit, M&A & Infrastructure, Directorship Conditions as well as Regulation, Legal Issues, Reporting are relatively in line with 2<sup>nd</sup> half 2016.



# Executive Summary

# Executive Summary

## *Economic and Market Outlook*

### Health of economies

- The outlook for world economies in the next 12 months is less pessimistic compared to 2<sup>nd</sup> half 2016, taking a sharp upward turn in 1<sup>st</sup> half 2017. Directors have become less pessimistic about the future health of the Australian economy, though around 45 per cent expect it to be weak. The Asian economy is expected to be even stronger over the next 12 months, and there is decreased pessimism regarding the US economy. The European economy continues to be regarded very pessimistically.

### Economic indicators

- Directors expect an increase in inflation, wages and the cash rate in the next 12 months.
- Expectations regarding the ASX All Ordinaries index have remained stable, with almost 50 per cent of directors expecting the index to rise in the next 12 months.

### Economic challenges

- An ineffective taxation system is viewed as the biggest economic challenge currently facing Australian business in the 1<sup>st</sup> half 2017, with global economic uncertainty significantly falling in importance from number one in 2<sup>nd</sup> half 2016 to number seven. Energy policy and the balance of power issues in the Senate round out the top three economic challenges.



# Executive Summary

## *Business Forecast*

### **Business growth**

- Continuing the upward trend since the 1<sup>st</sup> 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 over 55 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 investment levels and staffing levels/labour demand, whilst business exports and outsourcing remain relatively stable over time.

### **Profits**

- Sentiment around actual profits for the current 6 months has increased in 1<sup>st</sup> half 2017, with almost 40 per cent expecting an increase in profits compared to the current budget forecast, and about 40 per cent expecting an increase in profits for the second half of this year (Jul-Dec'17) compared to profits for the current 6 months.

### **Business outlook**

- There has been an upward trend in directors' optimism regarding the overall business outlook since 1st half 2015, with this continuing in 1st half 2017.

### **Budgetary**

- Directors rate taxation reform, energy policy and infrastructure as the top priorities the Federal Government should address in the short term, whilst climate change has increased in importance compared to 2<sup>nd</sup> half 2016. Infrastructure continues to be the top long term priority the federal government should address, followed by climate change and taxation reform.

### **Taxation**

- Directors are more pessimistic regarding the level of corporate taxation in Australia in the 1st half 2017, with 60 per cent holding the belief that it is too high. Sixty five percent of directors also view personal tax as being too high.

### **Regulation**

- Directors continue to feel pessimistic regarding the level of 'red-tape' in the next 12 months, with almost 40 per cent expecting an increase. Over 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 and workplace health/safety.

### **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 broad-based tax 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. The key priority for an industrial relations reform has become a modern award system in 1st half 2017, followed by penalty rates, which was first priority in 2nd half 2016.

### **Performance & business understanding**

- Directors are pessimistic about the effect of the Federal Government's current performance, with about 80 per cent perceiving a negative effect on consumer confidence. About 50 per cent of directors view the current Federal Government's performance as having a negative effect on their business decision making.
- Directors are still pessimistic about the Federal Government's understanding of business, with about 45 per cent disagreeing that the current Federal Government understands business in 1st half 2017, as opposed to just under 40 per cent agreeing.

# Executive Summary

## *Government Policy (cont.)*

12

### **Director liability**

- Directors continue to feel pessimistic about the impact of legislation on director liability in 1st half 2017. While over 30 per cent feel that it has negatively affected their business decision making and willingness to continue on a board, 45 per cent feel it impacts negatively on their willingness to accept new board appointments.
- Similar to 2nd half 2016 results, about 70 per cent of directors perceive there to be a risk-averse decision-making culture on Australian boards. 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.

### **Board diversity**

- Similar to 2nd half 2016, almost 75 per cent of directors state that their business is actively seeking to increase diversity of their board in terms of skills and almost half believe their business is actively trying to increase diversity in terms of gender.

## *Topical Issues*

### **Issues that ‘keep directors up at night’**

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

### **Transition arrangements following penalty rates changes**

- Following the Fair Work Commission’s decision to alter penalty rates for workers in selected sectors, over 30 per cent of directors feel the changes should be phased in over a period of time (such as 2 years), whilst almost 25 per cent prefer the changes to be implemented as soon as possible.

### **Main efforts to address the housing affordability crisis**

- Directors view tighter controls on home purchases by foreigners as the top measure that Federal, State, and Local Governments should prioritise to address the housing affordability crisis, followed by boosting housing supply and reforming negative gearing arrangements.

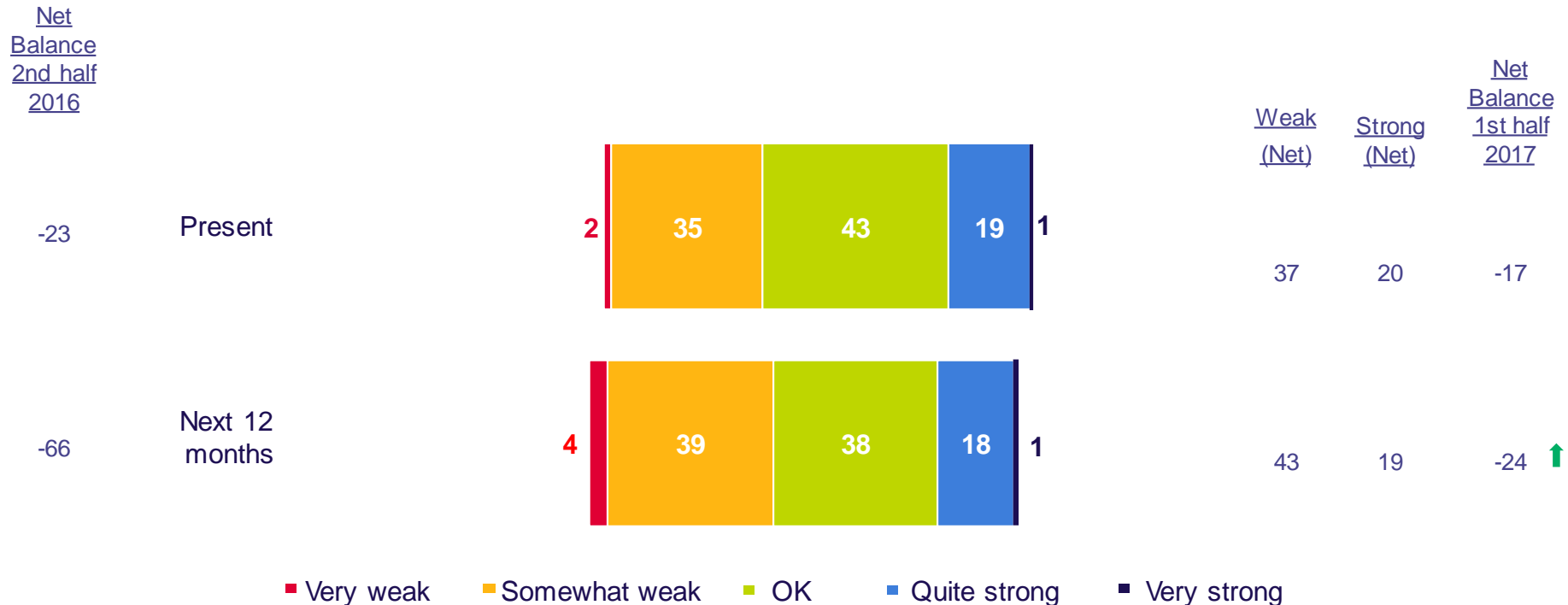
# Economic outlook and challenges

# Health of the Australian economy

15

*Directors are slightly less pessimistic about the Australian economy compared to the 2<sup>nd</sup> half 2016, with over 35 per cent perceiving the economy as weak at present. Directors are also significantly less pessimistic about the Australian economy in the next 12 months compared to the 2<sup>nd</sup> half 2016, though around 45 per cent expect it to be weak.*

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

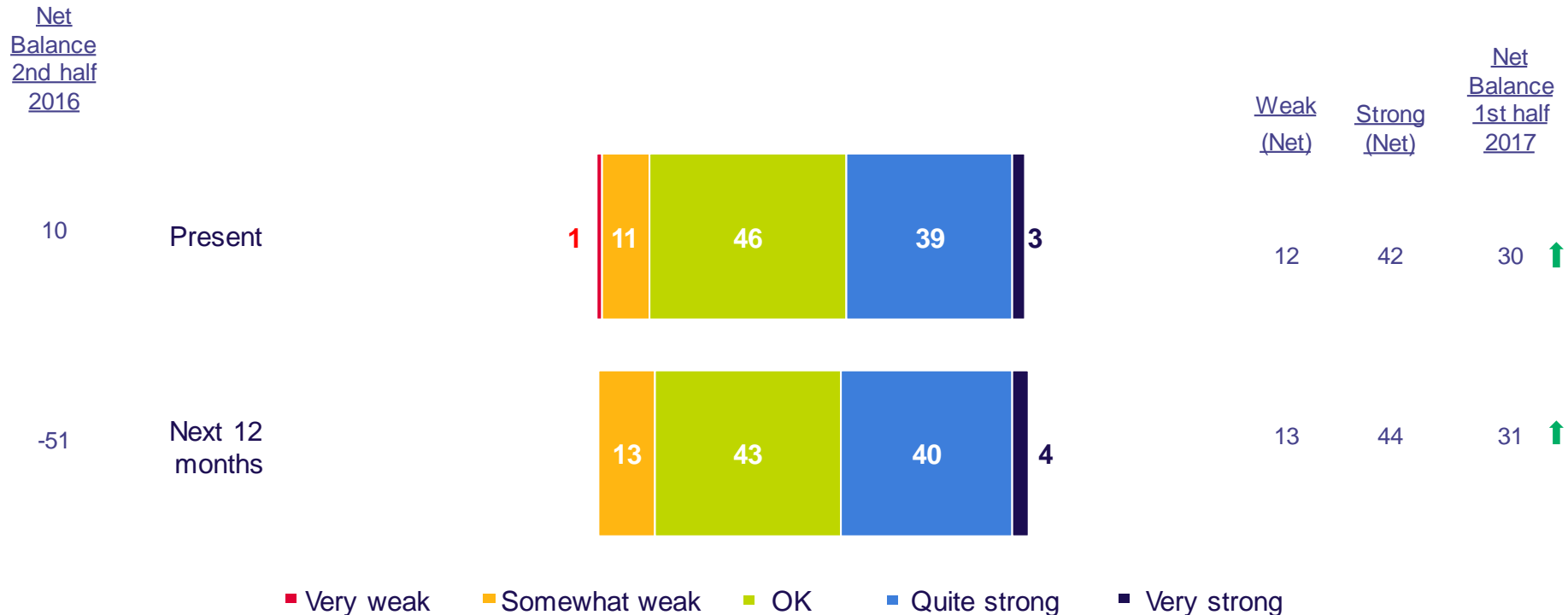


# Health of the Asian economy

16

*Sentiment around the health of the Asian economy is much more optimistic compared to the 2<sup>nd</sup> half 2016. About 40 per cent of directors perceive the Asian economy as currently strong and almost 45 per cent expect it to remain strong over the next 12 months.*

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



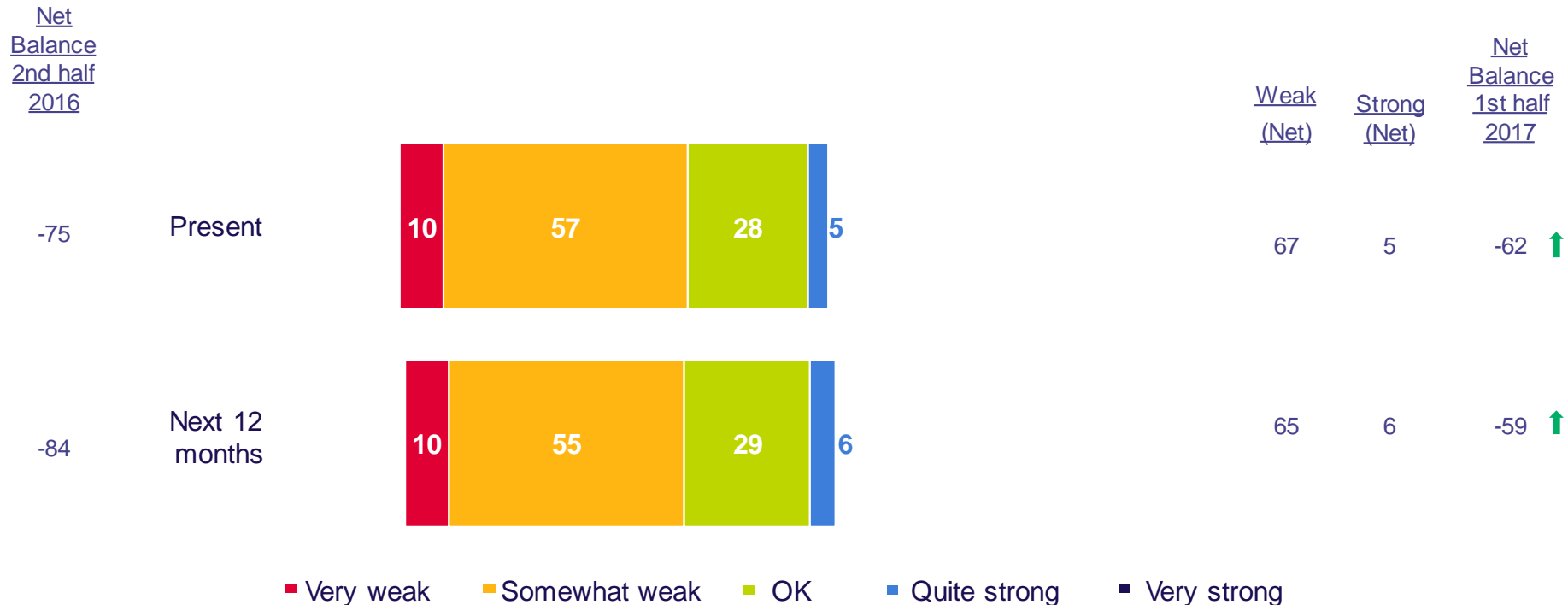


# Health of the European economy

17

While directors are less pessimistic about the health of the European economy compared to the 2<sup>nd</sup> half 2016, sentiment remains very pessimistic. Over 65 per cent of directors perceive the economy as weak at present, while 65 per cent expect it to remain weak in the next 12 months.

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

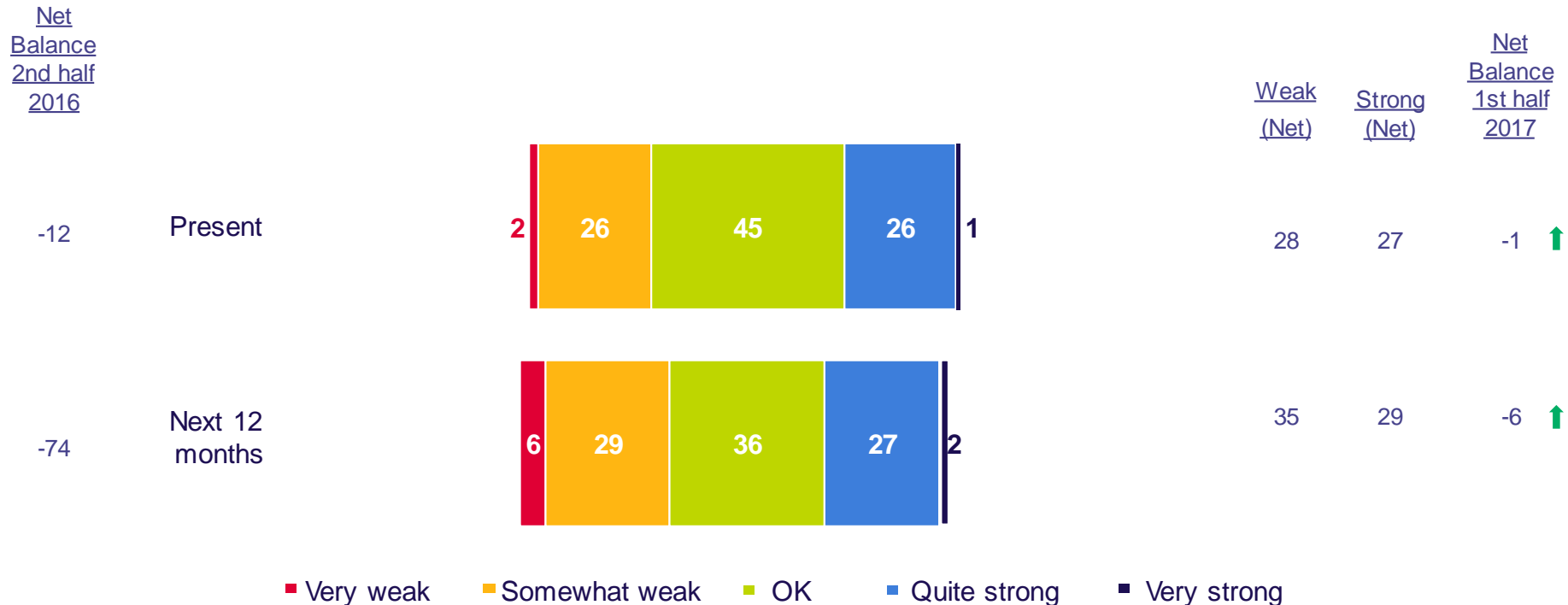


# Health of the US economy

18

*When asked about the future US economy, directors are less pessimistic compared to 2<sup>nd</sup> half 2016, with 35 per cent expecting the economy to be weak over the next 12 months in first half 2017, while in 2<sup>nd</sup> half 2016, 80 per cent of them expected the US economy to be weak in the next 12 months.*

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

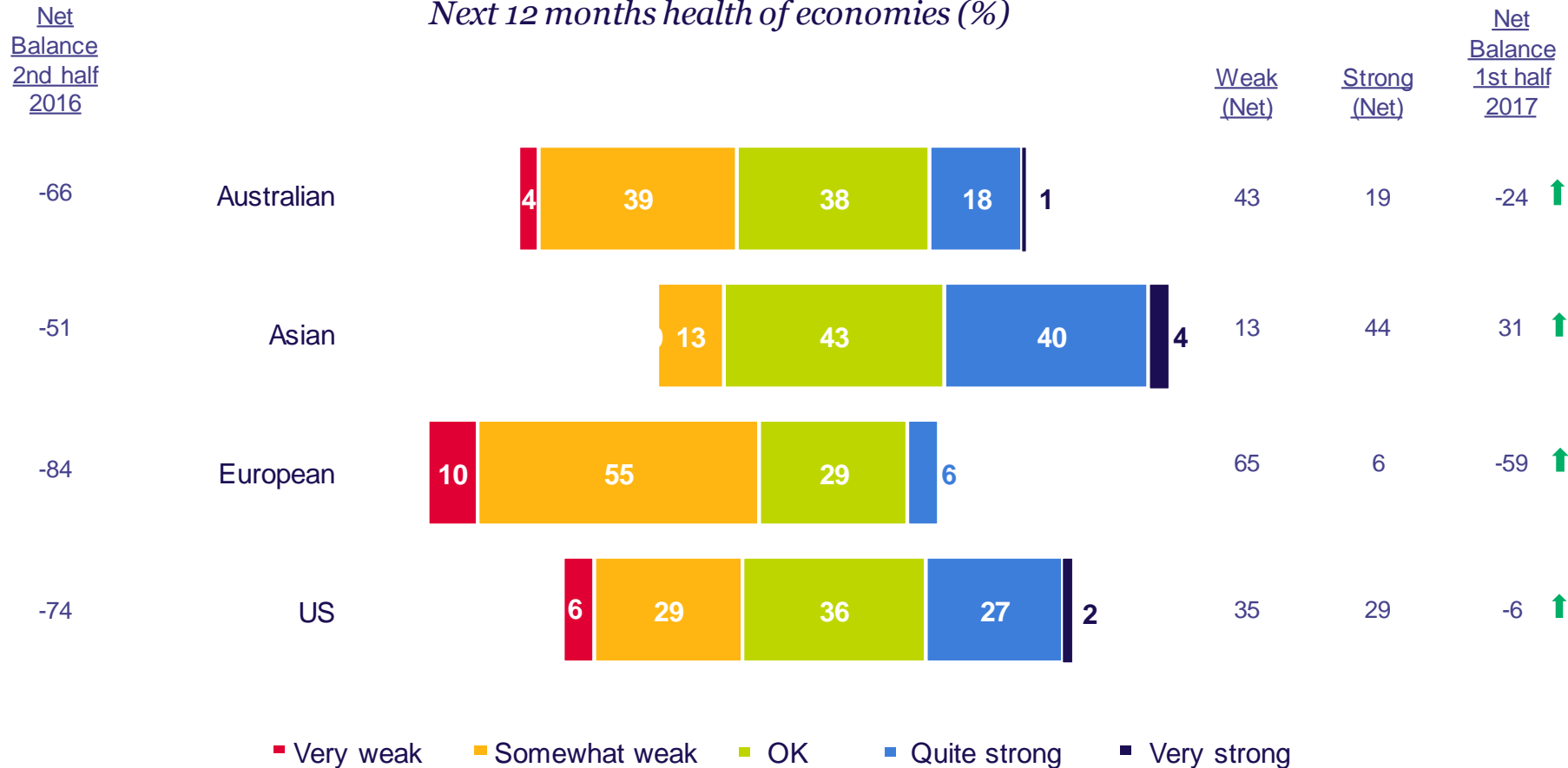


# Next 12 months health of economies: summary

19

*Compared to the 1<sup>st</sup> half 2016, directors have become less pessimistic about the future health of major global economies. The Asian economy is expected to be stronger over the next 12 months, with almost 45 per cent of directors expecting a strong economy, while sentiment around the other three major economies continues to be pessimistic.*

## Next 12 months health of economies (%)

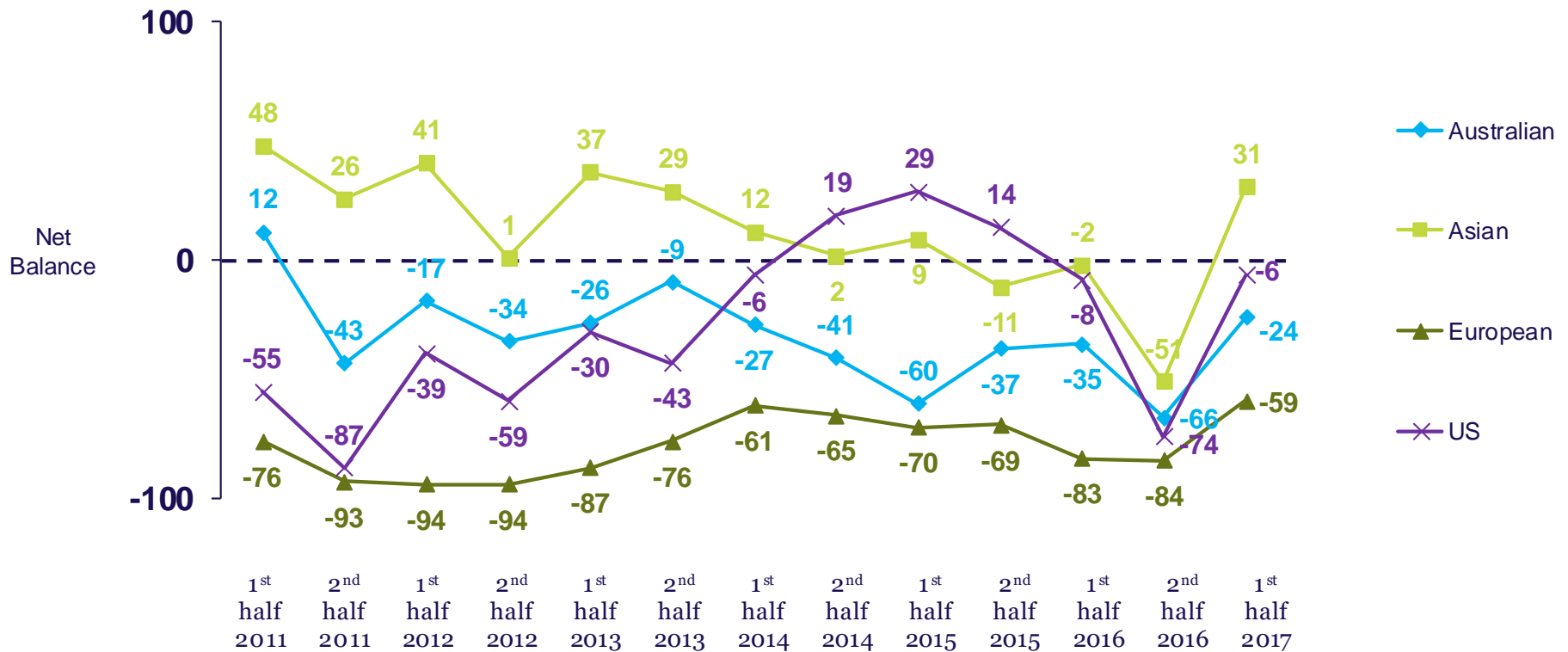


# Next 12 months health of economies – semi-annual trend

20

*The outlook for world economies in the next 12 months is less pessimistic, taking a sharp upward turn in 1<sup>st</sup> half 2017. While Asia is predicted to be mostly strong, the other three global economies continue to be perceived as weak overall.*

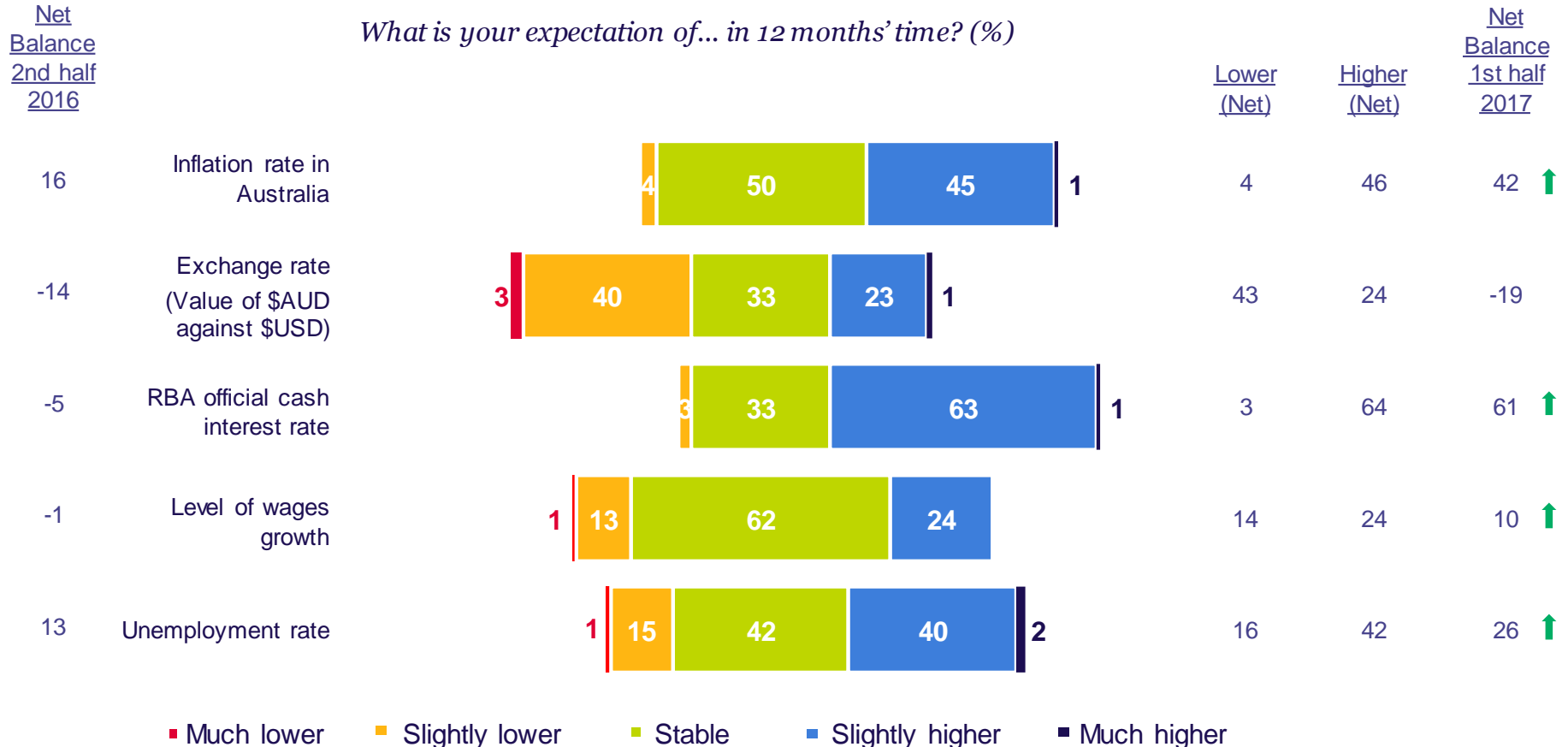
*Next 12 months health of economies – semi-annual trend (net balance)*



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

21

*Directors expect an increase in inflation, wages and the cash rate in the next 12 months.*

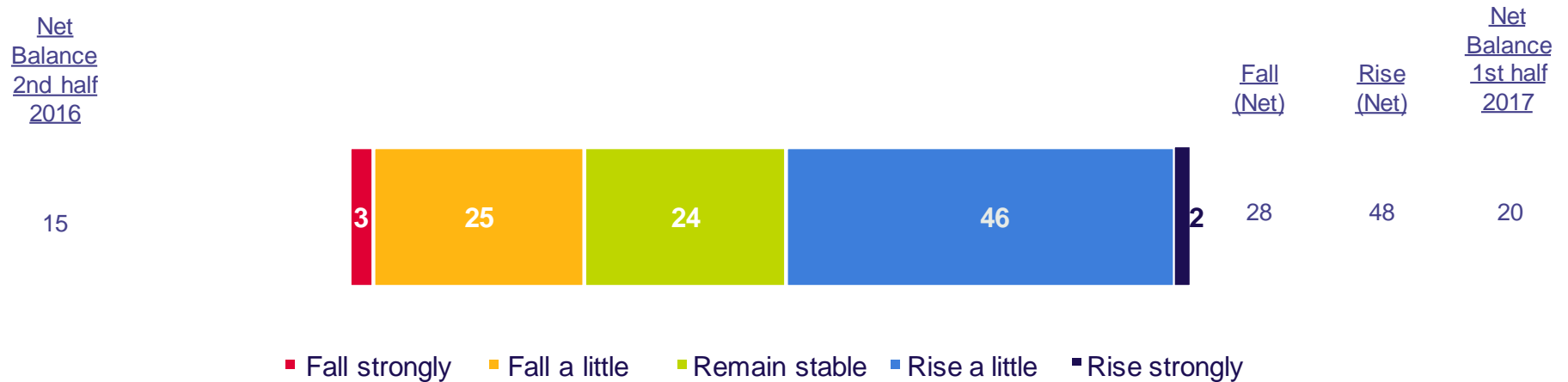


# Expected change to ASX All Ordinaries index - next 12 months

22

*Expectations regarding the ASX All Ordinaries index have remained stable, with almost 50 per cent of directors expecting the index to rise in the next 12 months.*

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

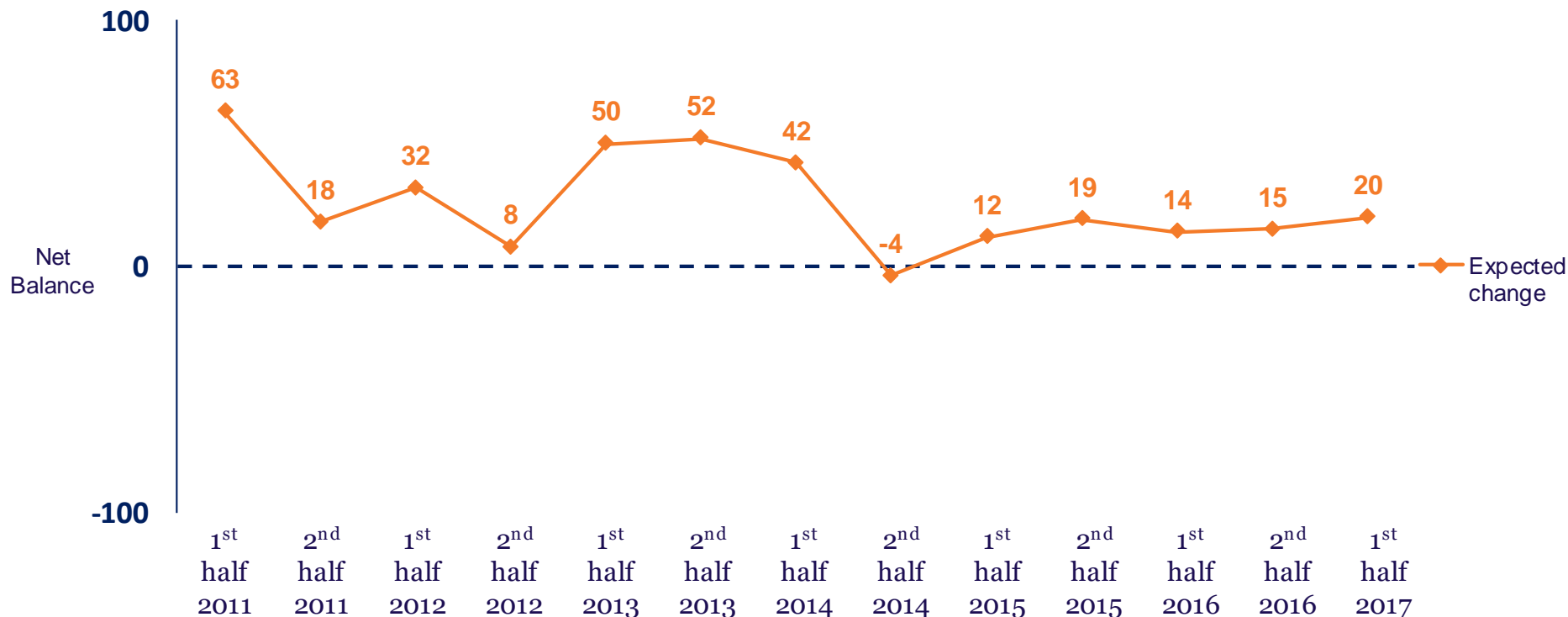


# Expected change to All Ordinaries index: next 12 months – trend

23

*Sentiment regarding the ASX All Ordinaries index for the coming year has remained relatively stable in the 1<sup>st</sup> half 2017.*

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



# Main current economic challenges (Top 3)

24

*An ineffective taxation system is viewed by directors as the biggest economic challenge currently facing Australian business in the 1<sup>st</sup> half 2017, with global economic uncertainty significantly falling in importance from number one in 2<sup>nd</sup> half 2016 to number seven. Energy policy and the balance of power issues in the Senate round out the top three economic challenges.*

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





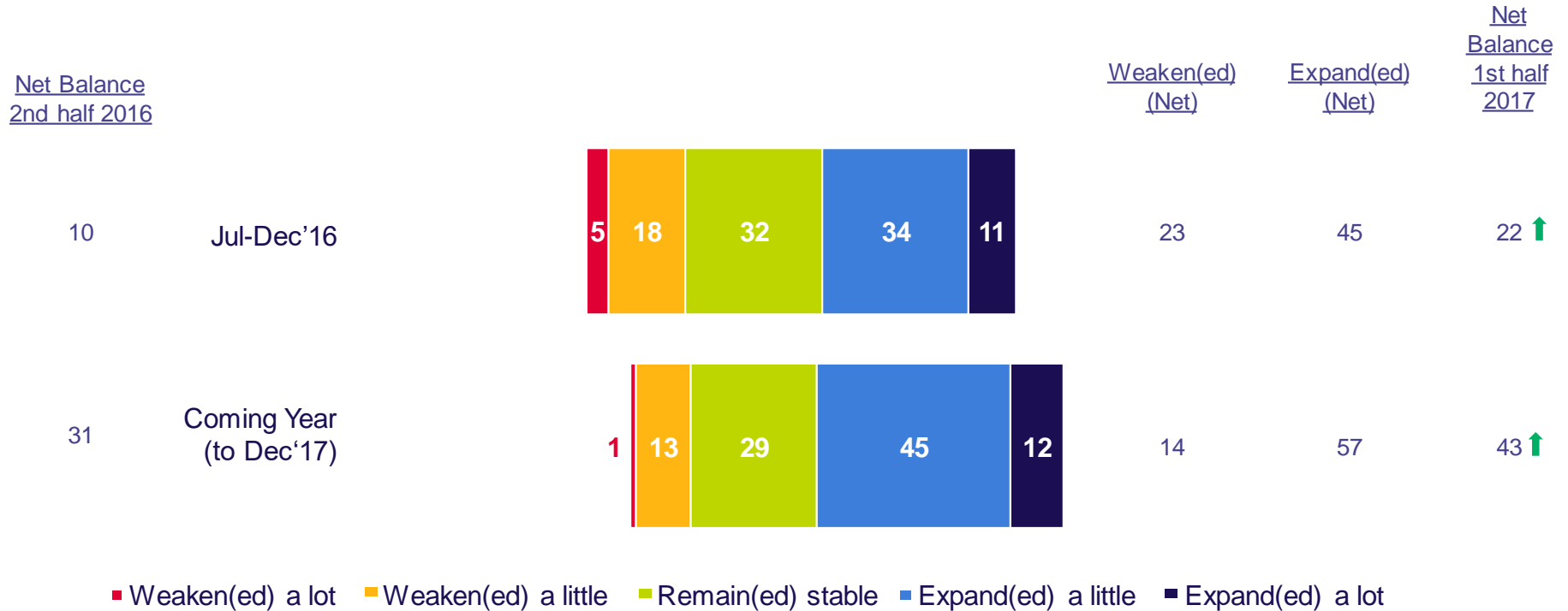
# Business Forecast

# Growth of the business (primary directorship company)

26

*Directors continue to feel optimistic about the growth of their business with over 55 per cent of directors expecting growth in the coming year.*

## Growth of the business – past and future (%)

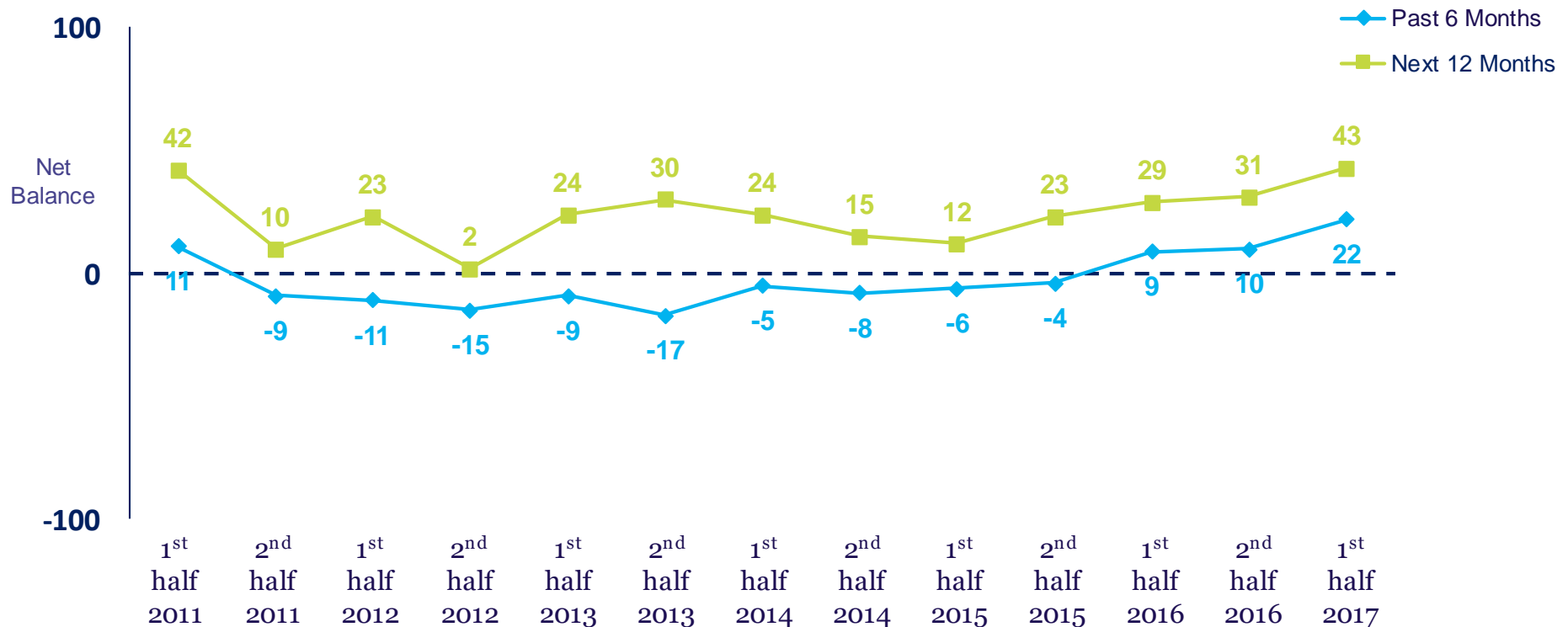


# Past and future growth of business – semi-annual trend

27

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

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

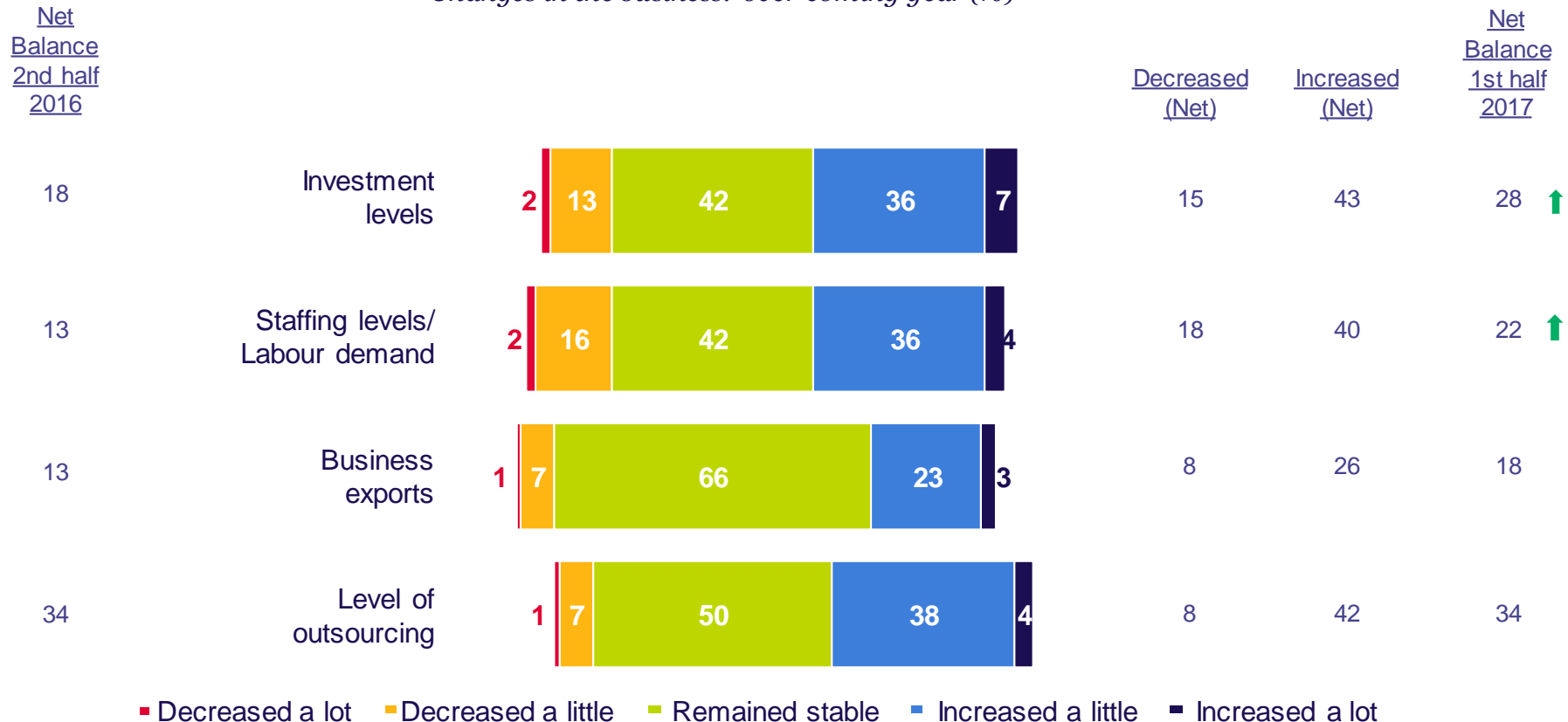


# Changes in the business – coming year

28

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

Changes in the business: over coming year (%)

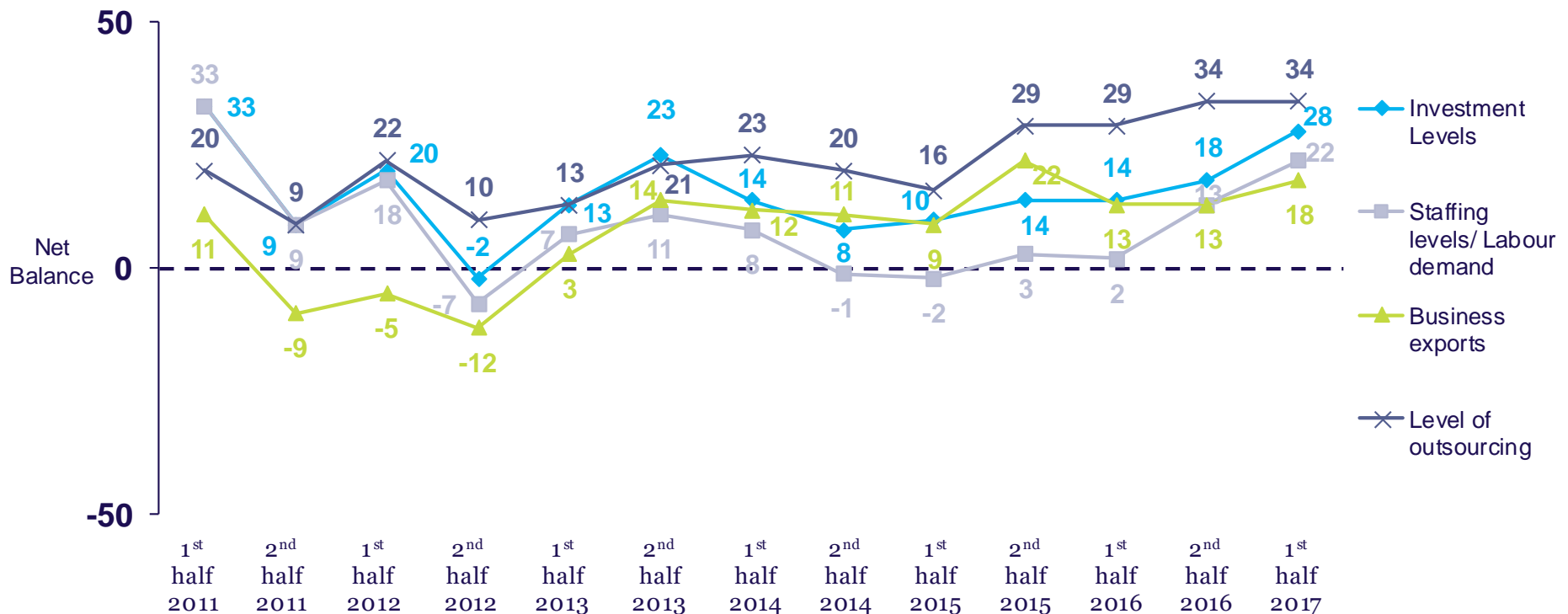


# Changes in the business: over coming year – semi-annual trend

29

*Sentiments around changes in the business have increased in optimism in 1<sup>st</sup> half 2017, except for level of outsourcing 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

30

*A change in business conditions continued to be 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 2016 results.*

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

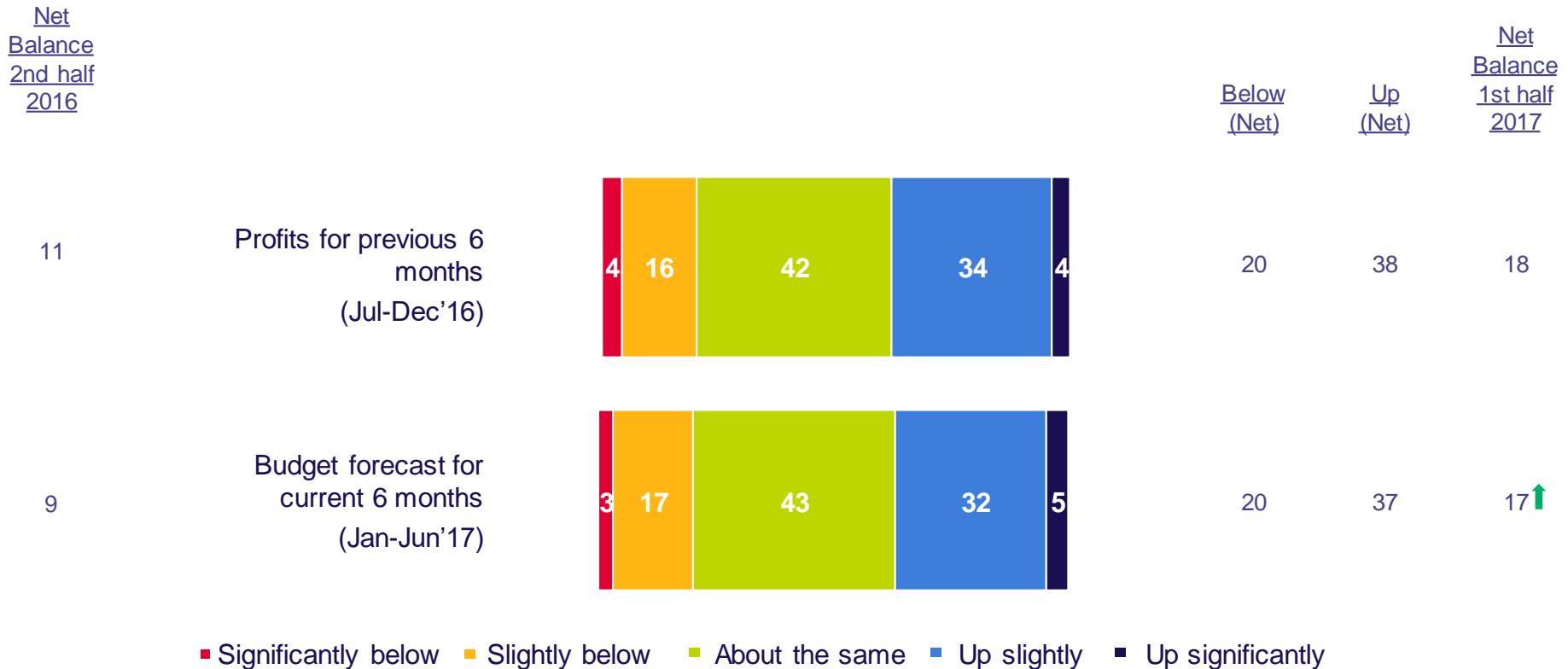
Main reason for expected change in staffing levels/ labour demand (%)	Survey	Total (Those who expect change)	Those who expect decrease	Those who expect increase
Changed business conditions	2 <sup>nd</sup> half 2016	61	46	70
	1 <sup>st</sup> half 2017	57	39	65
Changed economic conditions	2 <sup>nd</sup> half 2016	21	37	12
	1 <sup>st</sup> half 2017	22	35	16
Changed wage levels	2 <sup>nd</sup> half 2016	2	2	1
	1 <sup>st</sup> half 2017	4	8 ↑	2
Workplace laws	2 <sup>nd</sup> half 2016	2	4	1
	1 <sup>st</sup> half 2017	3	7	2
Other	2 <sup>nd</sup> half 2016	14	11	15
	1 <sup>st</sup> half 2017	15	11	16

# Profits for current six months compared to...

31

*Sentiment around actual profits for the current budget forecast has increased in 1<sup>st</sup> half 2017, with almost 40 per cent expecting an increase in profits for the current 6 months.*

*Actual profits for the current six months (Jan-Jun'17) compared to... (%)*

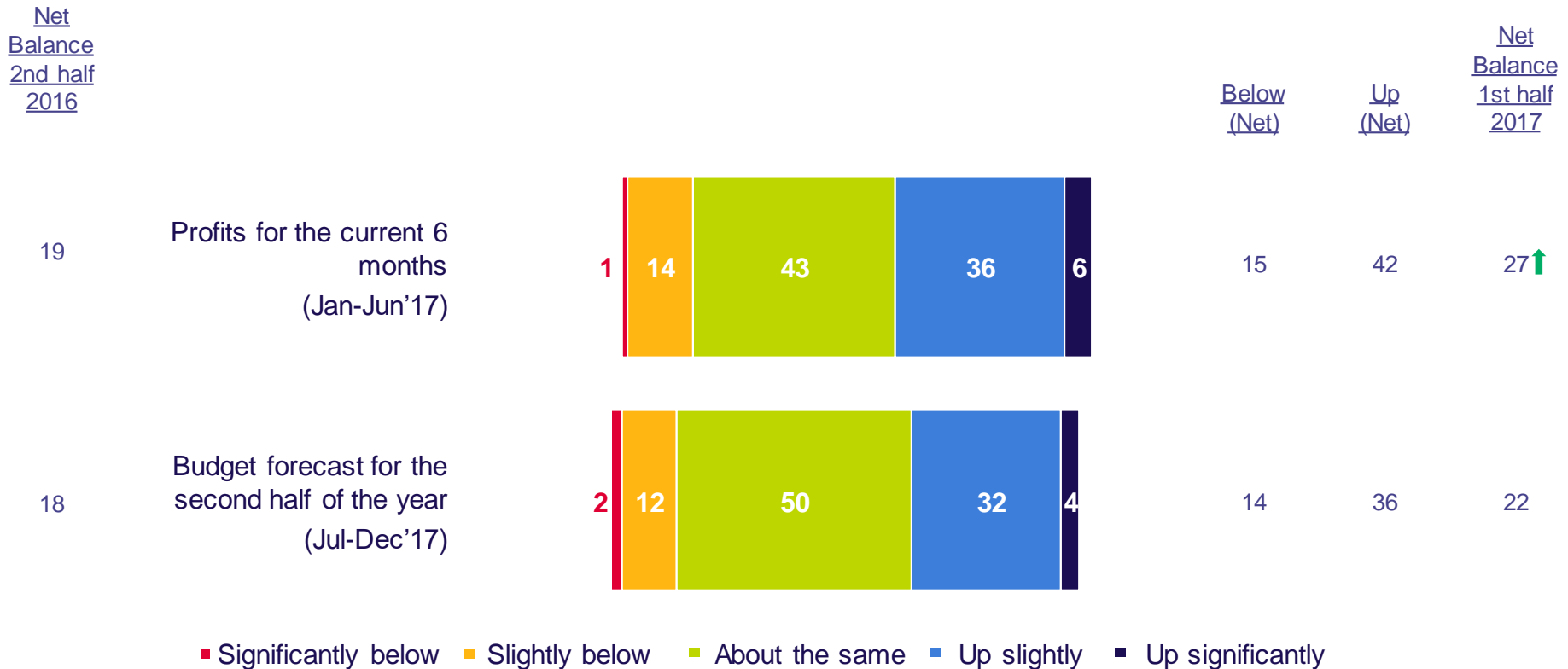


# Profits for second half of year compared to...

32

*Expectations of profits for the second half of this year (Jul-Dec'17) are up compared to 2<sup>nd</sup> half 2016, with about 40 per cent of directors expecting an increase in profits compared to the current 6 months.*

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



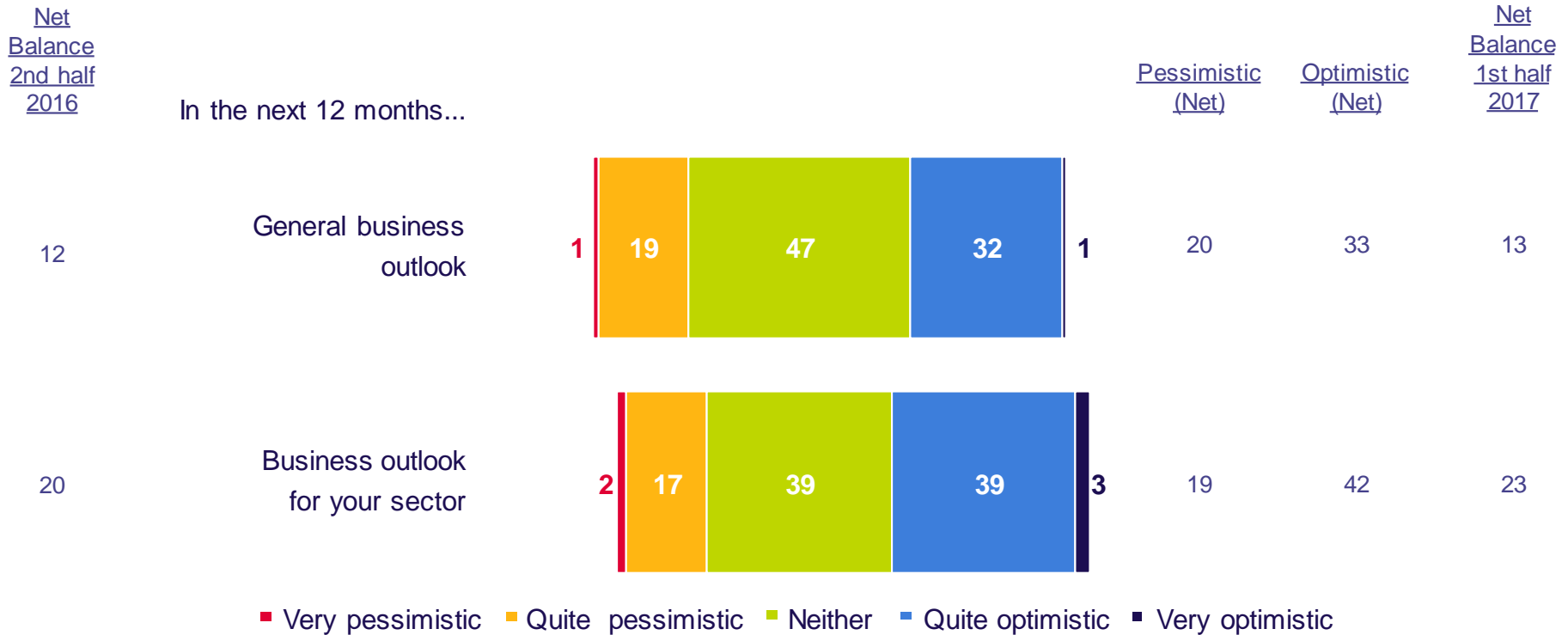


# Confidence in business outlook – next 12 months

33

*Directors are optimistic about the business outlook in the next 12 months, with almost 35 per cent indicating they are optimistic about the general business outlook, and about 40 per cent indicating they are optimistic regarding the outlook for their sector.*

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

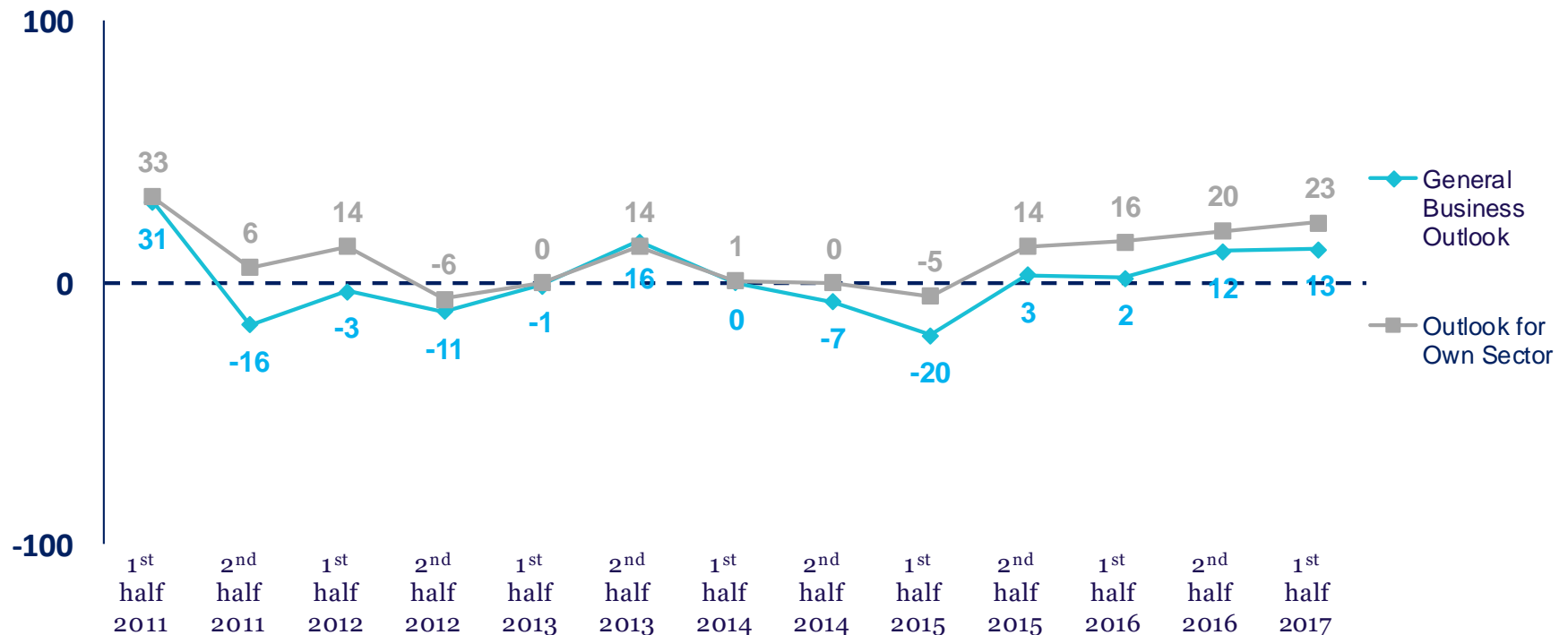


# Confidence in business outlook: next 12 months – semi-annual trend

34

*There has been an upward trend in directors' optimism regarding the overall business outlook since 1<sup>st</sup> half 2015, with this continuing in 1<sup>st</sup> half 2017.*

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

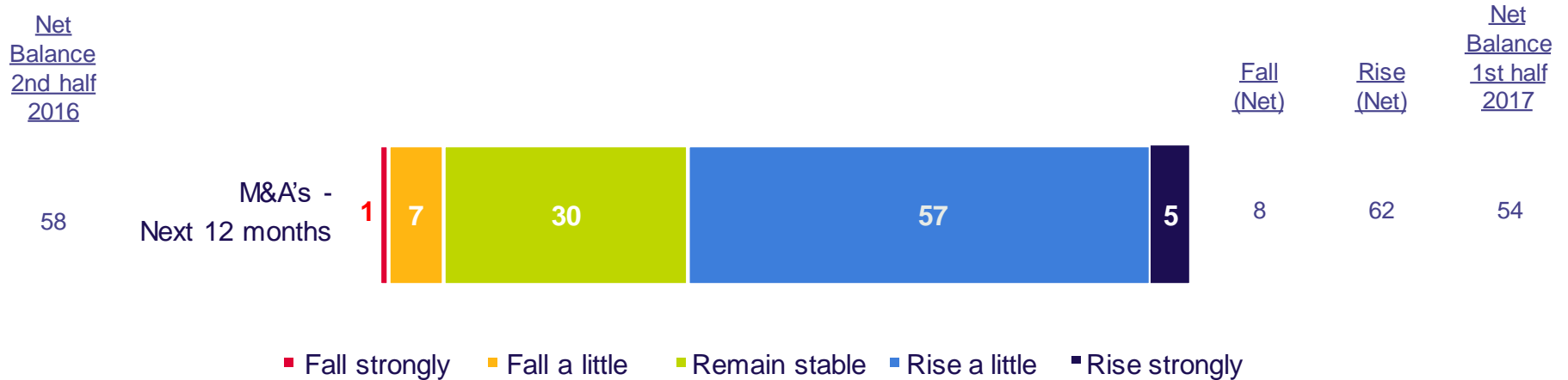


# Expected change in level of mergers and acquisitions – next 12 months

35

*Remaining stable from 2<sup>nd</sup> half 2016, over 60 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

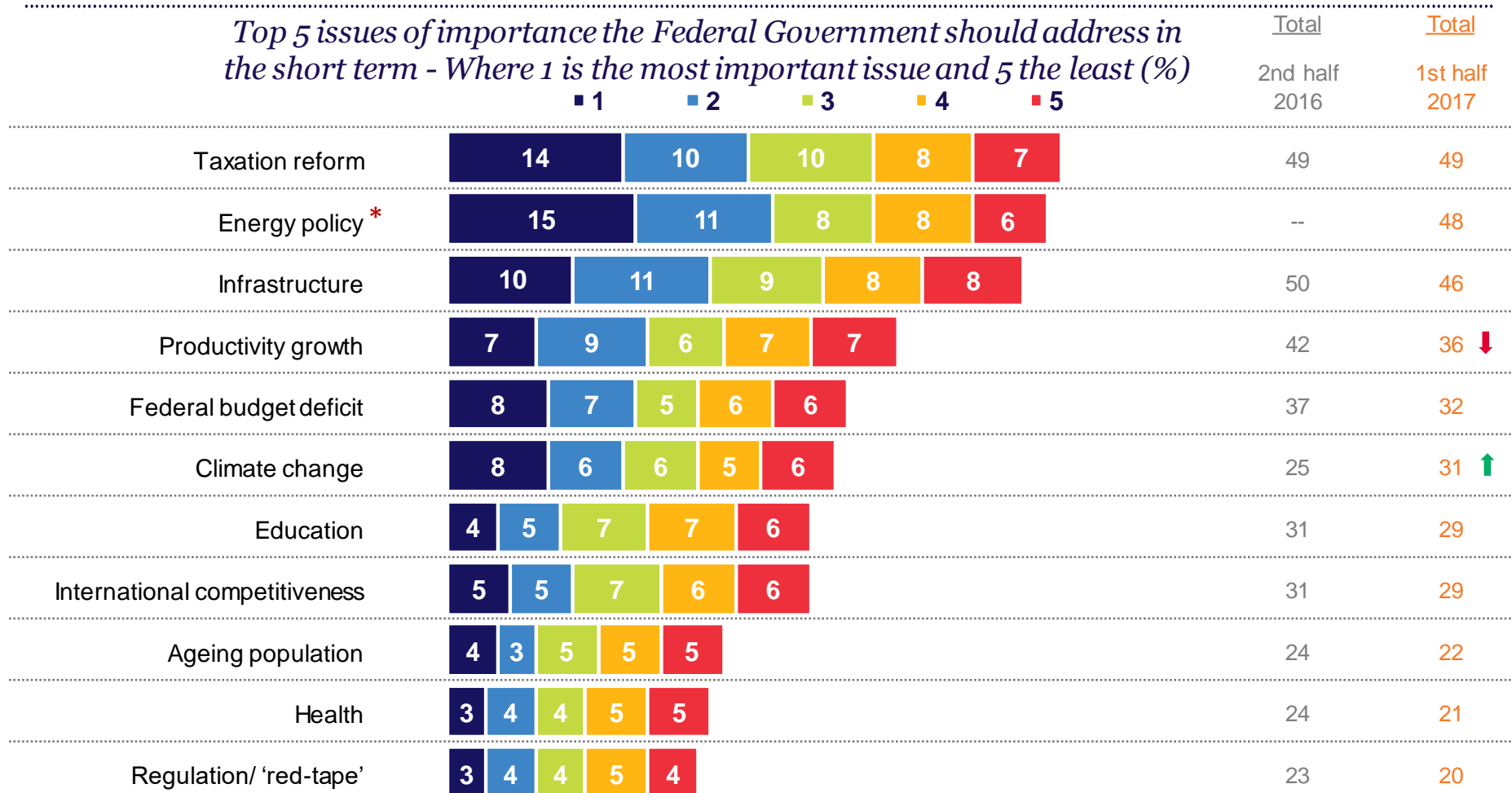
## *Budgetary*

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

37

Directors rate taxation reform, energy policy and infrastructure as the top priorities the Federal Government should address in the short term. Climate change has increased in importance compared to 2<sup>nd</sup> 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 (%)*



\*Note new statement inserted in 1<sup>st</sup> half 2017

**AUSTRALIAN INSTITUTE  
of COMPANY DIRECTORS**

24: Please nominate the top 5 issues of importance, in your opinion, that the federal government should address in the short term (i.e. in the next 3 years), where 1 is the most important issue and 5 is the least important.

Base: All respondents n=1106



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

38

*Defence, skilled immigration and childcare policies are rated as the lowest short term priorities for the Federal Government.*

*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 (%)*

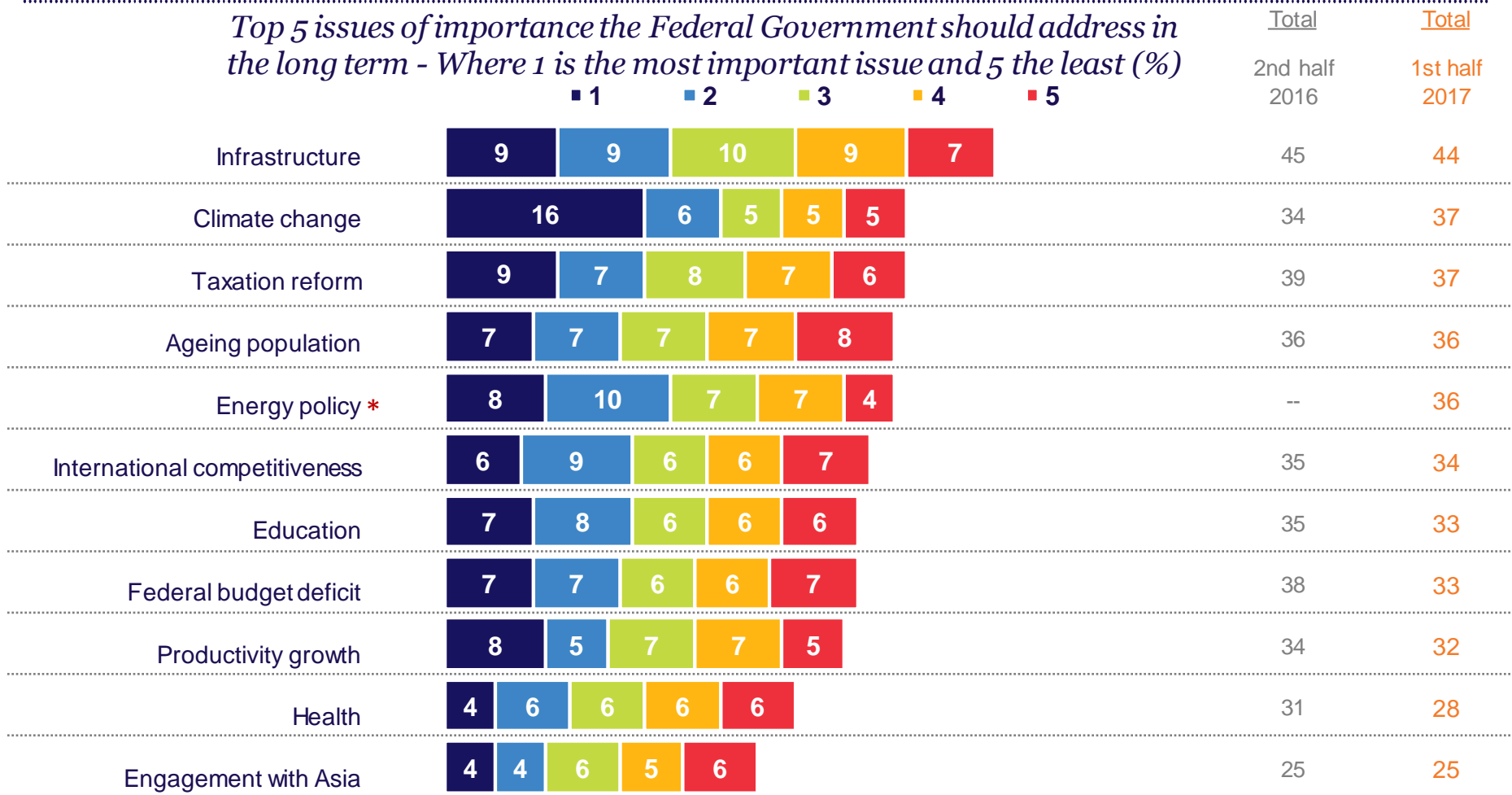
	■ 1	■ 2	■ 3	■ 4	■ 5	Total 2nd half 2016	Total 1st half 2017
Industrial Relations	3	4	4	4	4	25	19 ↓
Engagement with Asia	2	3	3	5	5	21	18
NBN rollout	3	4	3	3	4	22	17
Lack of skills in workforce/ skills shortages	2	2	3	3	4	13	14
Size of the Federal Government	2	2	3	3	4	17	14
Foreign ownership	2	2	2	4	3	10	13
Indigenous disadvantage	2	2	2	2	4	16	12
Superannuation	1	2	3	3	2	13	11
Border protection	1	1	1	2	2	8	7
Childcare policies	1	1	1	1	1	6	4
Skilled immigration	1	1	1	1	1	5	4
Defence	1	1	1	1	1	6	3

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

39

*Directors continue to rate infrastructure as the top long term priority the federal government should address, followed by climate change and taxation reform. Ageing population and energy policy round out the top five issues.*

*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 (%)*



*\*Note new statement inserted in 1<sup>st</sup> half 2017*

**AUSTRALIAN INSTITUTE  
of COMPANY DIRECTORS**

26: Please nominate the top 5 issues of importance, in your opinion, that the federal government should address in the long term (i.e. in the next 10-20 years), where 1 is the most important issue and 5 is the least important.

Base: All respondents n=1106



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

40

*Childcare policies is still rated as the lowest long-term priority the Federal Government should address, followed by skilled immigration and NBN rollout.*

*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 2nd half 2016	Total 1st half 2017
Regulation/ 'red-tape'	2	4	3	5	4	19	18
Indigenous disadvantage	2	3	2	3	5	19	15
Industrial Relations	2	3	3	3	4	19	15
Lack of skills in workforce/ skills shortages	2	3	3	3	3	15	14
Size of the Federal Government	2	3	2	3	4	15	14
Foreign ownership	2	2	4	3	2	10	13
Superannuation	1	2	2	3	3	15	11
Defence	2	1	1	1	2	10	7
Border protection	1	1	1	2	2	7	7
NBN rollout	1	1	2	1	1	8	6
Skilled immigration	1	1	1	1	1	7	4
Childcare policies	1	1	1	1	1	4	3

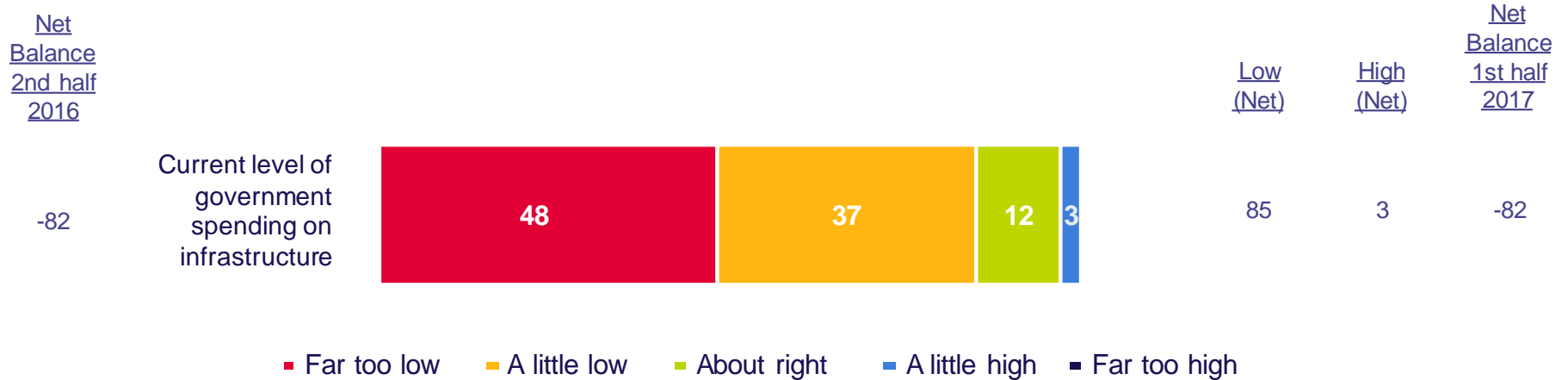


# Current level of government spending on infrastructure

41

*Sentiment regarding the level of government spending on infrastructure is in line with 2<sup>nd</sup> 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)

42

*Almost 50 per cent of directors rate renewable energy sources as the top area of importance for infrastructure investment, followed by regional infrastructure and roads.*

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

	■ 1	■ 2	■ 3	Total 2nd half 2016	Total 1st half 2017
Renewable energy sources	24	14	11	44	49
Regional infrastructure	14	16	15	44	45
Roads	14	14	10	40	38
Telco networks	9	9	10	36	28 ↓
Urban rail	8	10	10	29	28
High speed rail	8	9	7	26	24
Water supply	4	5	6	18	15
Nuclear power*	5	4	5	--	14
Intercity freight	3	4	6	17	13
Coal power	4	4	4	5	12 ↑
Airport	2	3	6	12	11
Light rail	2	4	4	13	10
Ports	2	3	4	11	9
Others	2	1	3	4	6

*\*Note new statement inserted in 1<sup>st</sup> half 2017*

# Federal Government's move towards a budget surplus

43

*About 65 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 over 20 per cent believe a budget surplus is not a priority.*

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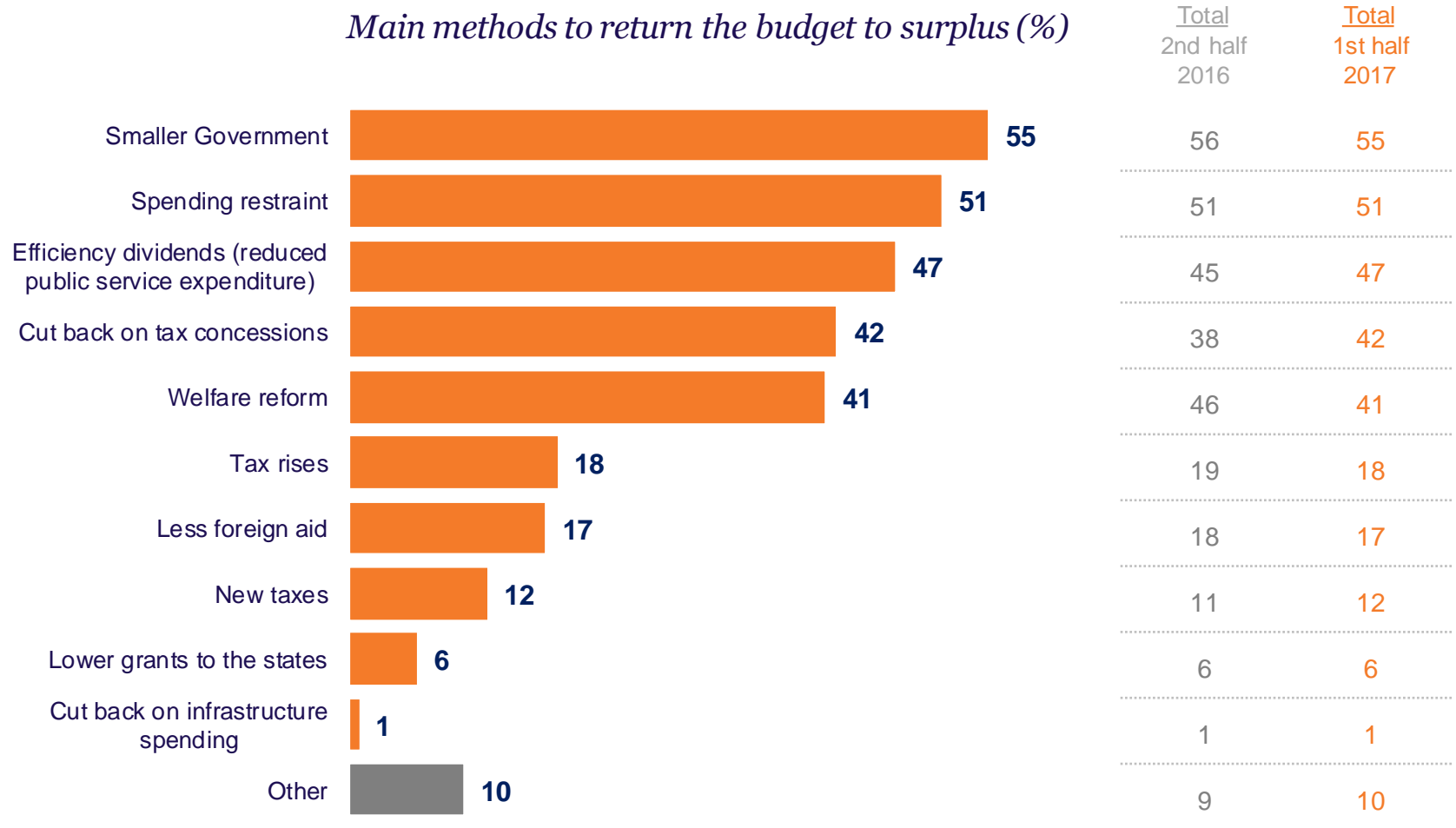
*Federal Government's move towards a budget surplus (%)*

	<i>2<sup>nd</sup> half 2016</i>	<i>1<sup>st</sup> half 2017</i>
Within the next three years	13	13
Within the next five years	39	38
Within the next ten years	29	28
A budget surplus is not a priority	19	21

# Methods for Federal Government to return to budget surplus

44

*Similar to 2<sup>nd</sup> half 2016, fifty five 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. Efficiency dividends are also considered a key method that should be utilised.*



# Government Policy

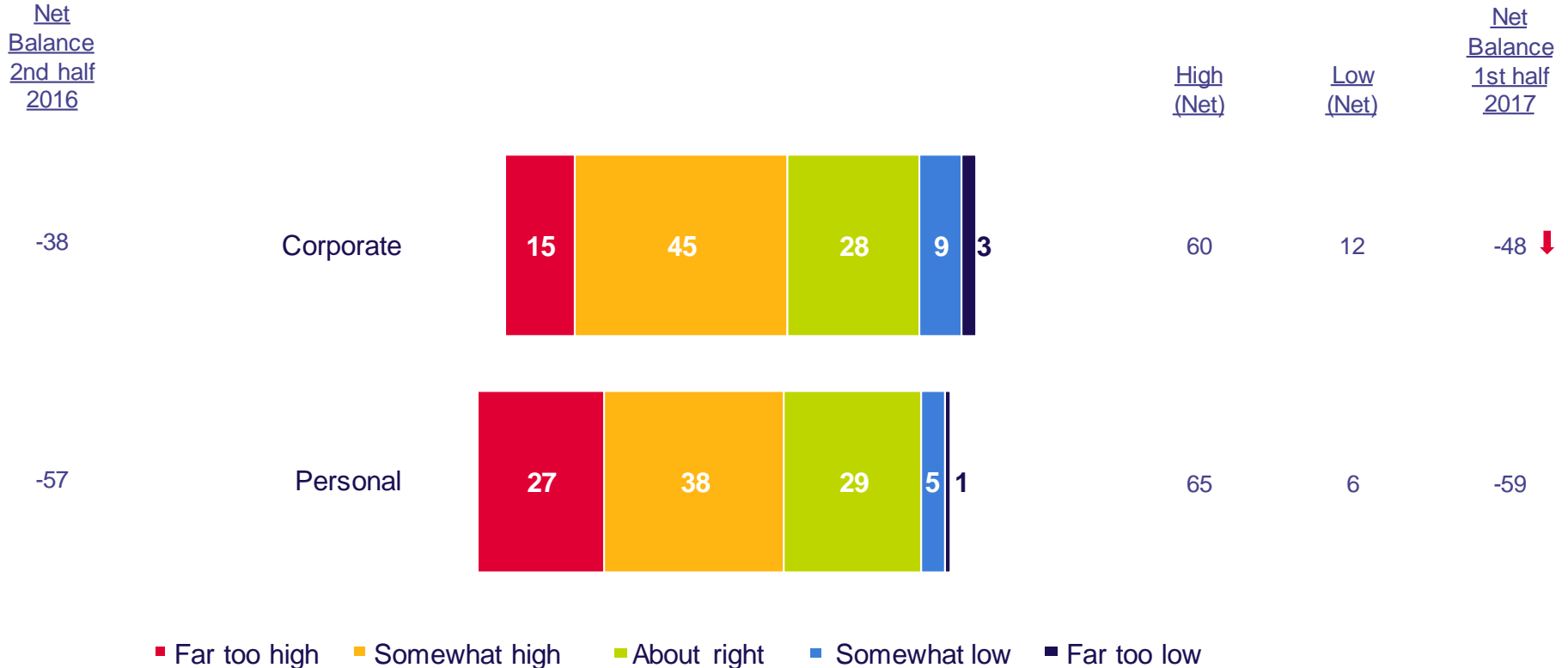
## *Taxation*

# Level of taxation in Australia

46

*Directors are more pessimistic regarding the level of corporate taxation in Australia in the 1<sup>st</sup> half 2017, with 60 per cent holding the belief that it is too high. Sixty five percent of directors also view personal tax as being too high.*

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



# Reform of taxation system

47

*Directors rated company tax, followed by multinational tax arrangements and state based taxes 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 2nd half 2016	Total 1st half 2017
Company tax	51	45	51 ↑
Multinational tax arrangements, e.g. transfer pricing	43	50	43 ↓
State based taxes e.g. payroll tax	42	47	42
Personal income tax	41	41	41
GST	39	32	39 ↑
Negative gearing	32	26	32 ↑
Superannuation taxation	21	30	21 ↓
Capital gains tax	20	17	20
Tax arrangement for NFPs	8	9	8
Dividend imputation	1	1	1

# Government Policy

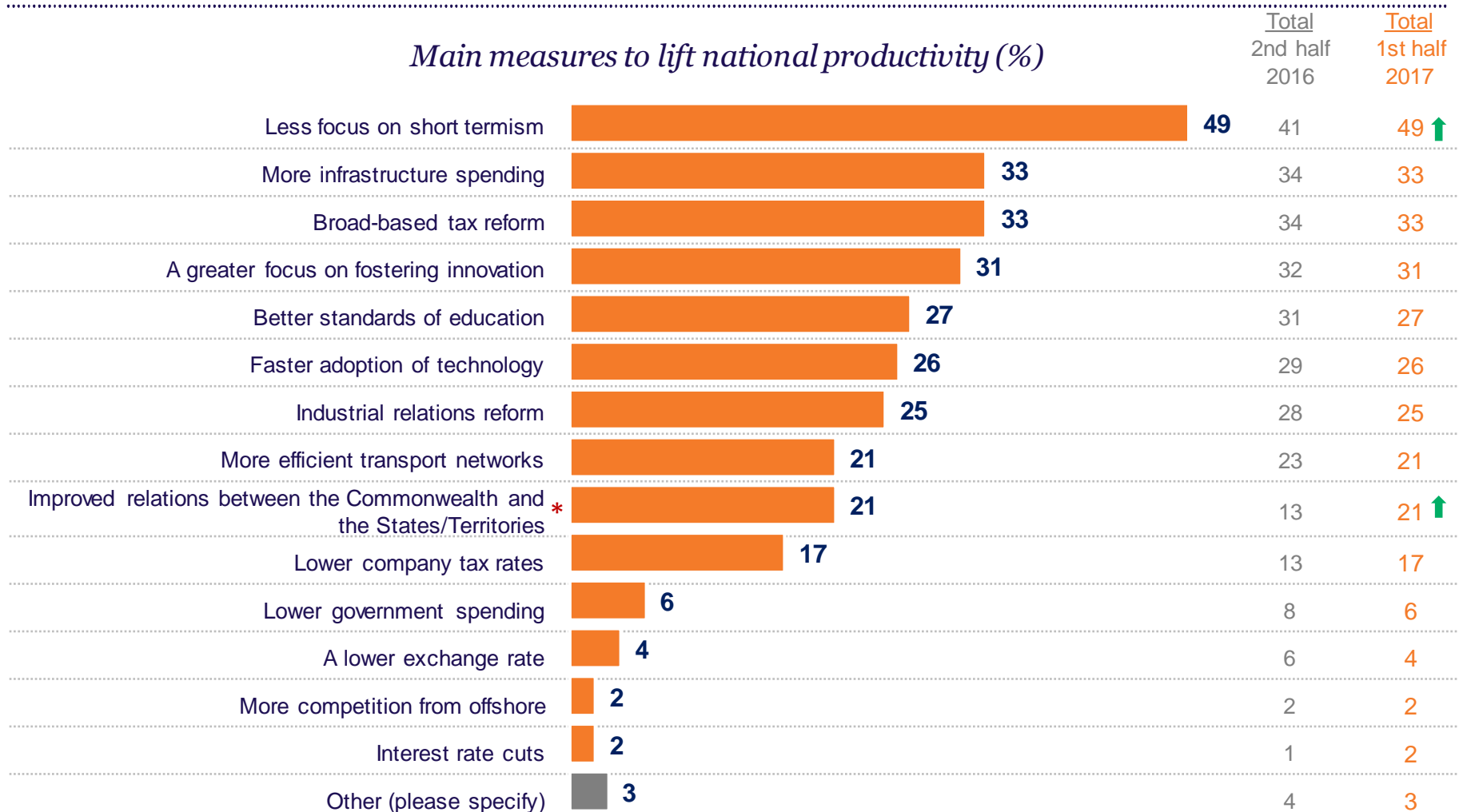
## *Regulation*



# Main measures to lift national productivity

49

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



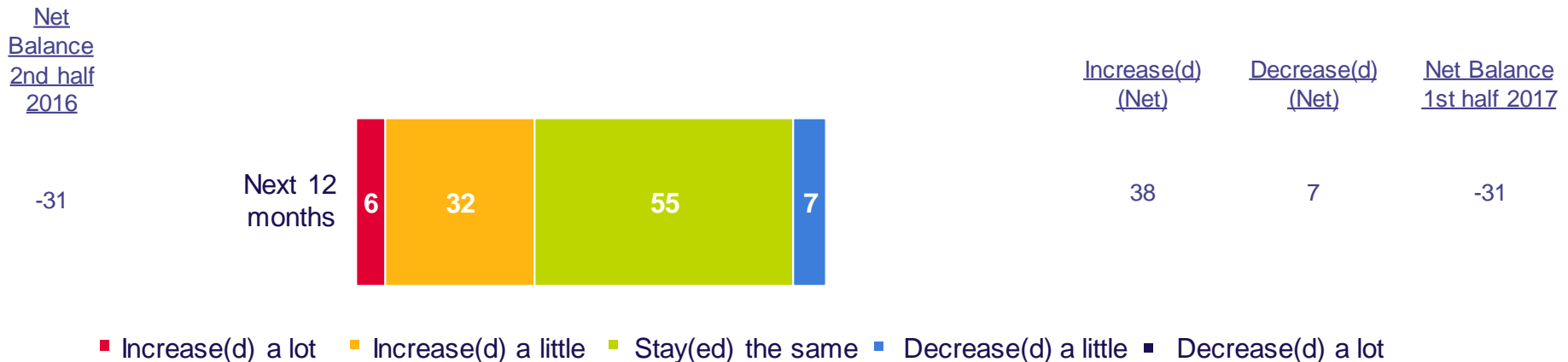
\*Note statement wording changed from 'Improved Commonwealth state relations' in 1<sup>st</sup> half 2017

# Level of 'red-tape' in next 12 months

50

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

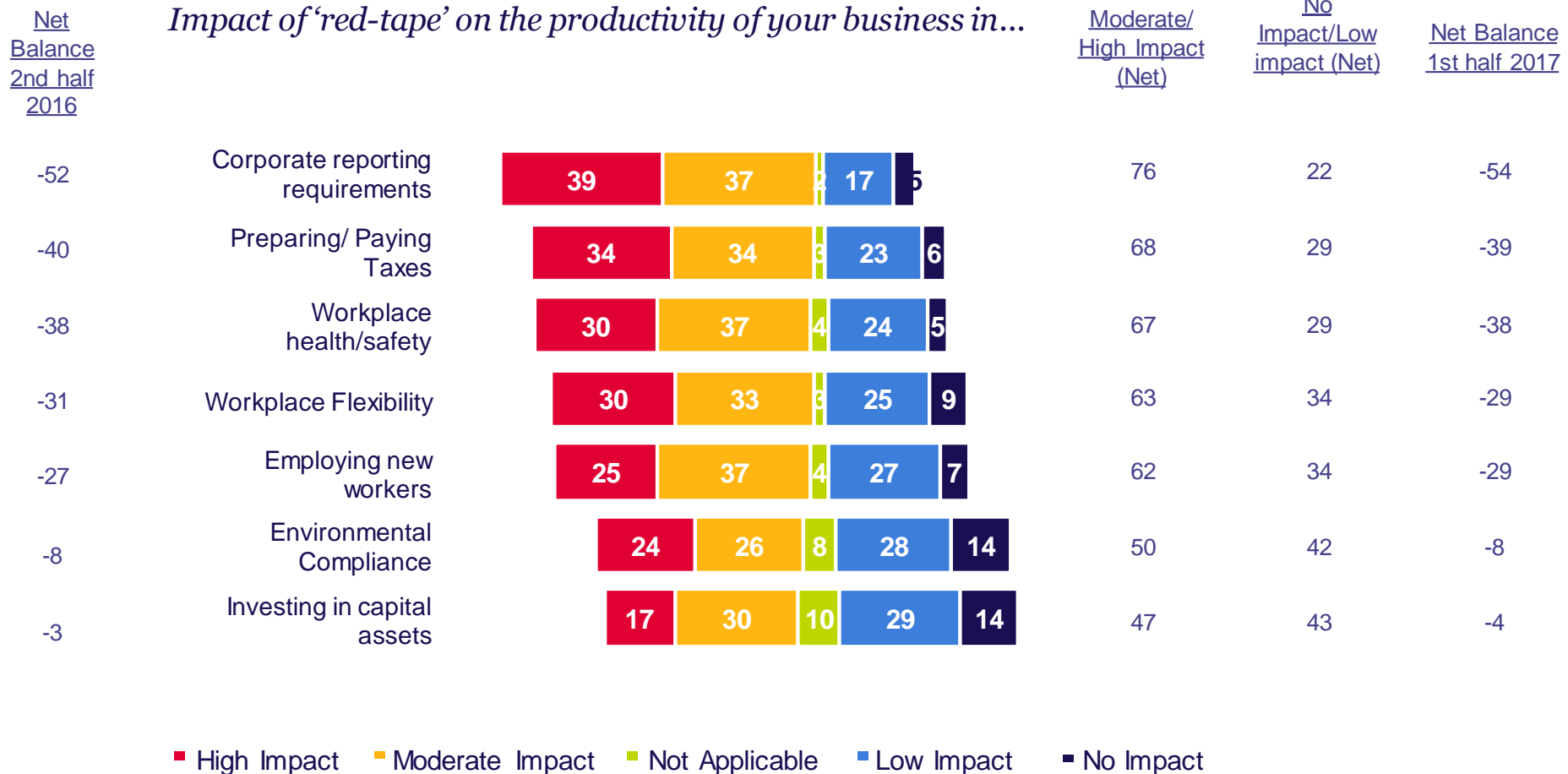
## Level of 'red-tape' – next 12 months



# Impact of 'red-tape' on business productivity

51

Over 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 and workplace health/safety.

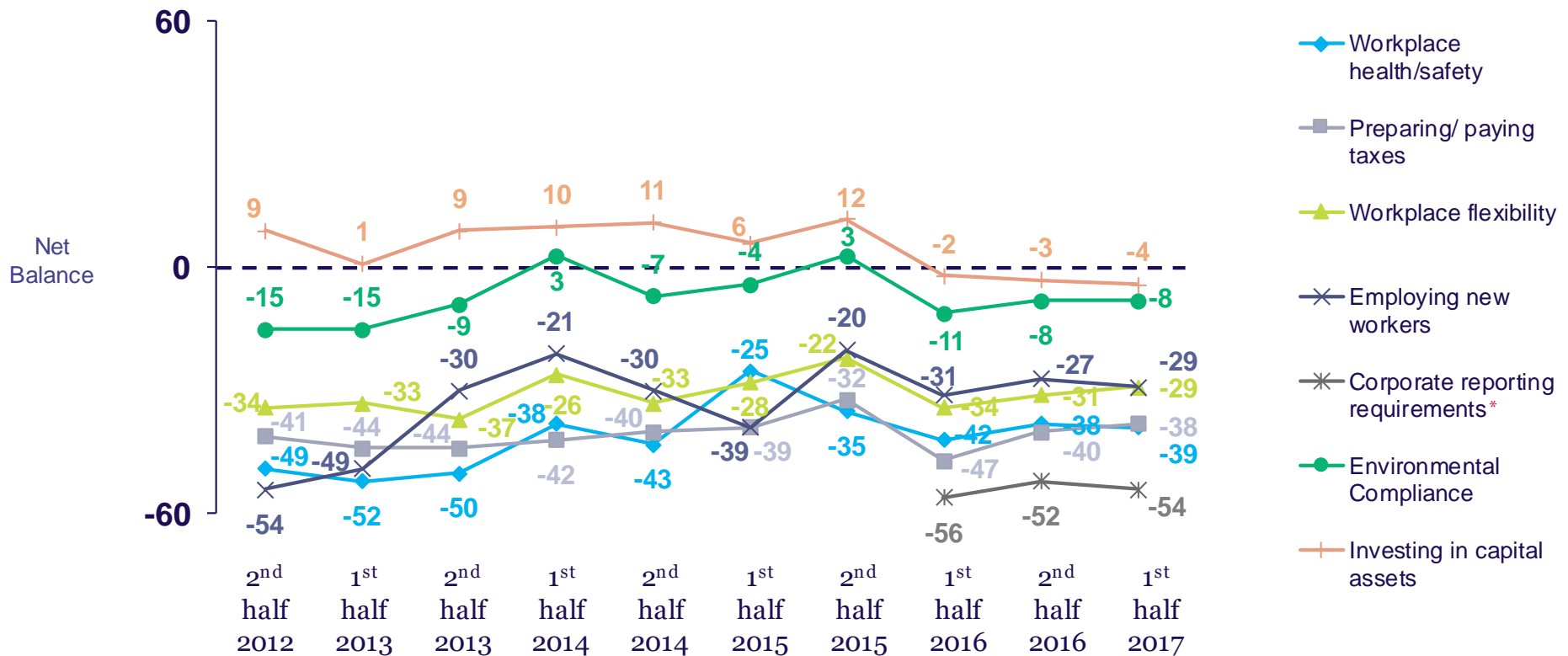


# Impact of 'red-tape' on business productivity – semi-annual trend

52

Directors rate the impact of red tape on business productivity similarly to 2<sup>nd</sup> half 2016. Red tape is seen to have the most negative impact in the areas of corporate reporting requirements, workplace health/safety and preparing/paying taxes.

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



\*Note: Statement inserted in 1<sup>st</sup> half 2016

# Government Policy

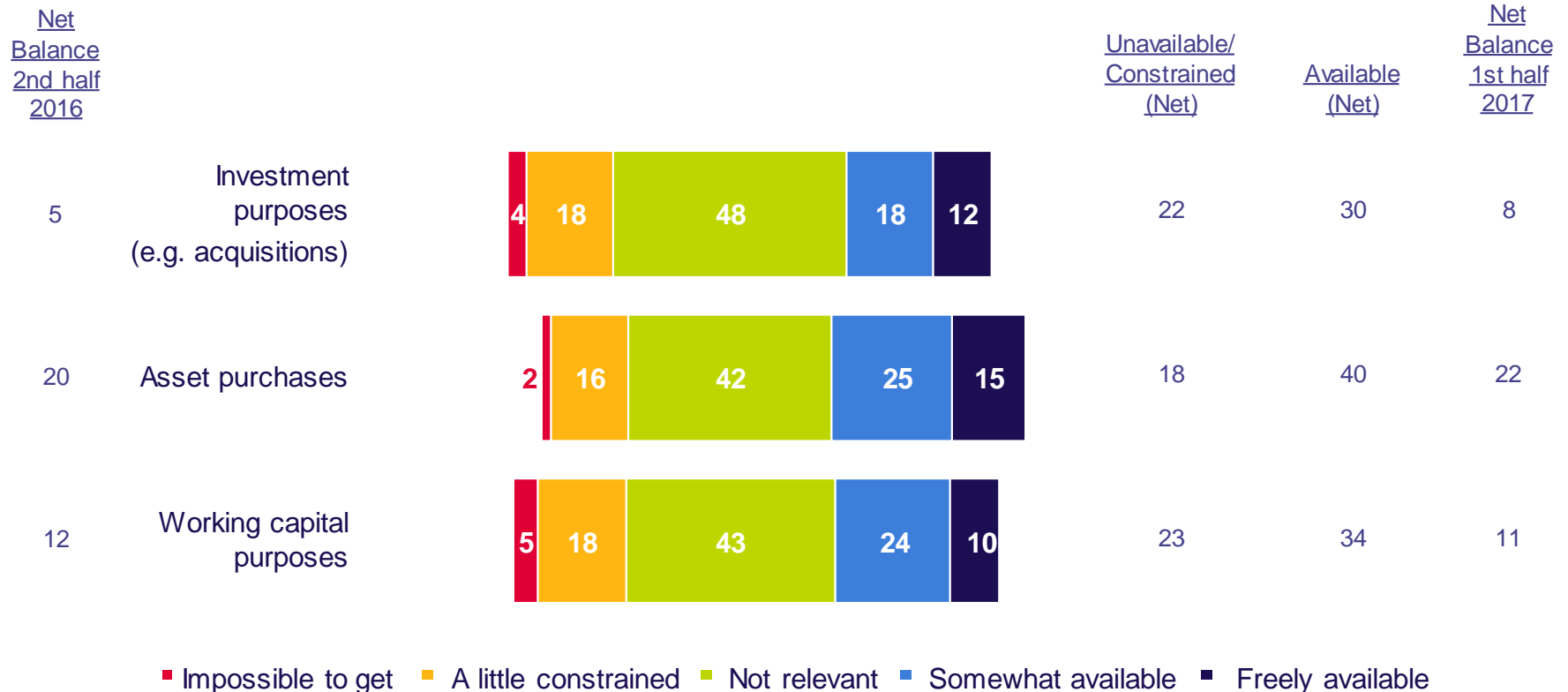
## *Credit Availability*

# Credit availability for business – Jan-Jun'16

54

*Sentiment around credit availability for businesses over the past six months has remained similarly optimistic from 2<sup>nd</sup> half 2016.*

## Credit availability for business – Jul-Dec' 16 (%)

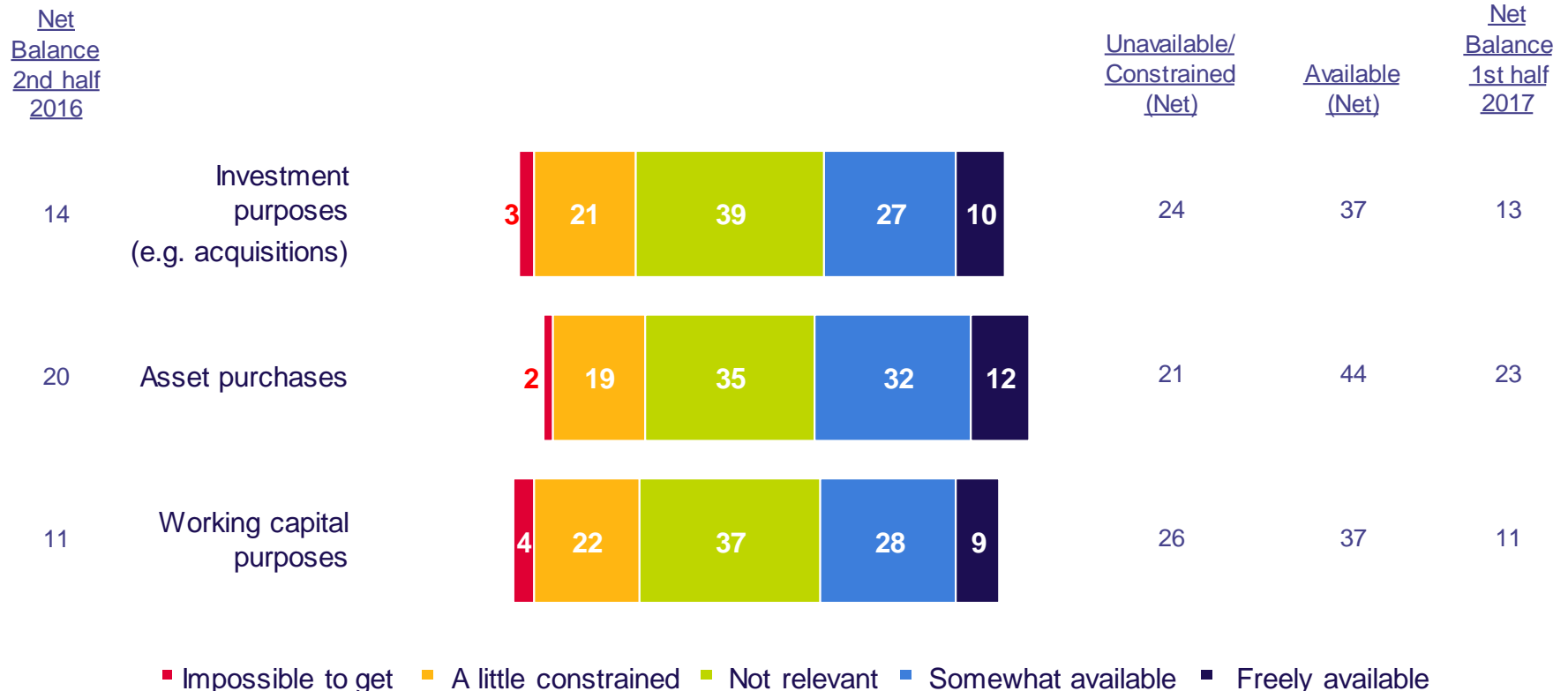


# Credit availability for business – next 12 months

55

*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













57

Around 40 per cent of directors would continue to advise the government to pursue a significant industrial relations reform following an electoral mandate. The key priority for an industrial relations reform has become a modern award system in 1<sup>st</sup> half 2017, followed by penalty rates, which was first priority in 2<sup>nd</sup> half 2016.

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

	2 <sup>nd</sup> half 2016	1 <sup>st</sup> half 2017
Significant reform in the next term of government, following an electoral mandate	41	39
Significant reform in the current term of government	32	30
No significant reform is required	27	31

## Priority for industrial relations reform (%)

		Total	2nd half 2016	Total	1st half 2017
Modern award system		41	35	41	↑
Penalty rates		38	40	38	
Individual workplace arrangements		37	39	37	
Enterprise bargaining system		37	36	37	
Unfair dismissal laws		29	30	29	
National employment standards		27	25	27	
Union right of entry		26	33	26	↓
Public sector employment issues		18	18	18	
The minimum wage		15	11	15	
Anti-bullying laws		11	15	11	
Migrant worker provisions		10	8	10	
Other		3	3	3	

# Government Policy

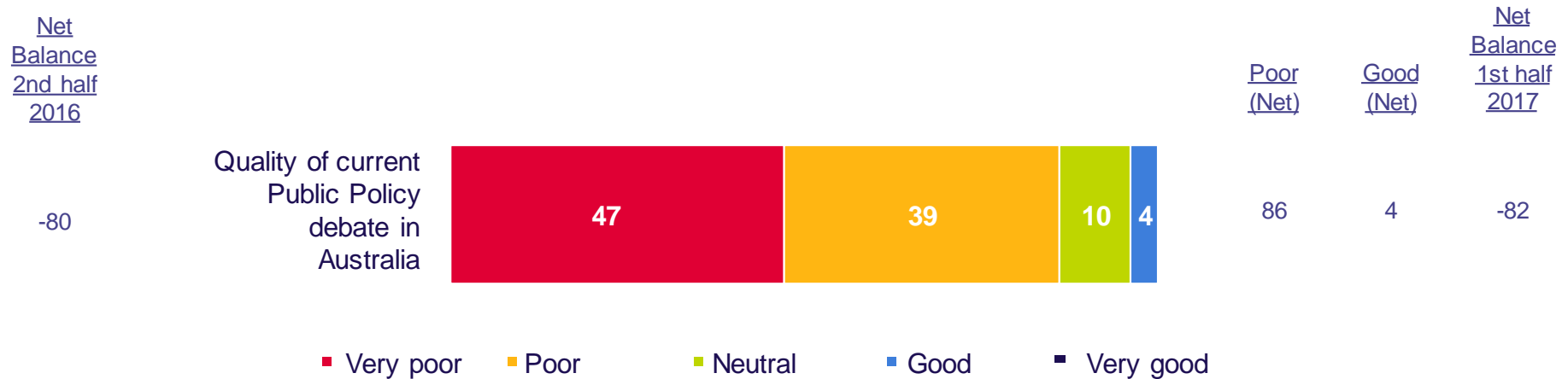
## *Public Policy*

# Quality of Public Policy debate

59

*Similar to the 2<sup>nd</sup> 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

61

*Directors are pessimistic about the effect of the Federal Government's current performance, with about 80 per cent perceiving a negative effect on consumer confidence. About 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... (%)*

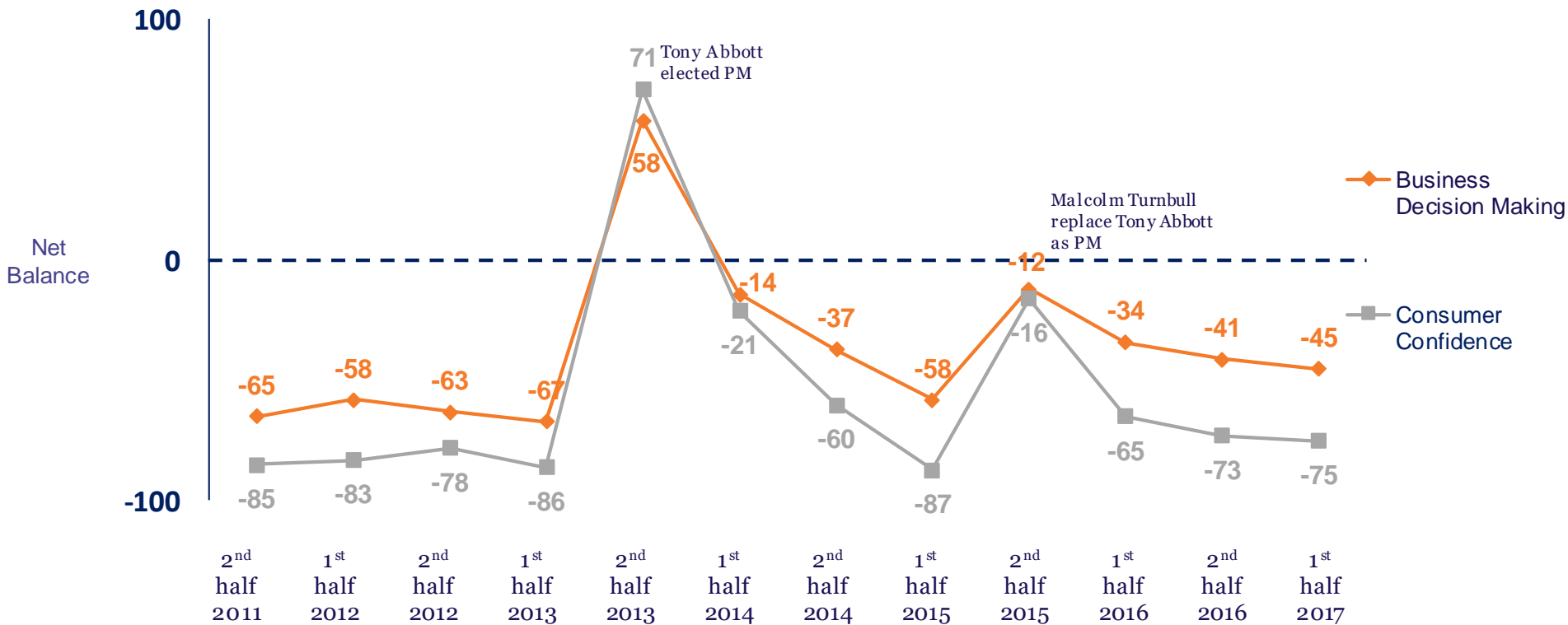


# Impact of federal government on business – semi-annual trend

62

*The effect of the Federal Government's performance on business decision making and consumer confidence has continued on a pessimistic downward trend since the last peak seen in the 2<sup>nd</sup> half 2015.*

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

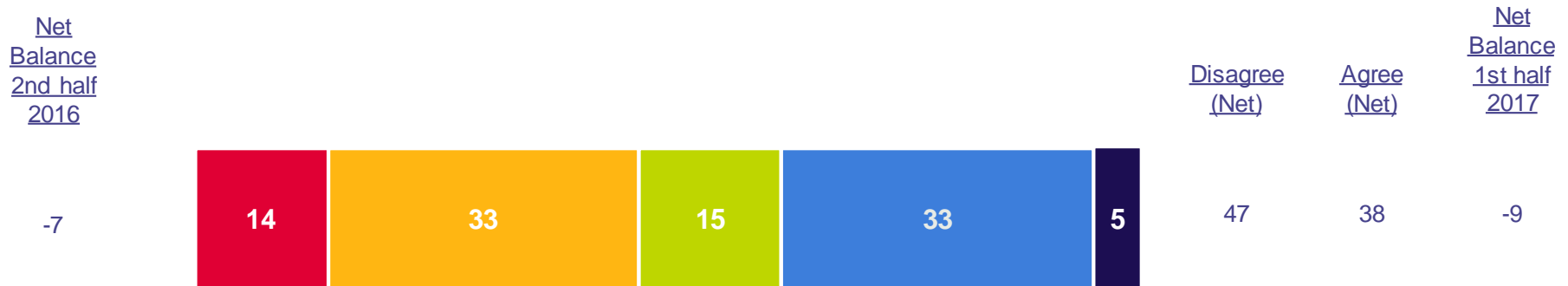


# Federal government understanding of business

63

*Directors are still pessimistic about the Federal Government's understanding of business, with about 45 per cent disagreeing that the current Federal Government understands business in 1<sup>st</sup> half 2017, as opposed to just under 40 per cent agreeing.*

*Does the current federal government understand business? (%)*



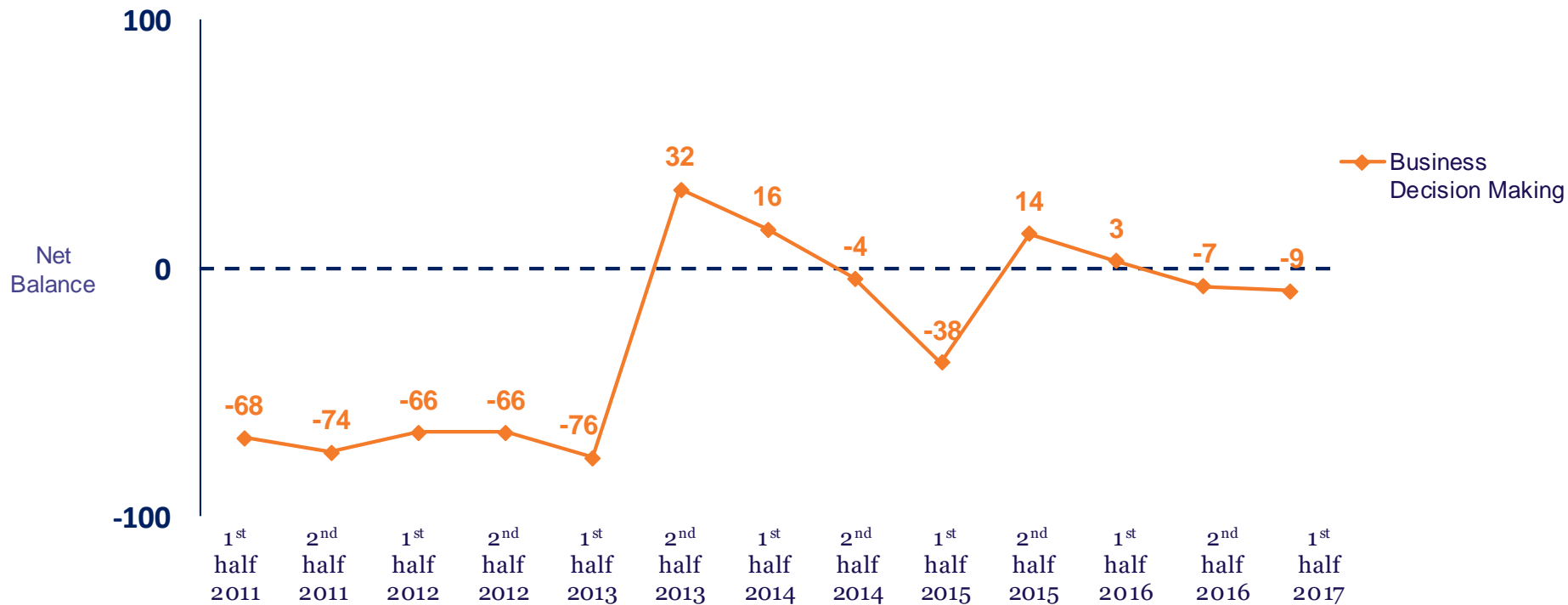
■ Strongly disagree ■ Somewhat disagree ■ Neither agree nor disagree ■ Somewhat agree ■ Strongly agree

# Federal government understanding of business – semi-annual trend

64

*The downward trend in sentiment continues from 2<sup>nd</sup> half 2015 regarding the Federal Government's understanding of business.*

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



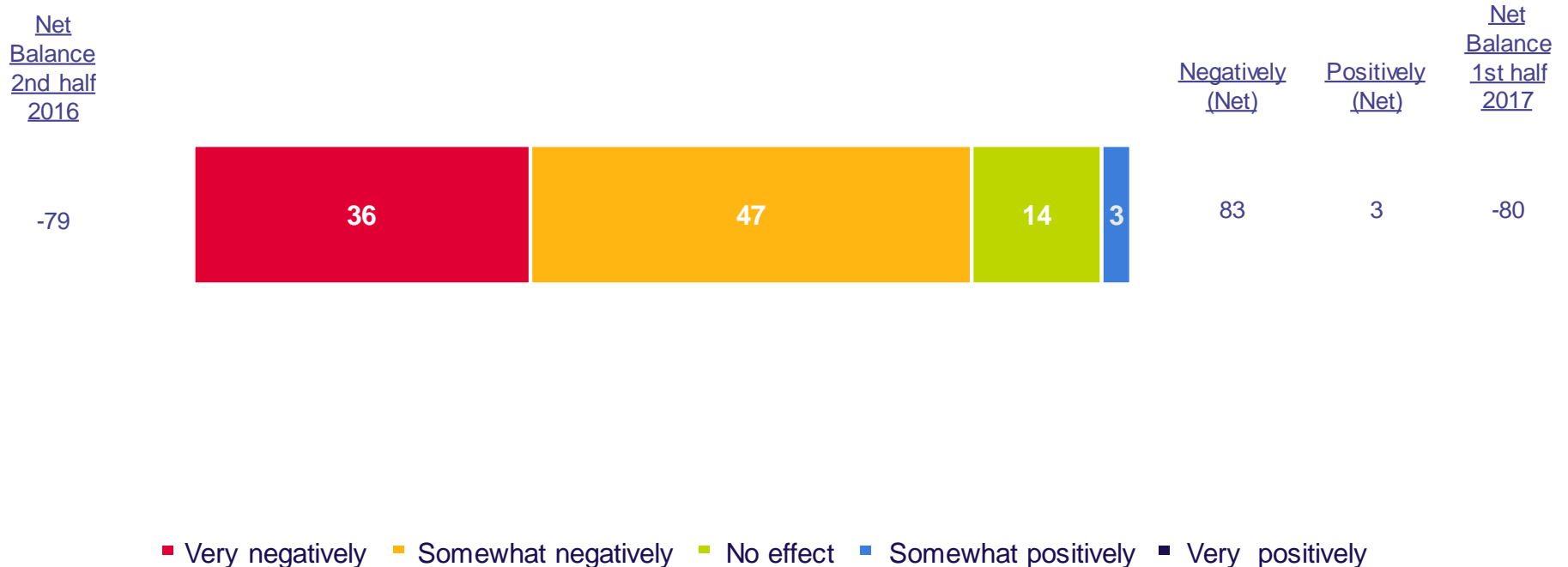


# Senate's effect on business confidence

65

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

Senate's effect on business confidence (%)



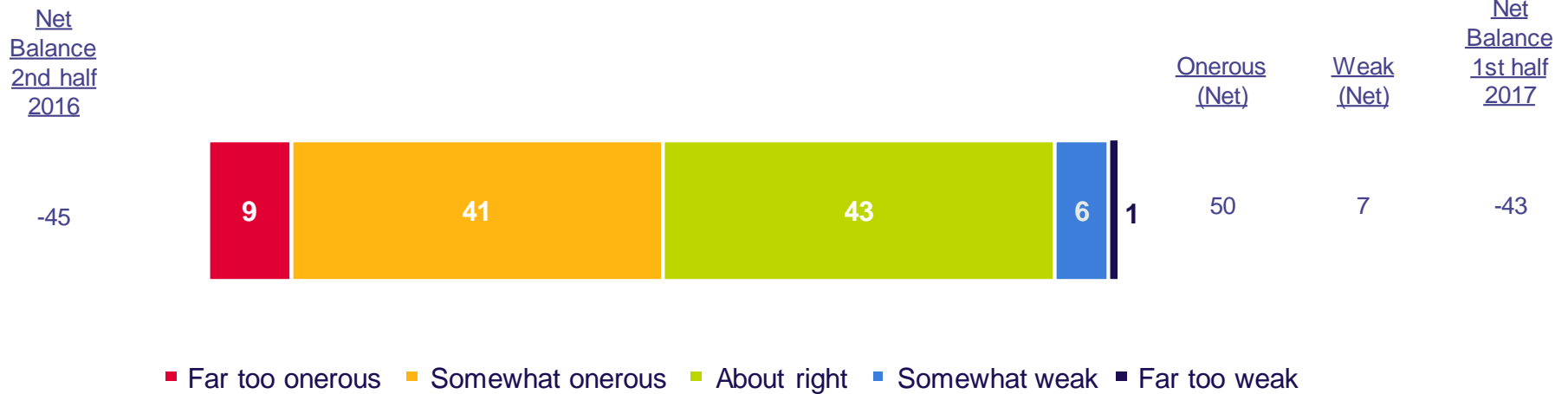
# Key issues for Directors and Boards

# Current governance regulations under the corporations act

67

*Directors continue to feel pessimistic about current governance regulations, with 50 per cent perceiving them to be onerous.*

*Are current governance regulations...? (%)*

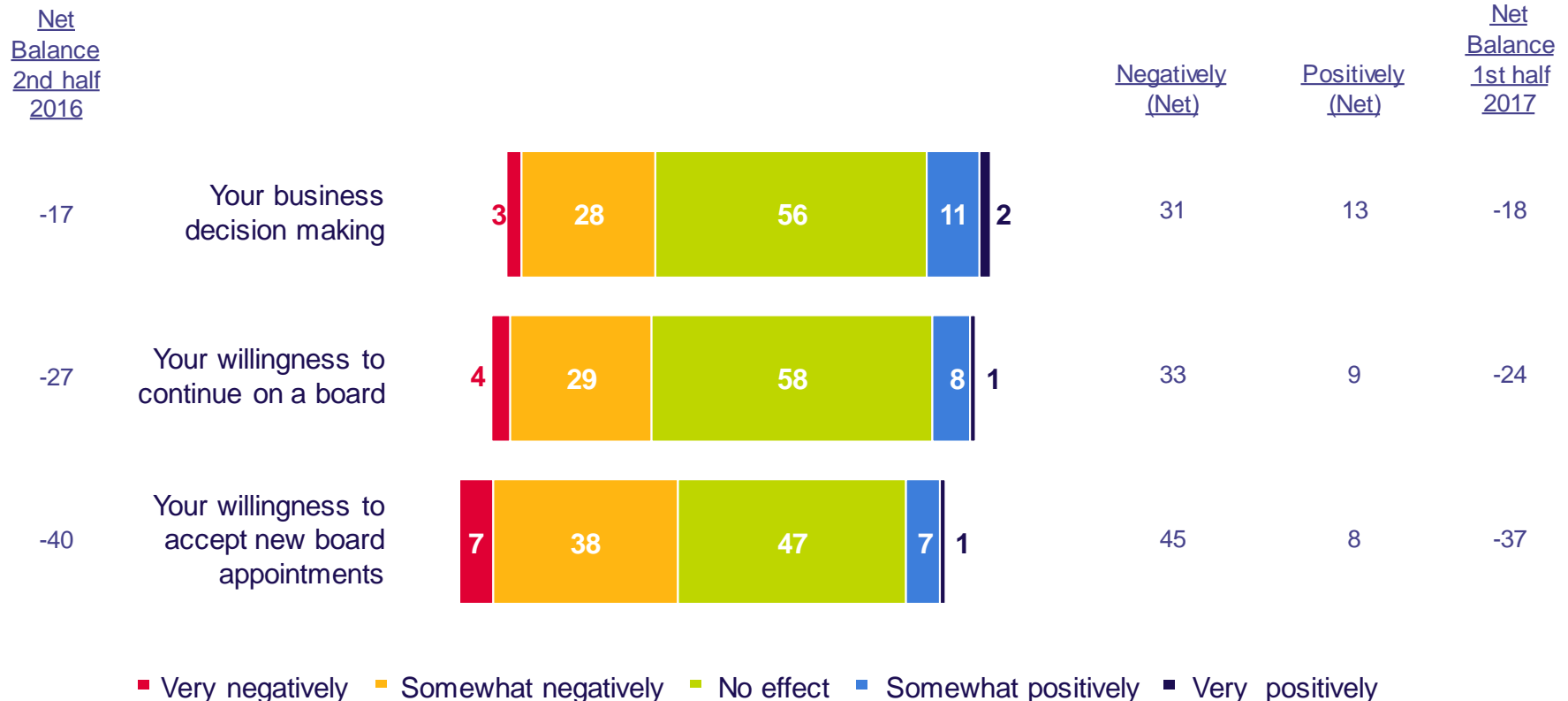


# Impact of legislation on director liability

68

*Directors continue to feel pessimistic about the impact of legislation on director liability in 1<sup>st</sup> half 2017. While over 30 per cent feel that it has negatively affected their business decision making and willingness to continue on a board, 45 per cent feel it impacts negatively on their willingness to accept new board appointments.*

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

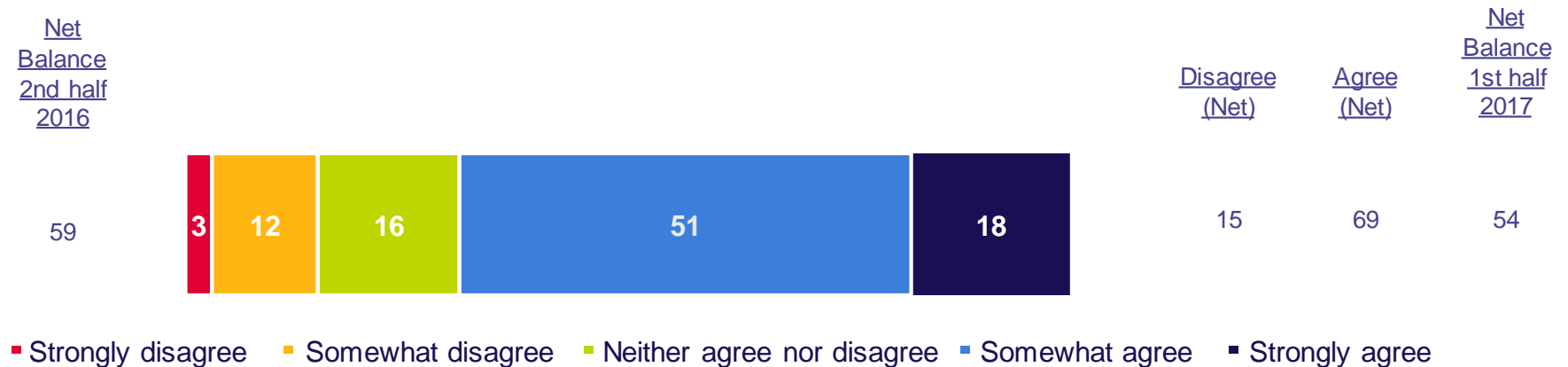


# Business decision making and risk aversion

69

*Similar to 2<sup>nd</sup> 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? (%)*

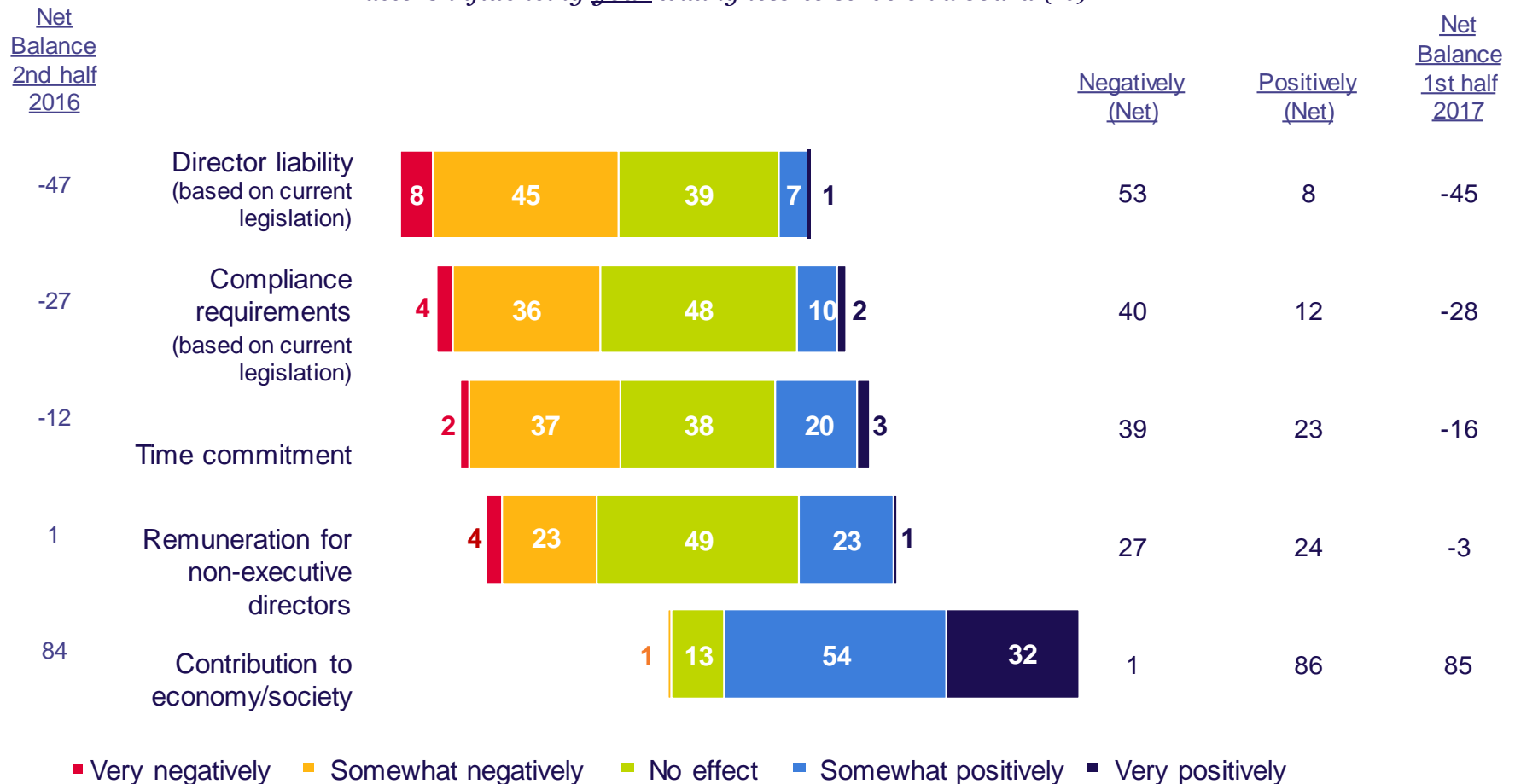


# Factors influencing your willingness to serve on a board

70

Consistent with 2<sup>nd</sup> 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 (%)

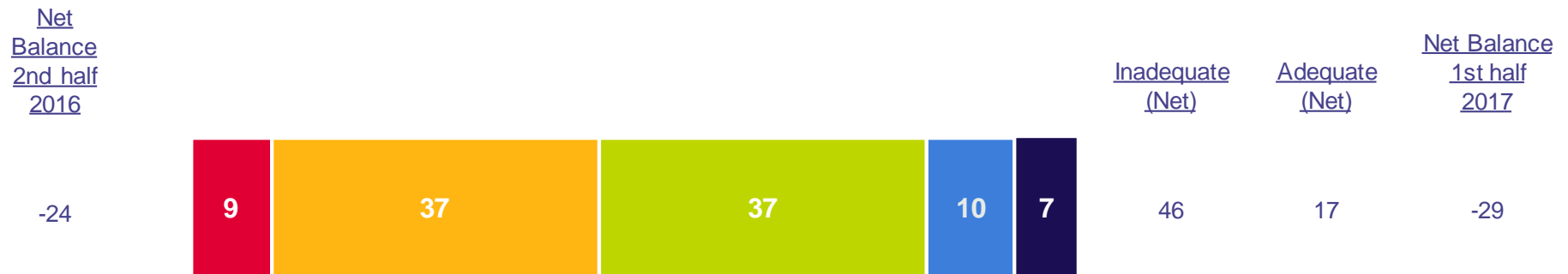


# Adequacy of public company remuneration reports

71

*Directors' pessimism remains unchanged, with around 45 per cent of directors perceiving public company remuneration reports to be somewhat or wholly inadequate in 1<sup>st</sup> half 2017.*

*Adequacy of public company remuneration reports (%)*



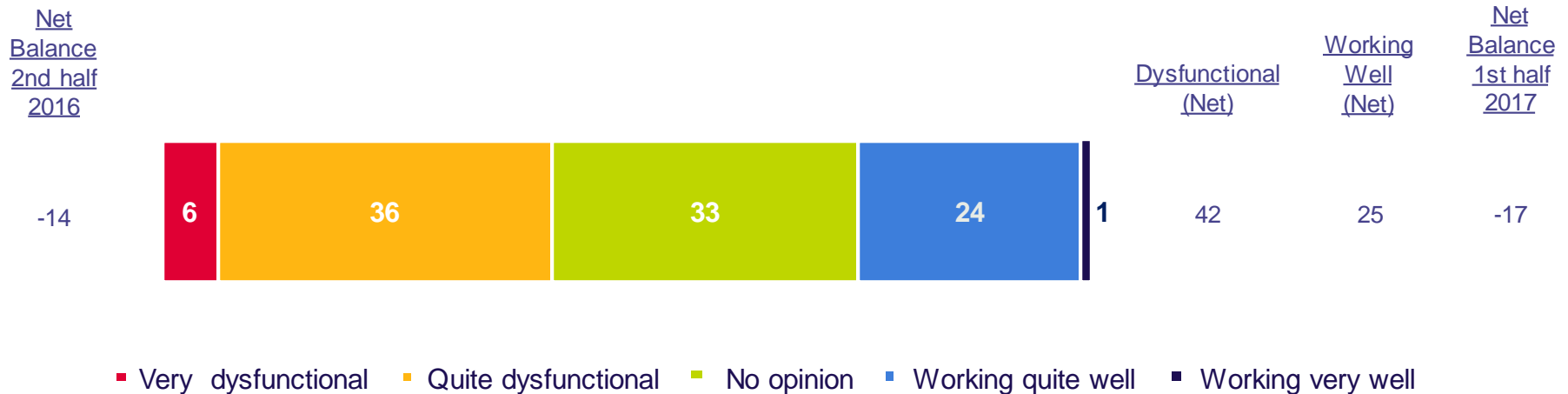
■ Wholly inadequate ■ Somewhat inadequate ■ About right ■ Somewhat adequate ■ Very adequate

# Current AGM system

72

*No change in sentiment regarding the current AGM system in 1<sup>st</sup> half 2017, with only 25 per cent of directors of the opinion that the current AGM system is working well.*

## Functionality of the current AGM system (%)



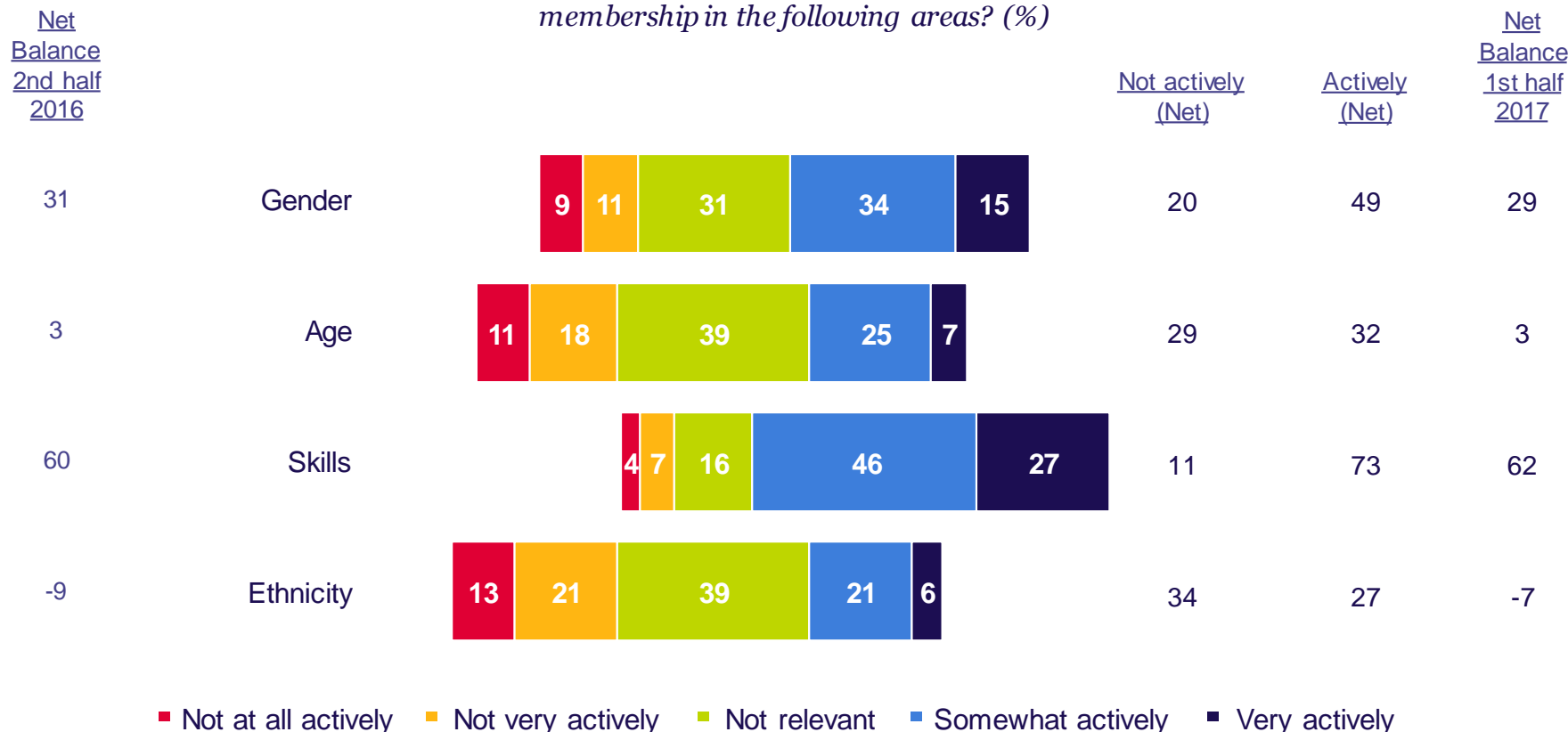


# Board diversity: policy and efforts to increase

73

*Similar to 2<sup>nd</sup> half 2016, almost 75 per cent of directors state that their business is actively seeking to increase diversity of their board in terms of skills and almost half 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? (%)*

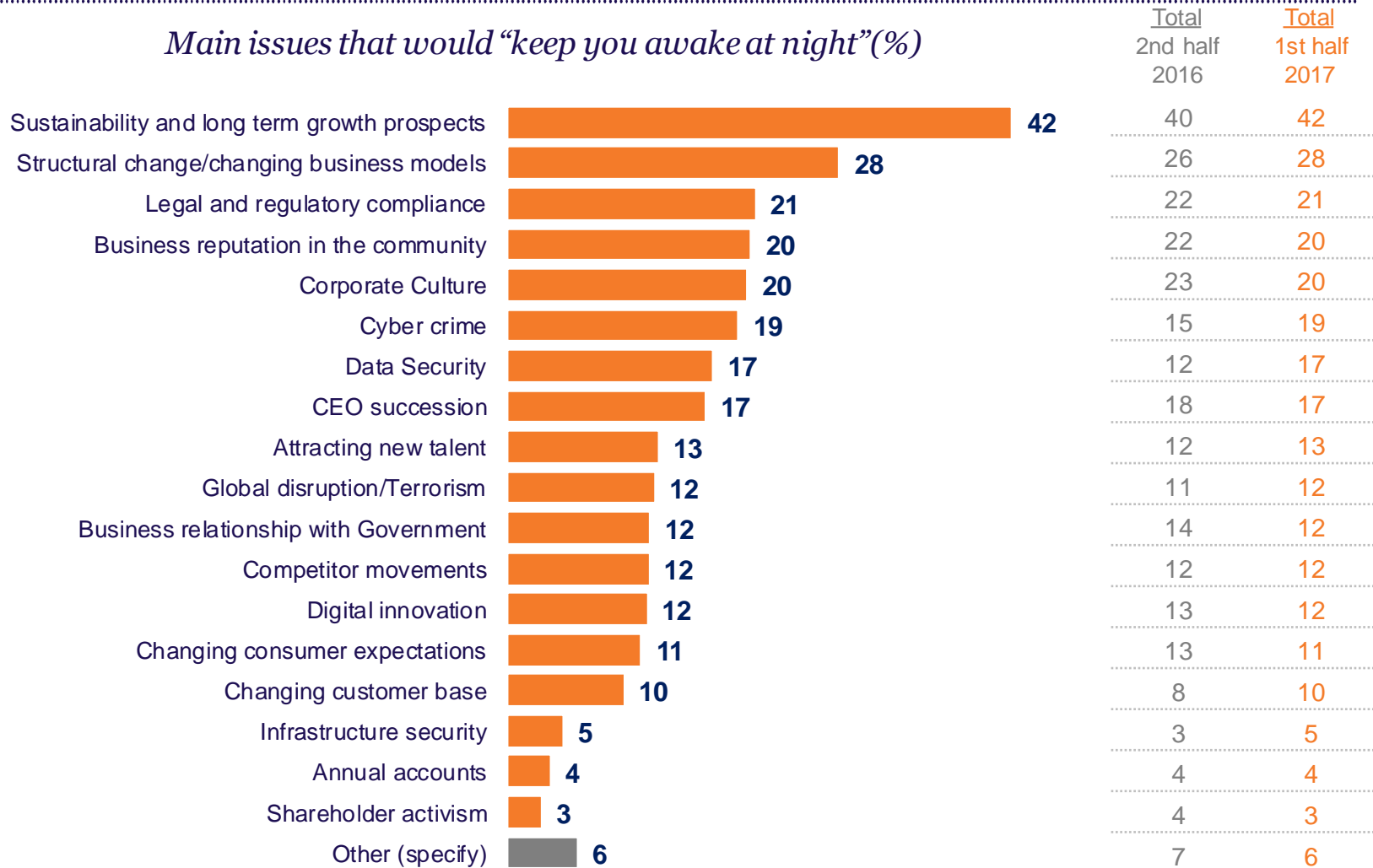


# Topical Issues

# Main issues that would “keep you awake at night”

75

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



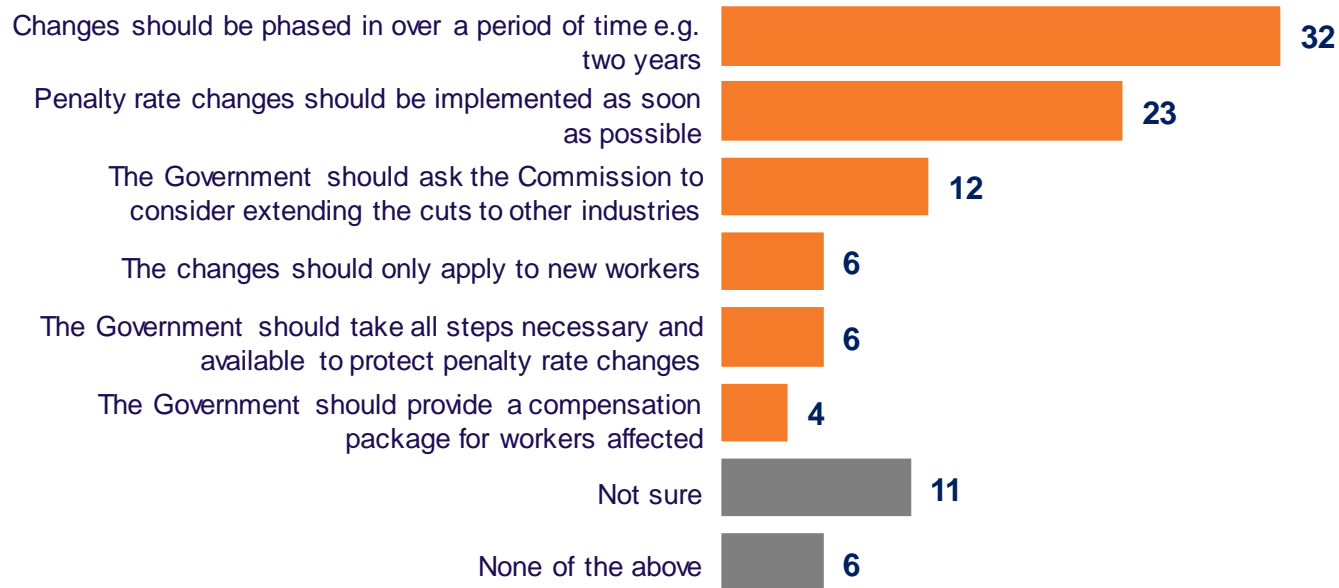
# Transition arrangements following penalty rates changes

76

*Over 30 per cent of directors feel the changes should be phased in over a period of time (such as 2 years), whilst almost 25 per cent prefer the changes to be implemented as soon as possible.*

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## *Transition arrangements that should apply following the Fair Work Commission's decision to alter penalty rates for workers in selected sectors (%)*

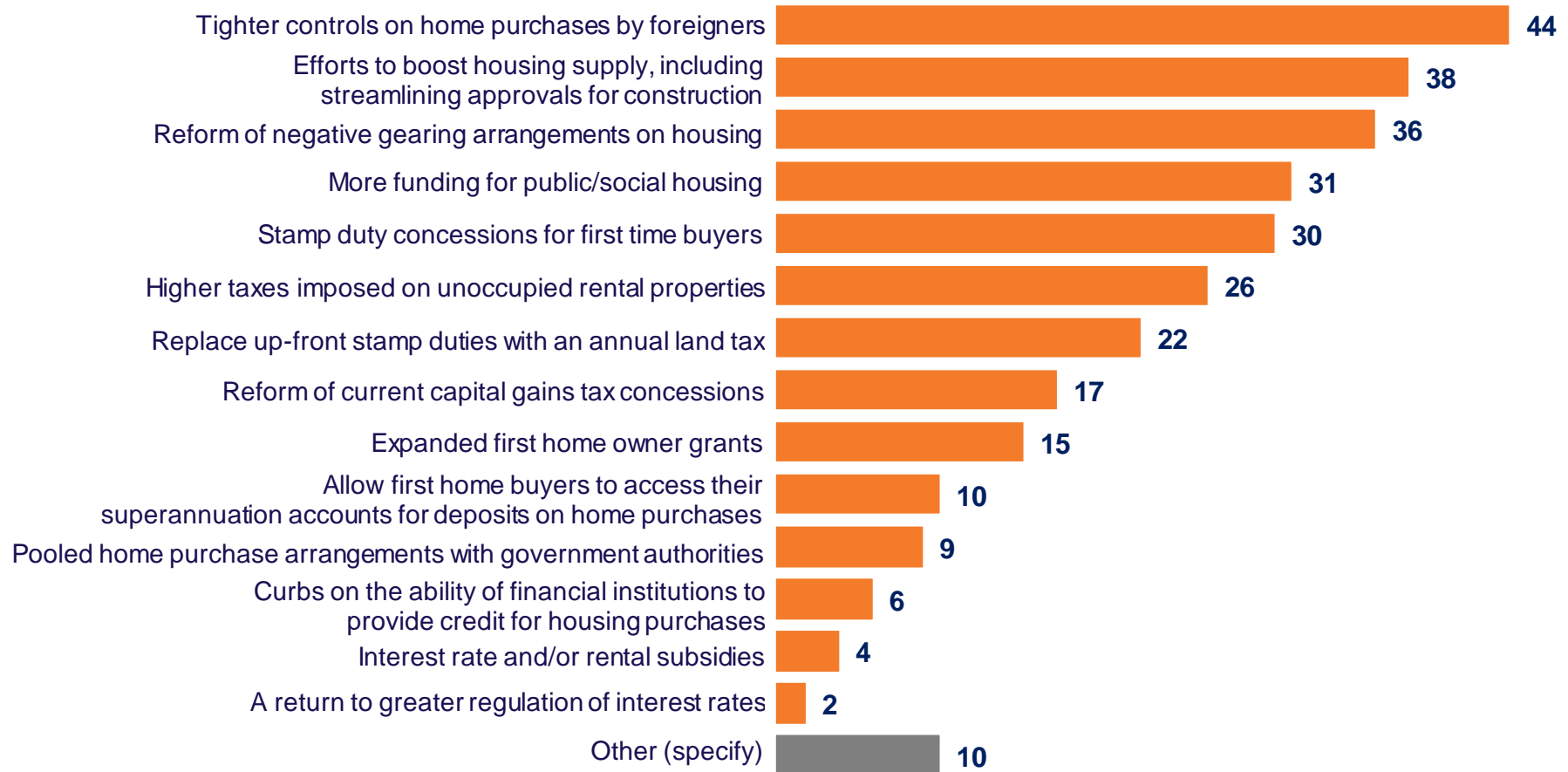


# Main efforts to address the housing affordability crisis (Top 3)

77

*Tighter controls on home purchases by foreigners is viewed by directors as the top measure that government should prioritise to address the housing affordability crisis, followed by boosting housing supply and reforming negative gearing arrangements.*

*Top 3 measures that the Federal, State, and Local Governments should prioritise in an effort to address the housing affordability crisis (%)*



# APPENDIX

# Summary of Key Indicators

# Summary of key indicators

(1 of 6)

80

Indicator (expected change in coming 12 months)	Scale	1 <sup>st</sup> half 2017 net balance	2 <sup>nd</sup> half 2016 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-24 ↑	-66
Health of the Asian economy	Weak/strong	31 ↑	-51
Health of the European economy	Weak/strong	-59 ↑	-84
Health of the US economy	Weak/strong	-6 ↑	-74
Inflation rate (Australia)	Lower/higher	42 ↑	16
Exchange rate (value of AUD versus USD)	Lower/higher	-19	-14
RBA cash rate	Lower/higher	61 ↑	-5
Level of wages growth	Lower/higher	10 ↑	-1
Unemployment rate	Lower/higher	26 ↑	13
Expected change in ASX All Ordinaries index	Fall/rise	20	15



# Summary of key indicators

(2 of 6)

81

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 <sup>st</sup> half 2017 net balance	2 <sup>nd</sup> half 2016 net balance
<b>Business conditions</b>			
Growth of primary directorship business	Weak/strong	43 ↑	31
Change in business investment levels	Decrease/increase	28 ↑	18
Change in business staffing levels/labour demand	Decrease/increase	22 ↑	13
Change in level of business exports	Decrease/increase	18	13
Change in level of outsourcing	Decrease/increase	34	34
Expectations of profits for Jan-Jun 2017 actual versus forecast*	Below/up	27 ↑	19
Expectations of profits for Jul-Dec 2017 actual versus forecast*	Below/up	22	18
Confidence in general business outlook*	Pessimistic/opt	13	12
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	23	20
Expected change in level of mergers and acquisitions	Fall/rise	54	58
<b>Infrastructure</b>			
Perception of level of government spending on infrastructure*	Low/high	-82	-82
<b>Taxation</b>			
Perception of current level of corporate taxation*	High/low	-48 ↓	-38
Perception of current level of personal taxation*	High/low	-59	-57

# Summary of key indicators

(3 of 6)

82

Indicator	Scale	1 <sup>st</sup> half 2017 net balance	2 <sup>nd</sup> half 2016 net balance
<i>Regulation, legal issues, reporting</i>			
Expected change in level of 'red-tape' in coming 12 months	Increase/decrease	-31	-31
Impact of 'red-tape' on preparing/ paying taxes	High impact/low impact	-39	-38
Impact of 'red-tape' on workplace health/safety	High impact/low impact	-38	-40
Impact of 'red-tape' on workplace flexibility	High impact/low impact	-29	-31
Impact of 'red-tape' on employing new workers	High impact/low impact	-29	-27
Impact of 'red-tape' on corporate reporting requirements	High impact/low impact	-54	-52
Impact of 'red-tape' on environmental compliance	High impact/low impact	-8	-8
Impact of 'red-tape' on investing in capital assets	High impact/low impact	-4	-3

# Summary of key indicators

(4 of 6)

83

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 <sup>st</sup> half 2017 net balance	2 <sup>nd</sup> half 2016 net balance
<b>Tax, credit, M&amp;A</b>			
Credit availability for investment purposes	Constrained/available	13	14
Credit availability for asset purchases	Constrained/available	23	20
Credit availability for working capital	Constrained/available	11	11
<b>Public Policy</b>			
Quality of current Public Policy debate in Australia*	Poor/good	-82	-80
<b>Regulation, legal issues, reporting</b>			
Agreement with 'Federal Government understands business'*	Disagree/agree	-9	-7
<b>Regulation, legal issues</b>			
How is the current Federal Government's performance affecting your business decision making?*	Negatively/positively	-45	-41
How is the current Federal Government's performance affecting consumer confidence?*	Negatively/positively	-75	-73

# Summary of key indicators

(5 of 6)

84

Indicator	Scale	1 <sup>st</sup> half 2017 net balance	2 <sup>nd</sup> half 2016 net balance
<i>Regulation, legal issues</i>			
Perception of governance regulations	Onerous/weak	-43	-45
Extent legislation on directors affect your business decision-making	Negatively/positively	-18	-17
Extent legislation on directors affect your willingness to continue on a board	Negatively/positively	-24	-27
Extent legislation on directors affect your willingness to accept new board appointments	Negatively/positively	-37	-40
Risk-averse decision-making culture on Australian boards	Disagree/agree	54	59
Adequacy of public company remuneration reports	Inadequate/adequate	-29	-24
Functionality of current AGM system	Dysfunctional/ functional	-17	-14

# Summary of key indicators

(6 of 6)

85

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 <sup>st</sup> half 2017 net balance	2 <sup>nd</sup> half 2016 net balance
<b>Board diversity</b>			
Board actively seeking to increase diversity of gender on board	Not actively/actively	29	31
Board actively seeking to increase diversity of age on board	Not actively/actively	3	3
Board actively seeking to increase diversity of skills on board	Not actively/actively	62	60
Board actively seeking to increase diversity of ethnicity on board	Not actively/actively	-7	-9
<b>Directorship conditions</b>			
Impact of directors' liability on willingness to serve on a board	Negatively/positively	-45	-47
Impact of compliance requirements on willingness to serve on a board	Negatively/positively	-28	-27
Impact of remuneration on willingness to serve on a board	Negatively/positively	-3	1
Impact of contribution to economy/society on willingness to serve on a board	Negatively/positively	85	84
Impact of time commitment on willingness to serve on board	Negatively/positively	-16	-12

# Explanation of charts – example only

86

