

DIRECTOR SENTIMENT INDEX: RESEARCH SUMMARY SECOND HALF 2018

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Methodology

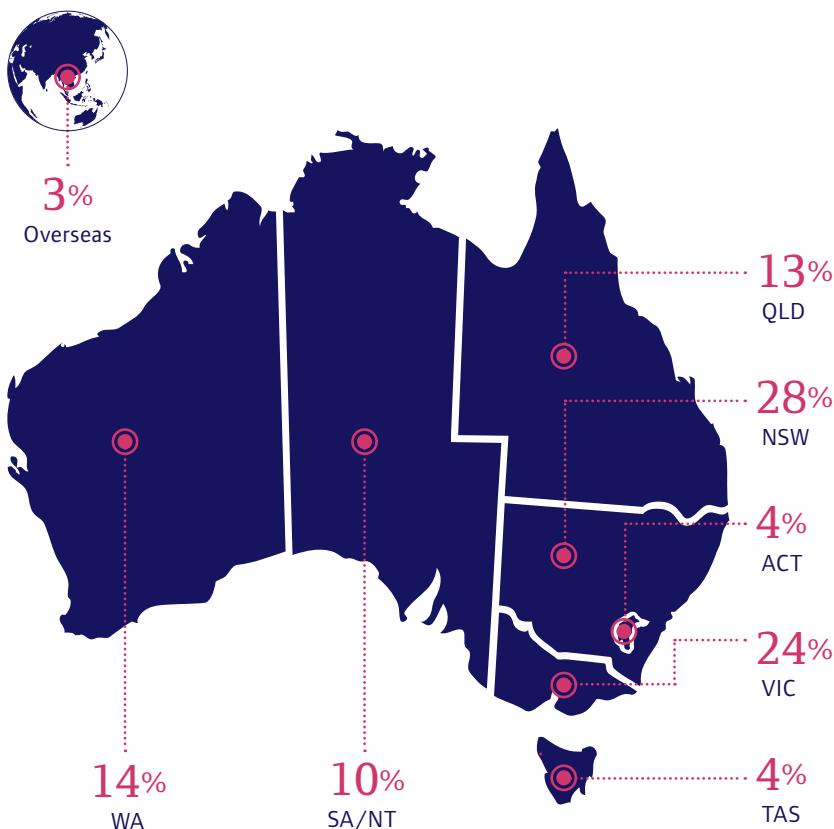
The Director Sentiment Index results are a representation of the Australian Institute of Company Directors membership.

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 regulation.

The survey was conducted with 1,252 members between 13 – 27 September 2018.

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

Respondents' primary directorship location



Respondents' primary directorship company



12%
Publicly listed
Australian entity



42%
Private/non-listed
Australian entity



34%
Not-for-profit
entity



8%
Public sector/
government body



3%
Overseas entity

Gender



70%
Male



30%
Female

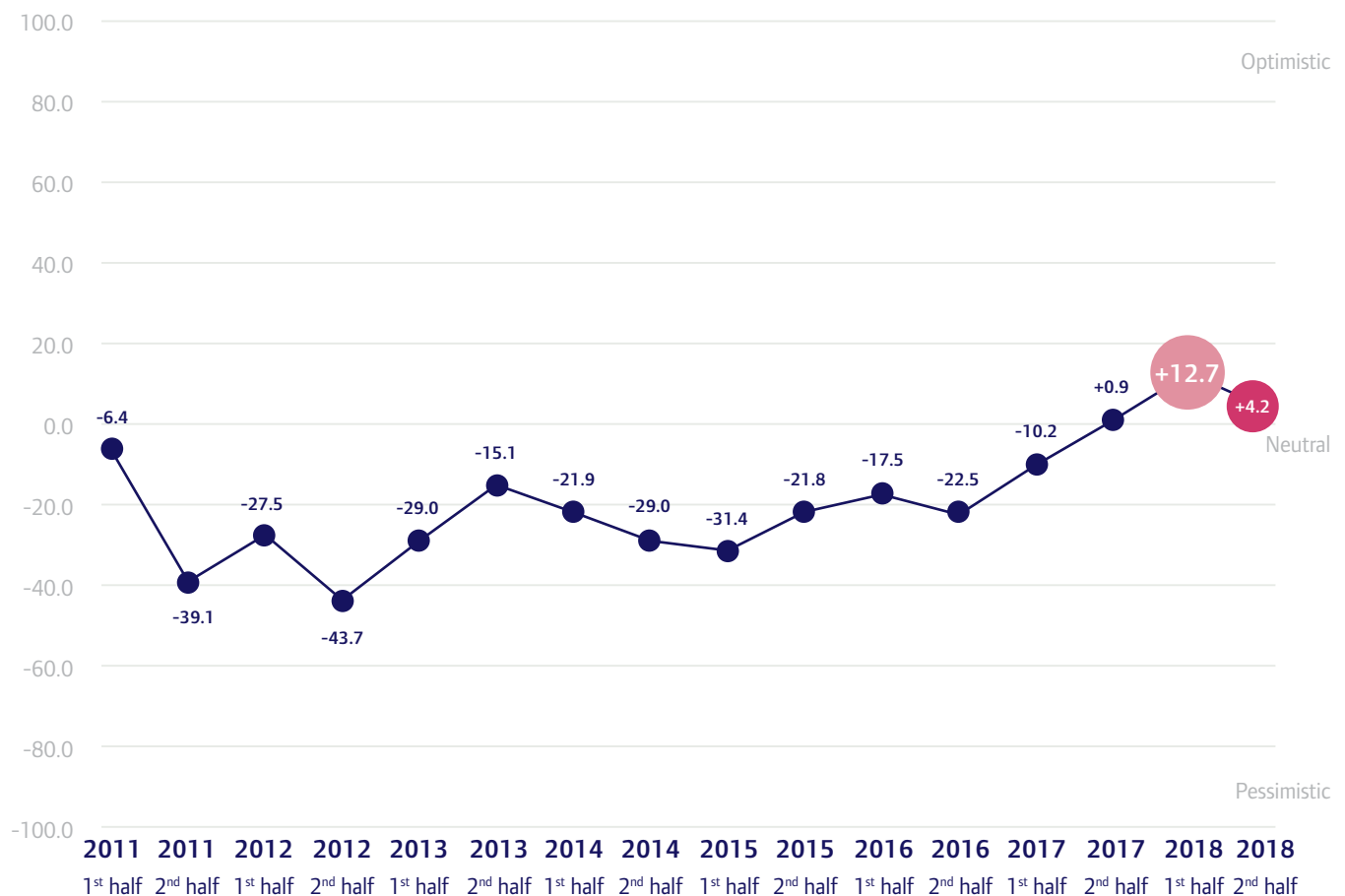
Sentiment declines but remains positive

Overall sentiment has declined for the first time in 18 months, although it remains positive at +4.2. The decline is largely due to directors feeling more pessimistic around regulation, legal issues and directorship conditions more broadly.

For the first time directors nominated climate change as the number one issue the Federal Government needs to address in the long-term. Renewable energy was also identified as the number one priority for infrastructure investment.

Overall Director Sentiment Index

The overall sentiment in the second half of 2018 became less optimistic, down 8.5 points on the last survey, with the Director Sentiment Index remaining in positive territory.

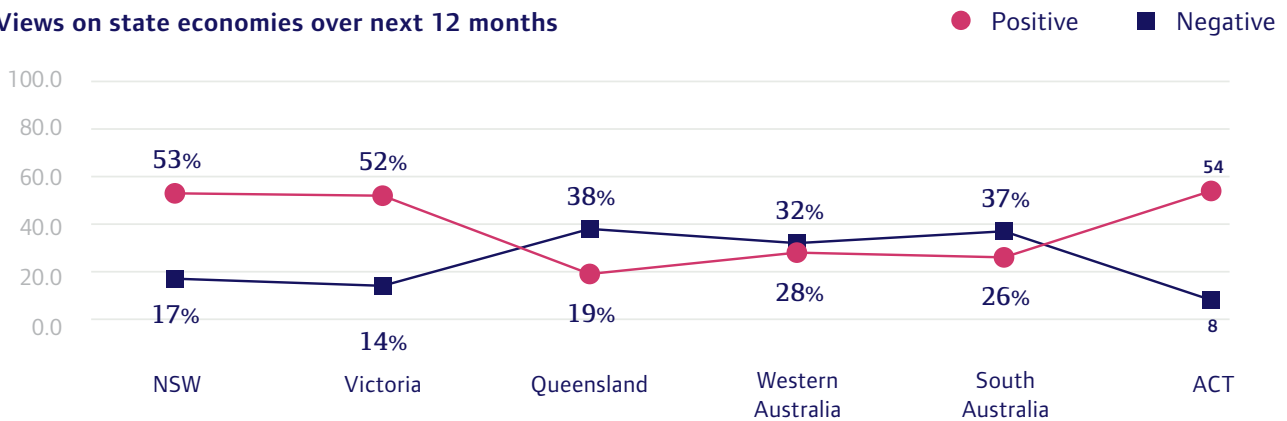


Declining sentiment in health of economies

Directors remain optimistic about the health of the Australian, US and Asian economies at present, however they are less optimistic about the health of the economies over the next 12 months. The European economy continues to be viewed negatively.

Sentiment about the health of state and territory economies varies. Directors in New South Wales, Victoria and the ACT are far more optimistic than their counterparts in South Australia, Western Australia and Queensland.

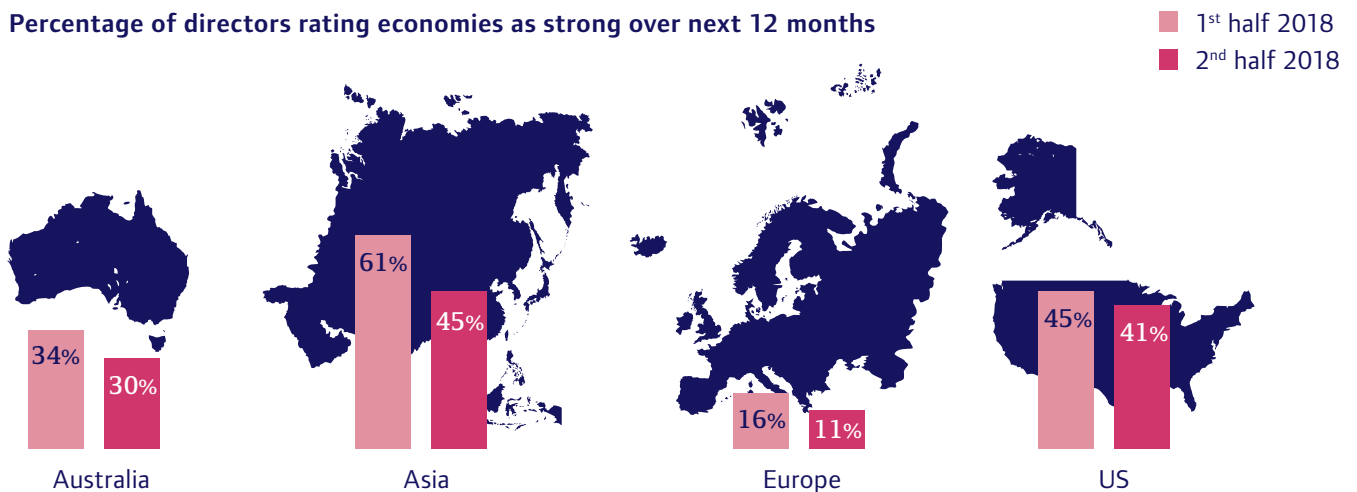
Views on state economies over next 12 months



*Sample size in Tasmania and the NT too low for analysis

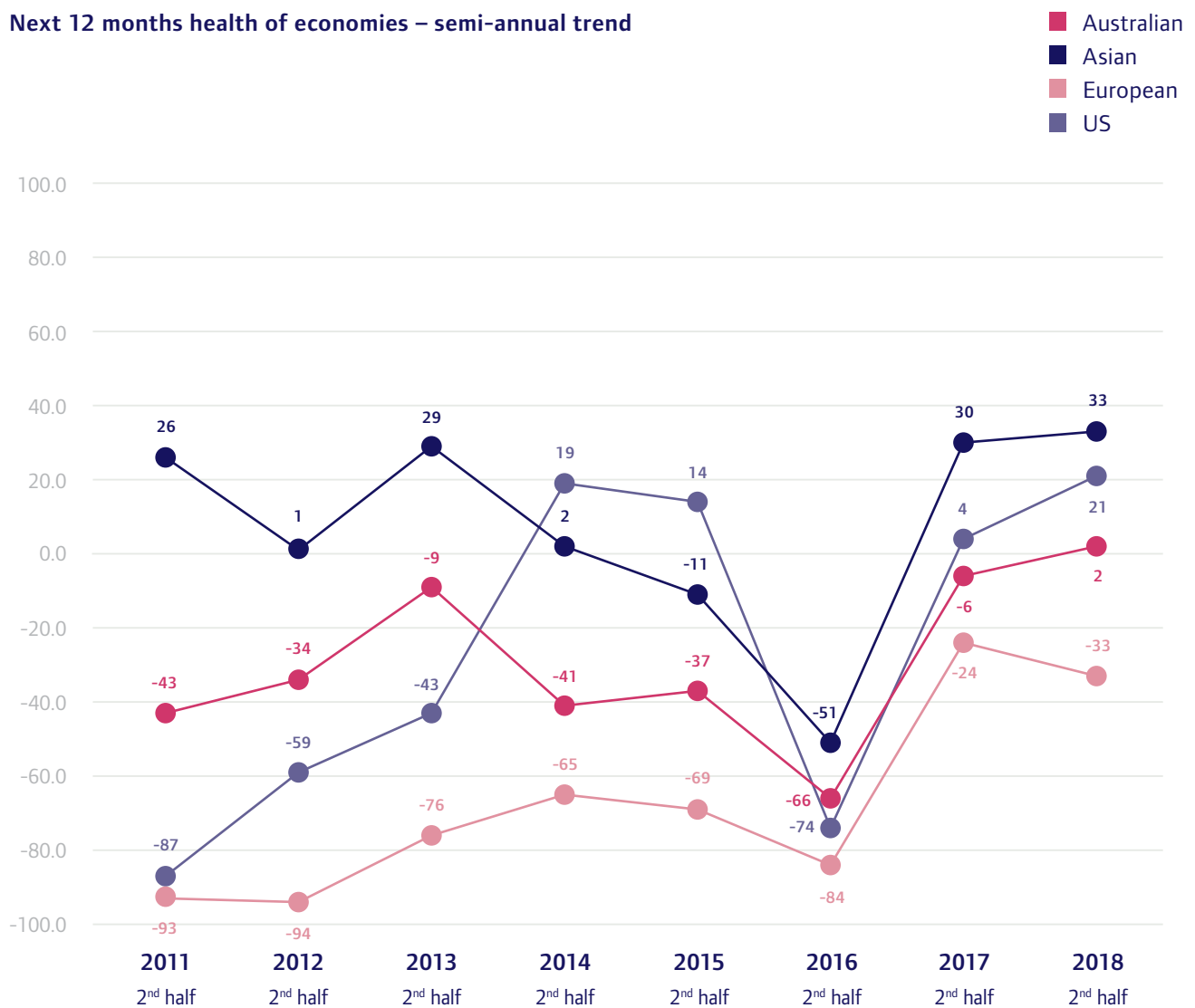
Director sentiment about the health of world economies is declining, although sentiment is still positive for Australia and Asia.

Percentage of directors rating economies as strong over next 12 months



The outlook for the US in the next 12 months is relatively optimistic, remaining stable in this survey. Asia is still predicted to be the strongest, with the Australian economy regarded positively. The European economy continues to be perceived as weak overall.

Next 12 months health of economies – semi-annual trend

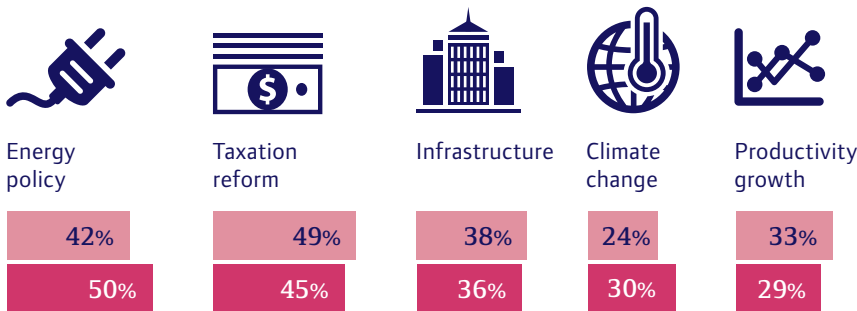


Directors want **action** on climate change and renewable energy

Directors have nominated climate change as the number one issue they want the Federal Government to address in the long-term. Compared to the 1st half results, more directors also highlighted it as the priority issue for the Federal Government to address in the short-term.

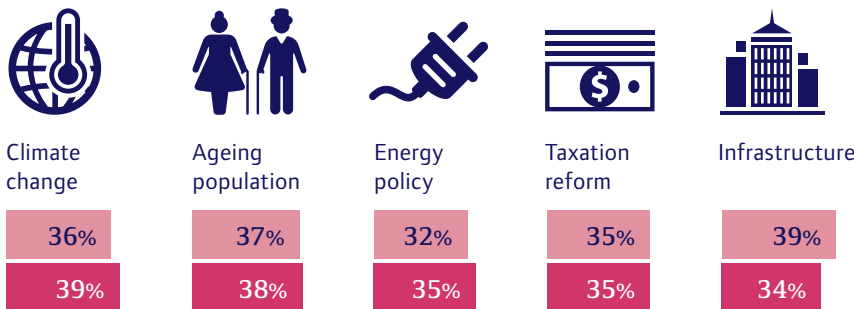
Directors continue to prioritise renewable energy sources as the top priority for additional infrastructure investment. This is followed by regional infrastructure and roads.

Top five issues of importance the Federal Government should address in the short-term



Directors rate energy policy, taxation reform and infrastructure as the top priorities for the Federal Government to address in the short-term.

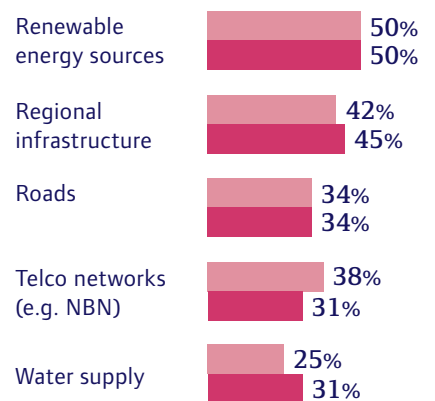
Top five issues of importance the Federal Government should address in the long-term



Directors rate climate change as the top long-term priority the Federal Government to address, followed by an ageing population, energy policy, taxation reform and infrastructure.

Investment in infrastructure

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



Legend

- 1st half 2018
- 2nd half 2018

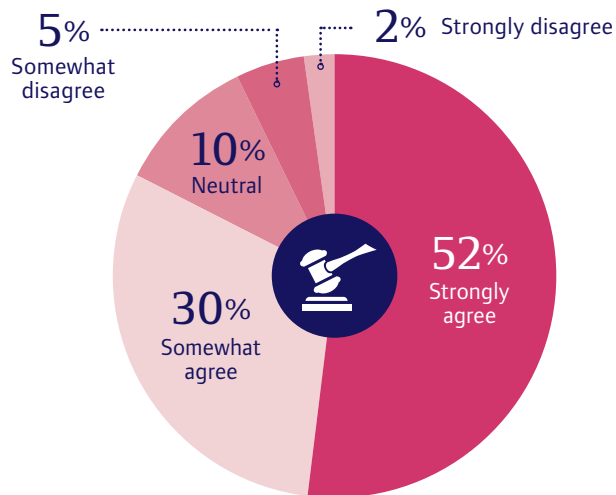
Director and board issues

Directors across all industries are clearly focused on governance practices.

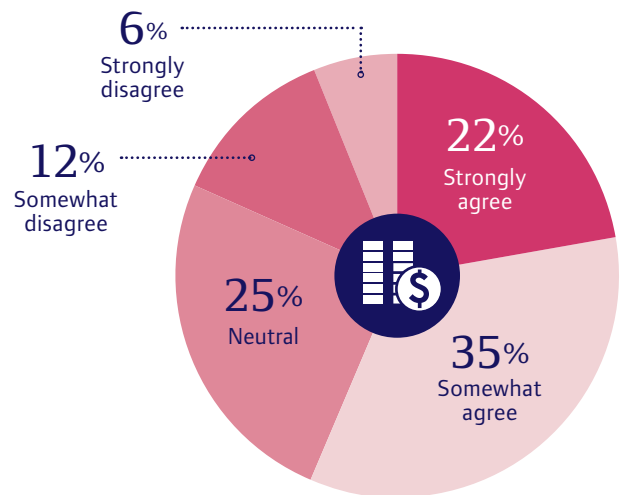
When asked to nominate steps directors need to take to regain and rebuild public trust, directors nominated demonstrating respect for customers/clients/communities, trustworthiness of leadership and improving corporate culture.

Directors acknowledge the need for changes to effectively deal with the current governance issues with strong support for an increase in penalties for misconduct and an increase in funding for regulators.

Stronger penalties for corporate misconduct



Increased funding for regulators



Top five steps that boards have to take to regain/rebuild trust



A Blueprint for Growth

In Governance of the Nation: A Blueprint for Growth, the Australian Institute of Company Directors (AICD) set out a plan to sustain and boost Australia's growth and prosperity with a clear case for national reform.

Australia has enjoyed 27 years without recession – a remarkable and unmatched achievement – but the drivers of our next phase of growth are not yet apparent. Australia is running out of booms, so we need to focus on the factors that will trigger the next phase of growth in our economy.

Bold action is needed to address Australia's poor productivity growth.

The AICD believes the recommendations put forward in [2017 Governance of the Nation: Blueprint for Growth](#), while not exhaustive, can deliver the marked growth and dividends Australia needs.

This year rather than revisit our recommendations, the AICD marked progress on these important initiatives by with the '[Governance of the Nation 2018 – A report card on progress](#)' (the Report Card).

The recommendations covered a broad spectrum of policy objectives:

- **National governance:** modernise systems of government to support longer-term policy decisions.
- **Fiscal sustainability:** address Australia's unsustainable fiscal and return the Commonwealth Budget to surplus, with bold policy on both spending and tax reform
- **Innovation and Entrepreneurialism:** foster innovation-led growth supported by regulatory reform to support appropriate corporate risk-taking is also needed
- **Human capital:** adapt workplace regulations, education and participation to new demands
- **Partnerships with the not-for-profit sector:** alleviate the challenges faced by an uncertain funding landscape
- **National infrastructure:** improve infrastructure as it is critical to lifting productivity and economic growth.

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