

# DIRECTORS SENTIMENT INDEX: RESEARCH FINDINGS FIRST HALF 2019

Delivered by Ipsos



# Director Sentiment Index

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# First half 2019 sample profile

Members of the Australian Institute of Company Directors were invited to take part in the survey between 28 February – 14 March 2019. A total of 927 members participated. Results were weighted by gender to reflect the profile of the AICD member base.

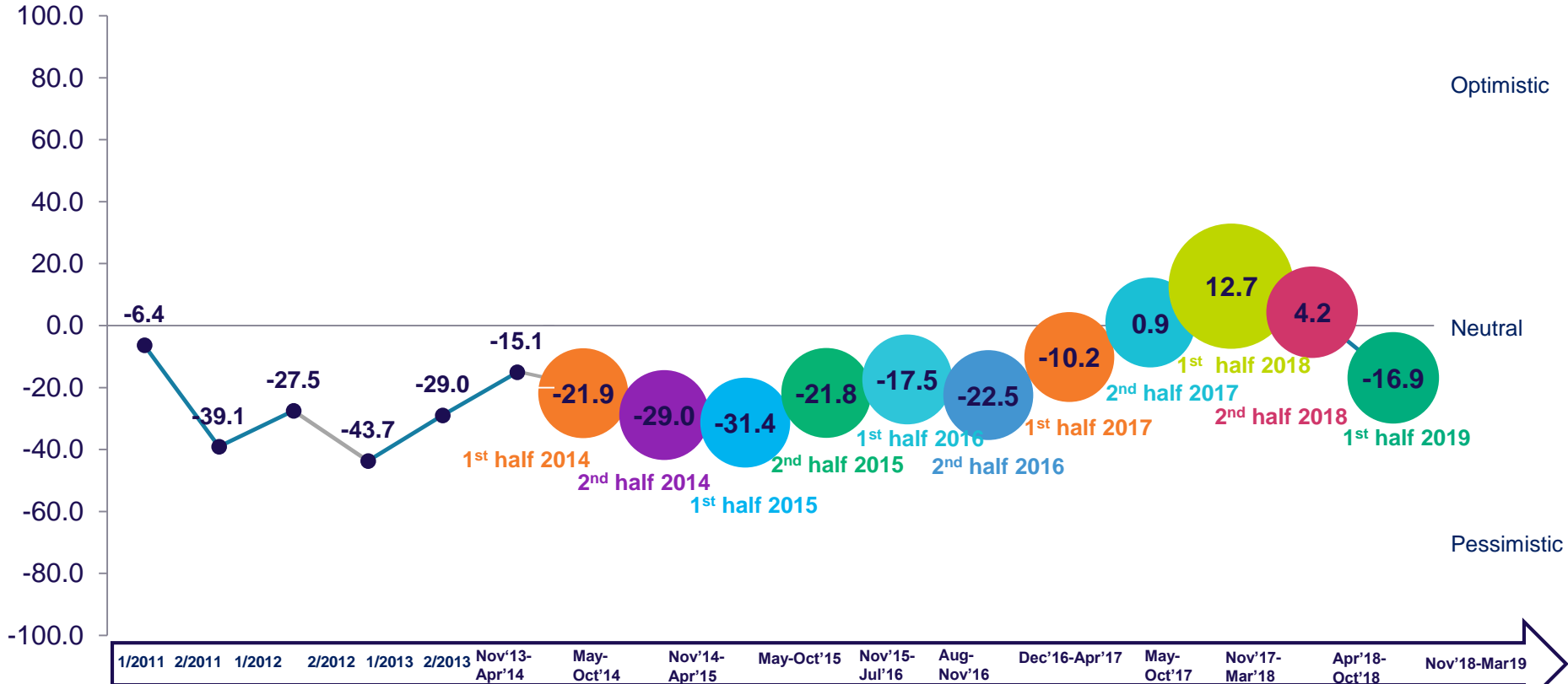
No. of current directorships	%
1	32 (32)
2	28 (30)
3 or more	39 (37)
Prefer not to say	1 (1)
Positions held on board(s)	
Executive Director	36 (36)
Non-Executive Director	66 (65)
Chairman	35 (34)
Other	7 (8)
Prefer not to say	1 (1)
Primary directorship company	
Publicly listed Australian entity	10 (12)
Private/non-listed Australian entity	42 (42)
Not-for profit entity	35 (34)
Public sector/ government body	10 (8)
Overseas entity	3 (3)
Prefer not to say	1 (1)
Gender	
Male	70 (70)
Female	30 (30)
Other	0
Prefer not to say	0

Primary directorship business sector(s)	%
Health and Community Services	25 (24)
Finance and Insurance	16 (15)
Education	9 (8)
Property and Business Services	8 (10)
Mining	6 (6)
Manufacturing	6 (5)
Agriculture, Forestry and Fishing	5 (5)
Construction	4 (4)
Personal and Other Services	3 (4)
Cultural and Entertainment industry	3 (2)
Energy	3 (3)
Government Administration and Defence	3 (3)
Communication Services	2 (3)
Transport and Storage	2 (3)
Wholesale Trade	2 (2)
Retail Trade	1 (2)
Accommodation, Cafes and Restaurants	1 (1)
Primary directorship based	%
NSW	27 (28)
VIC	24 (24)
QLD	18 (13)
WA	13 (14)
TAS	4 (4)
SA/NT	7 (10)
ACT	5 (4)
Overseas	3 (3)

# Director Sentiment Index

# Overall Director Sentiment Index

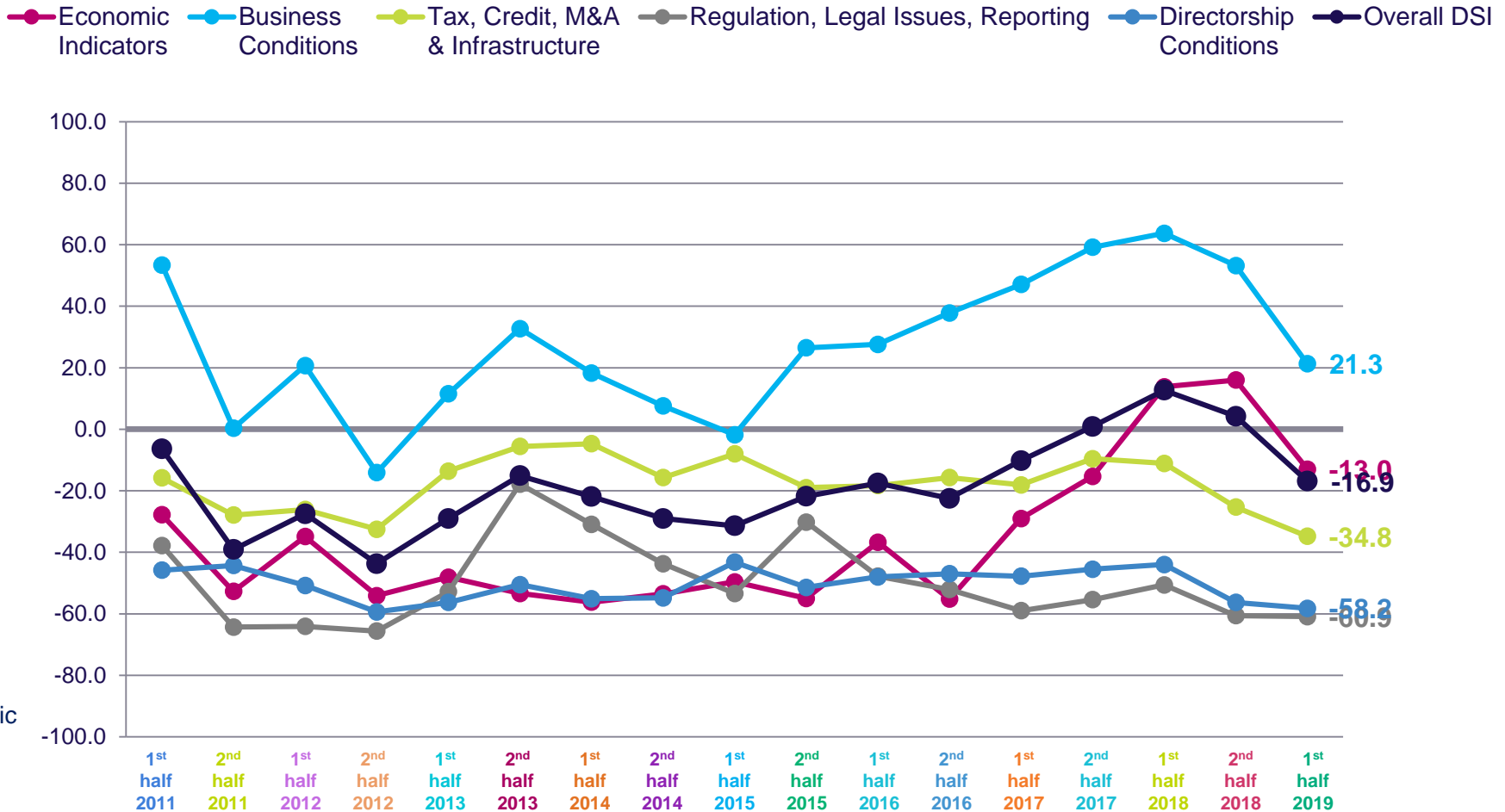
The overall sentiment in the first half of 2019 became pessimistic, down 21.1 points on the last survey. The Index has moved into negative territory, not seen since first half of 2017.



1/2011	2/2011	1/2012	2/2012	1/2013	2/2013	Nov'13-Apr'14	May-Oct'14	Nov'14-Apr'15	May-Oct'15	Nov'15-Jul'16	Aug-Nov'16	Dec'16-Apr'17	May-Oct'17	Nov'17-Mar'18	Apr'18-Oct'18	Nov'18-Mar'19	
						Federal gov't school funding backflip (Dec)	Coalition gov't announces first budget (Jun)	Leadership spill (Feb)	RBA official cash interest rate reduced to record low (May)	Brexit- UK withdraws from the EU (Jun)	RBA official cash interest rate reduced to historic low (Aug)	Inauguration of Donald Trump (Jan)	Cash rate remains on hold. Economic conditions globally improved. Local economy expanded 0.8% in June Qtr.	Cash rate stable. Barnaby Joyce by-election & resignation Same sex marriage vote. The Australian economy grew 0.4% in the December quarter of 2017	Cash rate remains stable however, increase in mortgage rates by banks Scott Morrison takes over as PM (end the December quarter of 2017)	Cash rate remains stable however, increase in mortgage rates by banks Scott Morrison takes over as PM (end the December quarter of 2017)	Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry report released No change to official cash rate Upcoming Federal election
						Crisis in Ukraine (Feb)	Carbon tax legislation scrapped (Jul)	RBA official cash interest rate reduced to record low (Feb)	Chinese Stock Market Crash (Jun-Aug)	Malcolm Turnbull re-elected as PM (Jul)	Donald Trump wins US presidential election (Nov)	Donald Trump issued executive order on refugees and immigration (Jan)	Iron ore price rises significantly from November 2016 to March 2017				
						Free Trade Agreements with Japan/South Korea (Apr)	Australia joins US-led coalition to fight in Iraq (Sep)	Oil and iron ore prices falling rapidly	Malcolm Turnbull takes over as PM (Oct)								

# Overall Director Sentiment Index by segment

Sentiment has decreased across Economic Indicators, Business Conditions, Tax, Credit, M&A & Infrastructure and Directorship Conditions, which have all contributed to a decline in the overall sentiment index.



# Executive Summary

# Executive Summary

## *Economic and Market Outlook*

### **Health of economies**

- The downward trend in the view of the health of the economies in the next 12 months has continued this half. Directors' outlook for the health of the Asian economy is highest as the only one remaining in positive territory. The European economy continues to fall, being perceived as weak overall.
- Directors in NSW , VIC, and ACT view their economies as less strong over the next 12 months while Qld directors rate their economy as much weaker.

### **Economic indicators**

- Directors now expect interest rates to fall
- Compared to the second half of 2018, directors also expect a decrease in inflation and level of wages growth, while unemployment is expected to increase.
- Expectations regarding the ASX All Ordinaries index have become slightly negative, with 40% of directors expecting the index to fall in the next 12 months.

### **Economic challenges**

- Global economic uncertainty is again the biggest economic challenge currently facing Australian business in the first half of 2019, followed by China's outlook. Climate change has moved up to the third biggest challenge..



# Executive Summary

## *Business Forecast*

### **Business growth**

- Directors' views regarding past and future business growth has had a consecutive downward movement, although still in positive territory.

### **Changes in business**

- Compared to the second half of 2018, expected changes in the business in the coming year to staffing levels/labour demand, investment levels and business exports has significantly decreased, accelerating a trend from the last survey.

### **Profits**

- Compared to the second half of 2018, there is a decline in expectations around actual profits for the current six months compared to profits for the previous six months and budget forecast for the current six months.

### **Business outlook**

- Directors are less confident about the business outlook in the next 12 months, with a significantly decline in sentiment for the general business outlook and outlook for directors' own sector. This is the lowest result since 1<sup>st</sup> half 2015.

# Executive Summary

## *Government Policy*

### **Budgetary**

- The top three priorities the Federal Government should address in the short term are energy policy, climate change and taxation reform. Directors who rate climate change as an issue of importance has significantly increased since the second half of 2018.
- Directors rate climate change as the top long term priority the federal government should address, followed by infrastructure, an ageing population, energy policy and taxation reform.
- 65% of directors perceive the current level of government spending on infrastructure as low.

### **Taxation**

- Directors continue to view the level of personal and corporate taxation in Australia as high.

### **Regulation**

- 59% of directors expect the level of 'red-tape' to increase in the next 12 months. 78% of directors identify corporate reporting requirements as the aspect of their business most affected by 'red-tape'. This is followed by workplace health/safety and preparing/paying taxes.

# Executive Summary

## *Government Policy (cont.)*

### **National productivity**

- Directors continue to nominate less focus on short termism as the top measure for lifting national productivity, followed by a greater focus on fostering innovation, better standards of education, more infrastructure spending and faster adoption of technology.

### **Credit availability**

- Expectations of credit availability in the future have become more negative compared to the second half of 2018. 42% of directors expect credit for working capital purposes will be unavailable/constrained in the next twelve months, 42% expect the same regarding credit for investment purposes and 40% expect the same regarding asset purchases.

### **Industrial Relations**

- Directors are split on the need for significant industrial relations reform.

### **Performance & business understanding**

- Directors remain negative about the effect of the Federal Government's current performance, with 74% perceiving a negative effect on consumer confidence and 53% perceiving a negative effect on their business decision making.
- Directors are slightly negative about the Federal Government's understanding of business, with 44% disagreeing with the statement that the current Federal Government understands business.

# Executive Summary

## *Government Policy (cont.)*

### **Director liability**

- Directors continue to feel negative about the impact of legislation on director liability in the first half of 2019. 35% of directors feel that it has negatively affected their business decision making, 43% on their willingness to continue on a board and 52% on their willingness to accept new board appointments.
- 70% of directors agree there is a risk-averse decision-making culture on Australian boards, and the main reason for this is and excessive focus on compliance over performance.

### **Board diversity**

- The effort made to increase the diversity in board membership was stable in the first half of 2019. 72% of directors state their business is actively seeking to improve skills diversity and 52% are actively trying to increase diversity in terms of gender.

### **Corporate culture**

- 91% of directors believe their Board is trying to effect change in culture within their organisation.

## *Topical Issues*

### **Director issues**

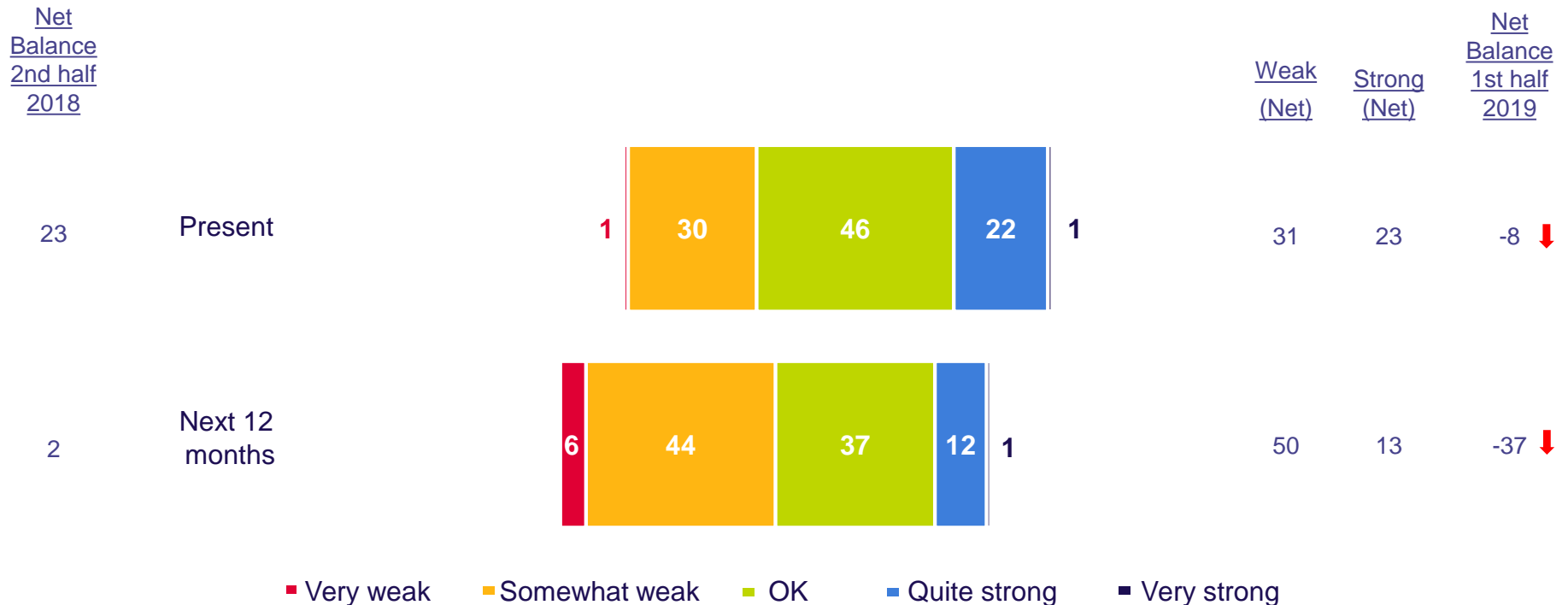
- Sustainability and long term growth prospects continues to be the main issue that keeps directors “awake at night”.  
Structural change/changing business models, legal and regulatory compliance, corporate culture and data security are also key issues identified by directors.

# Economic Outlook and Challenges

# Health of the Australian economy

Directors are now negative about the Australian economy compared to the second half of 2018, with 23% perceiving the economy as strong and 31% as weak at present. Directors are also now negative about the Australian economy in the next 12 months, with 50% expecting it to be weak and only 13% expecting it to be strong.

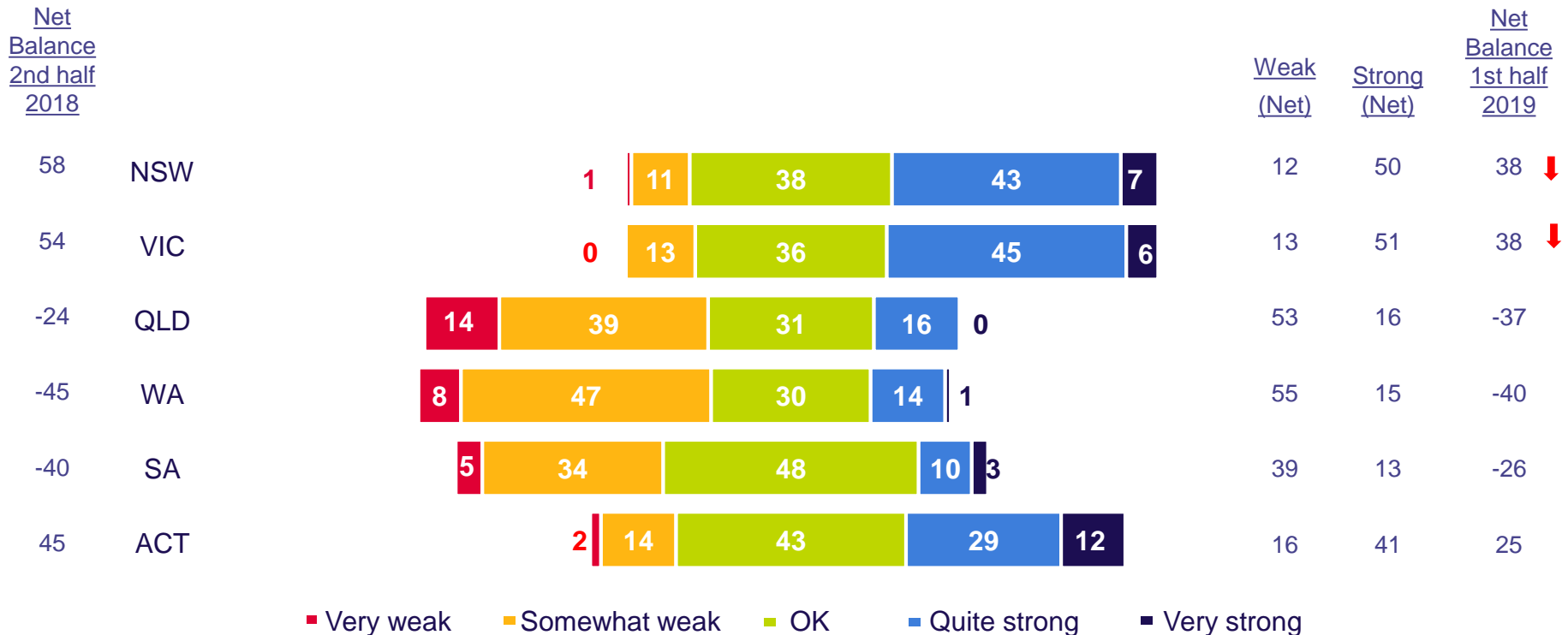
What is your assessment of the health of the Australian economy? (%)



# Health of the State/Territory economies - now

Director views of the health of their state/territory economy varies from state to state. Directors in VIC, NSW and the ACT are positive about their economy at present. Directors across all states/territory have lowered their assessment of the economies compared to second half of 2018.

What is your assessment of the health of your State/Territory economy? - **Present** (%)



Note: Low base for TAS/NT

2. What is your assessment of the health of your State/Territory economy (where your primary directorship is based)?

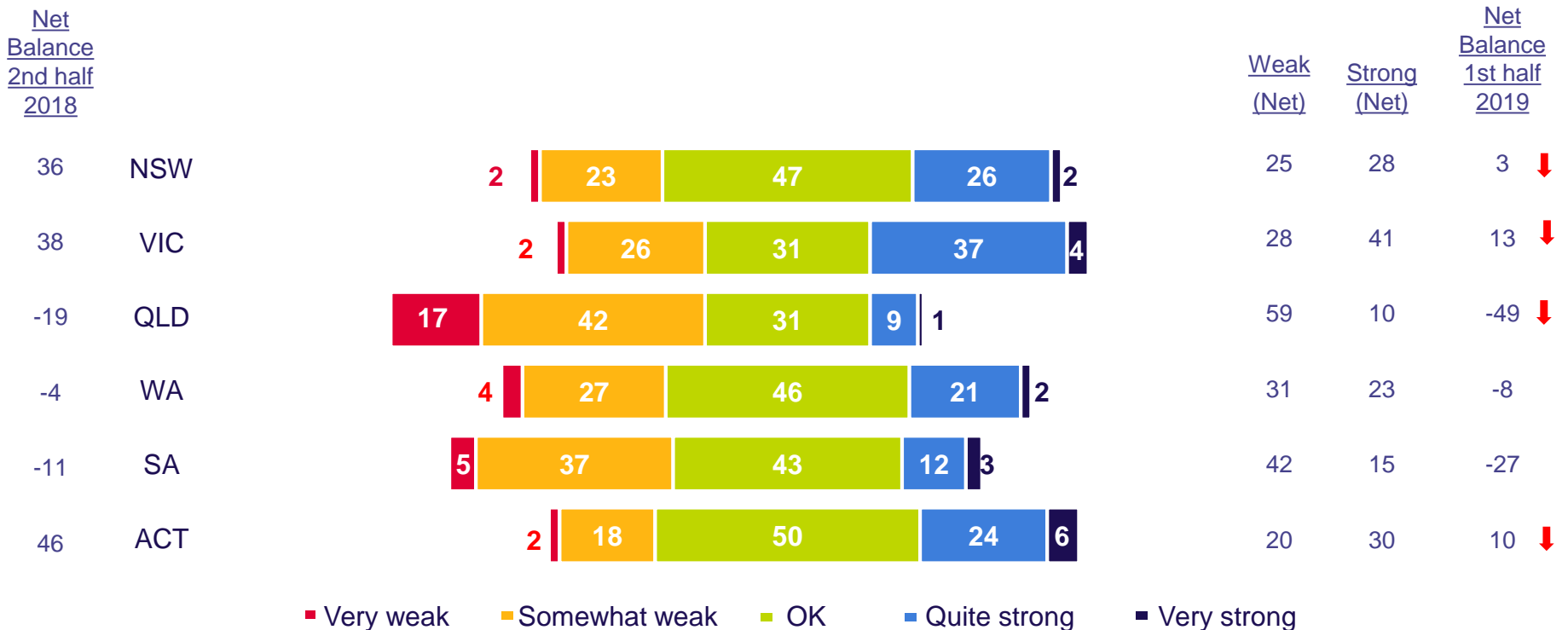
Base: NSW/VIC/QLD/WA/SA/ACT n=251/219/170/120/61/40



# Health of State/Territory economies – next 12 months

Directors from all states/territory have a lower assessment about the health of their economy in the coming year compared to second half of 2018. NSW, ACT and VIC directors remain in positive territory regarding the health of their economy in the next 12 months. Conversely, directors in QLD are more negative about the future with 59% perceiving their economy as weak in the next 12 months.

What is your assessment of the health of your State/Territory economy? – **Next 12 Months**(%)

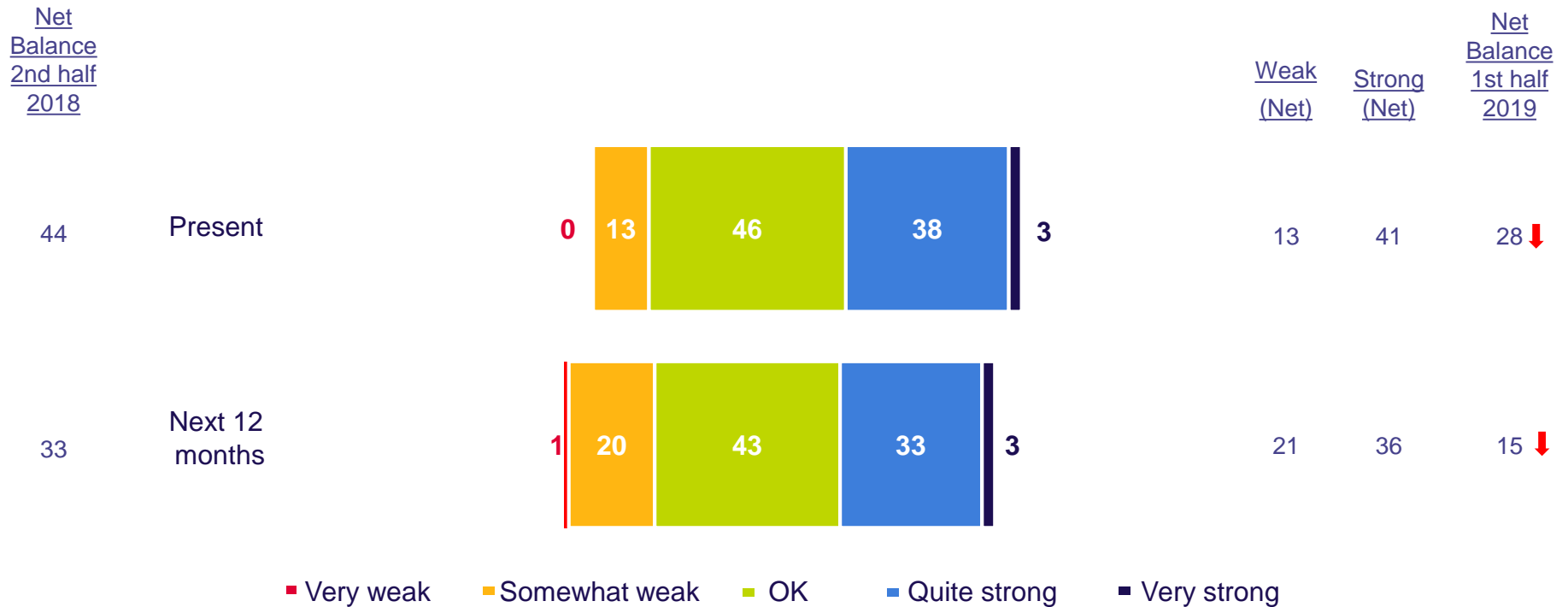


Note: Low base for TAS/NT

# Health of the Asian economy

The assessment of the health of the Asian economy remains positive although less so in the first half of 2019. 41% of directors perceive the Asian economy as currently strong and 36% expect it to remain strong over the next 12 months.

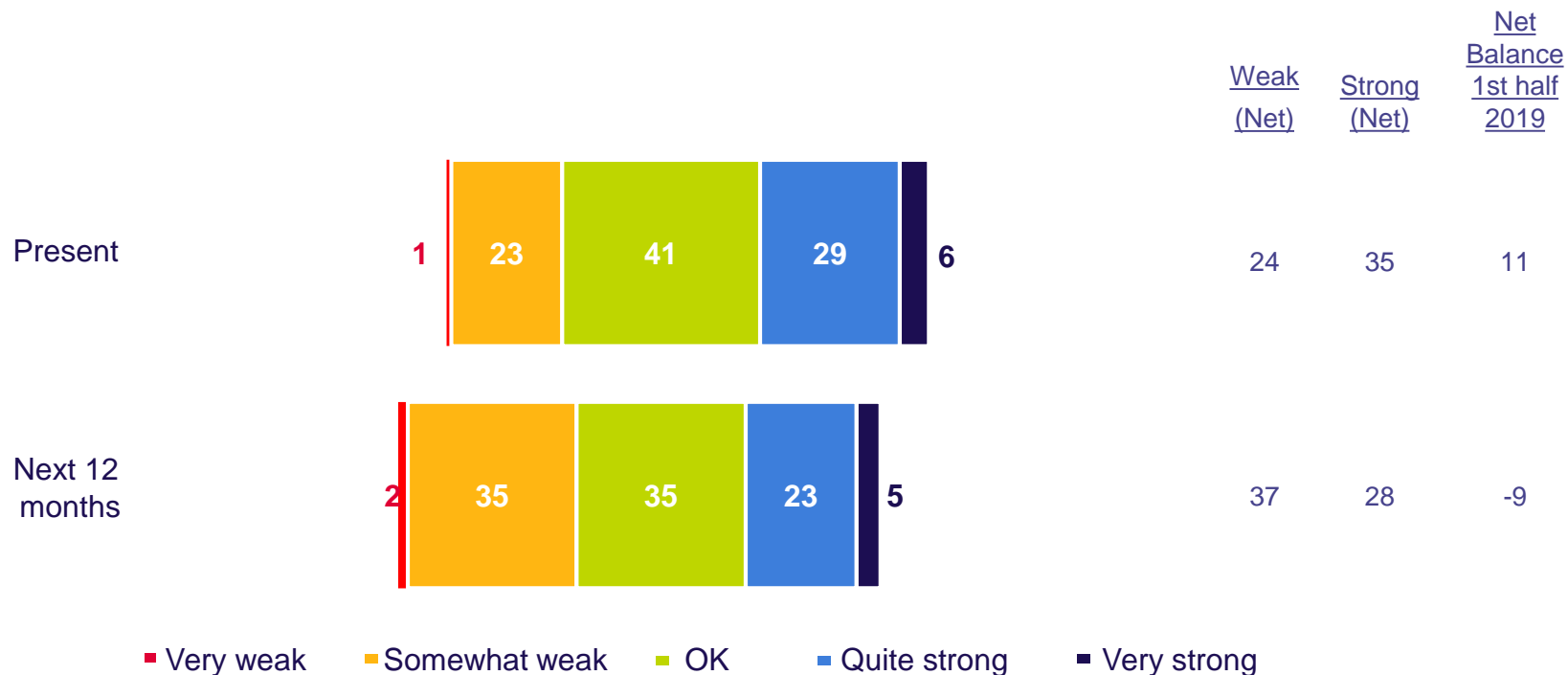
What is your assessment of the health of the Asian economy? (%)



# Health of the Chinese economy

*The assessment of the health of the Chinese economy is positive although becoming negative overall in the next 12 months. 35% of directors perceive the Chinese economy as currently strong and 28% expect it to remain strong over the next 12 months.*

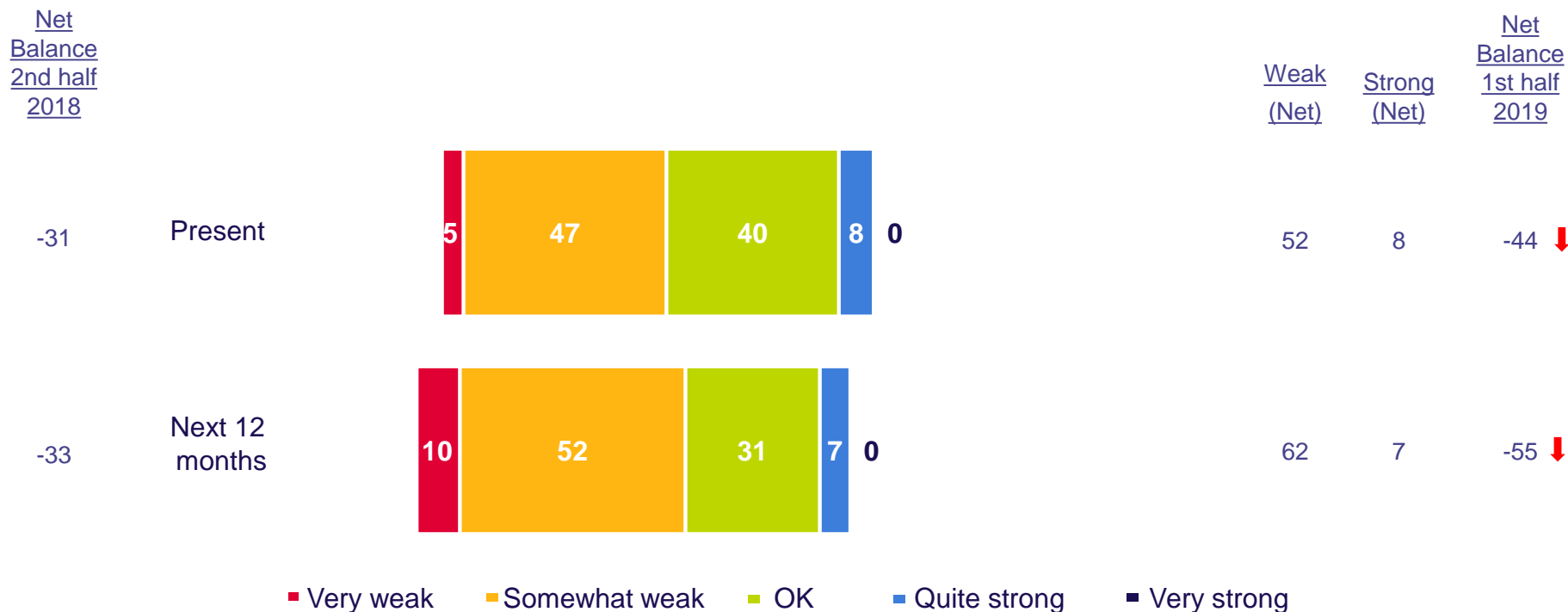
What is your assessment of the health of the Chinese economy? (%)



# Health of the European economy

*52% of directors perceive the economy as weak at present, and 62% expect it to remain weak in the next 12 months.*

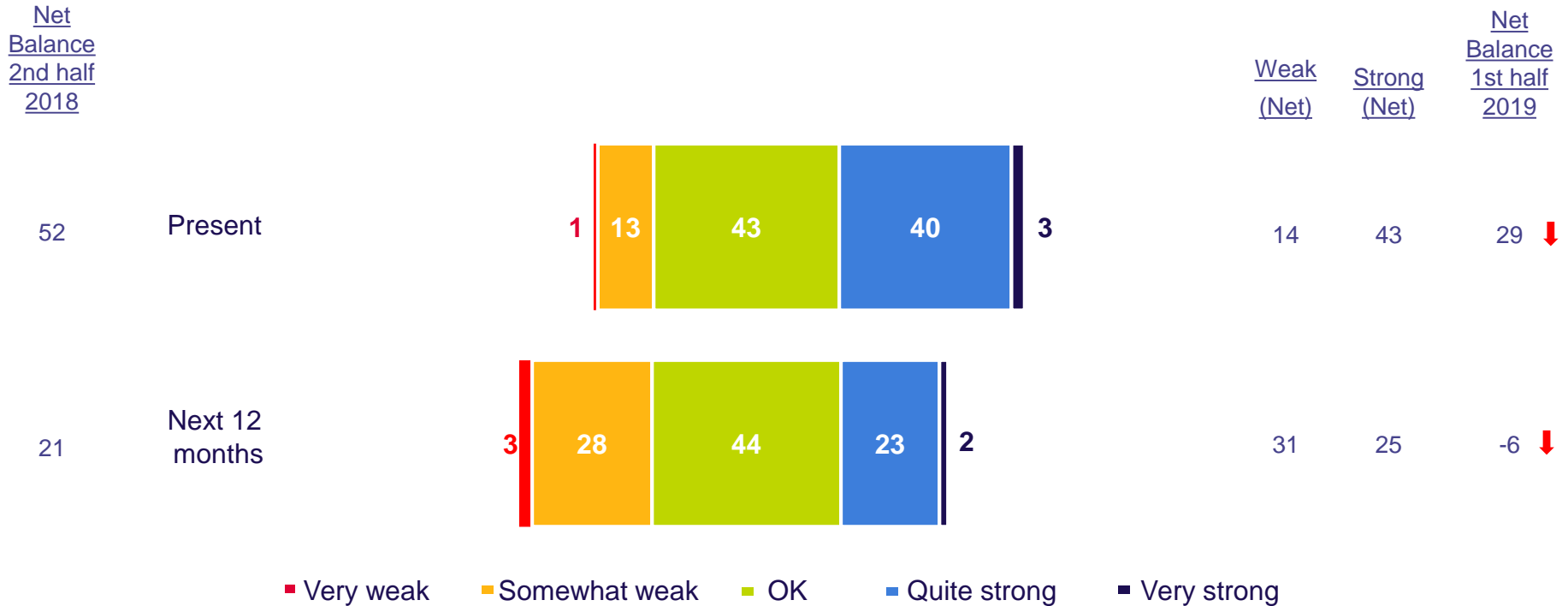
What is your assessment of the health of the European economy? (%)



# Health of the US economy

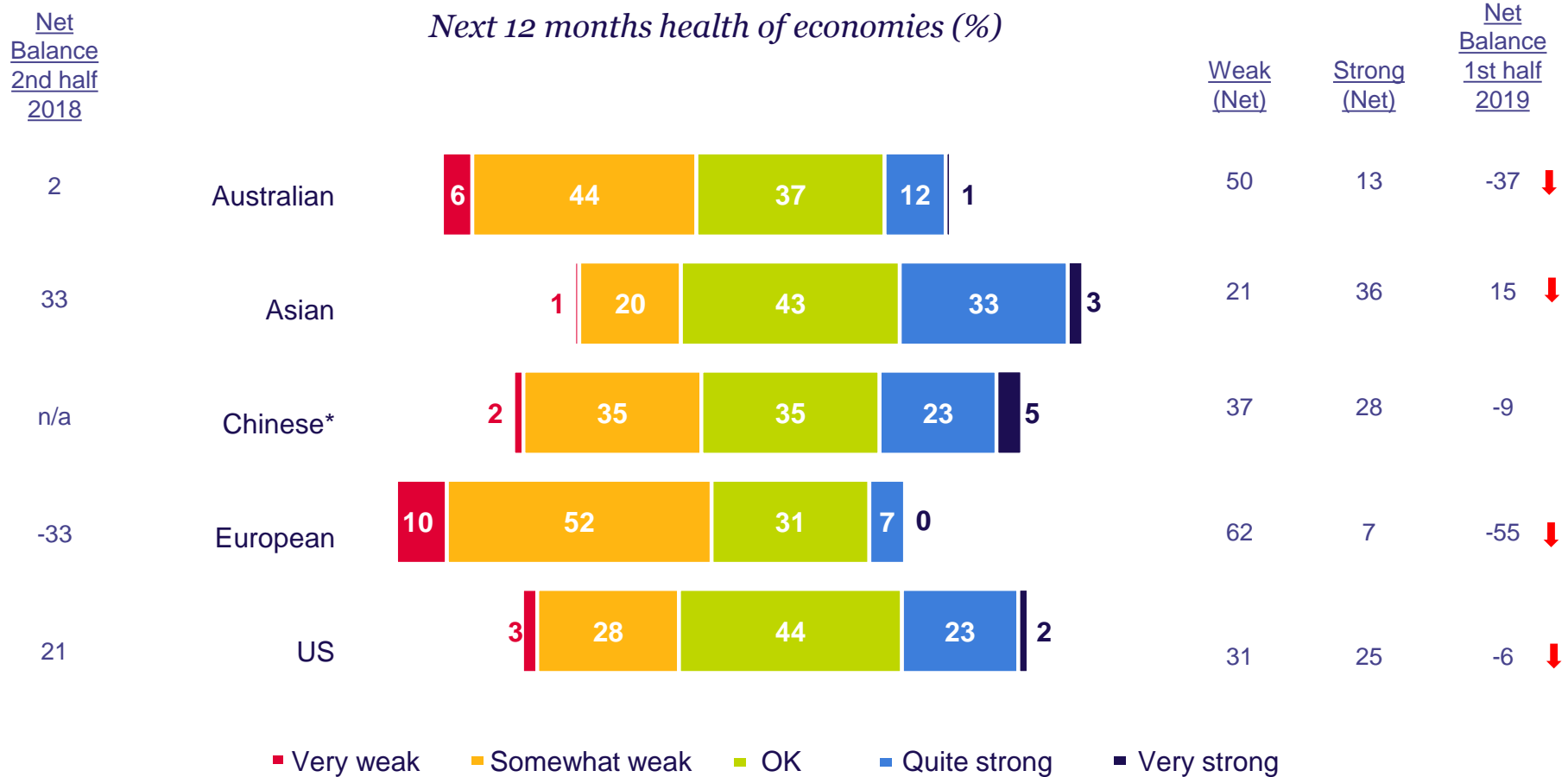
The assessment of the US economy at present remains positive, with 43% of directors perceiving it as presently strong, although this has become less positive compared to the second half of 2018. However, directors are negative overall regarding the next 12 months with 31% expecting it to be weak in the coming year.

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



# Next 12 months health of economies: summary

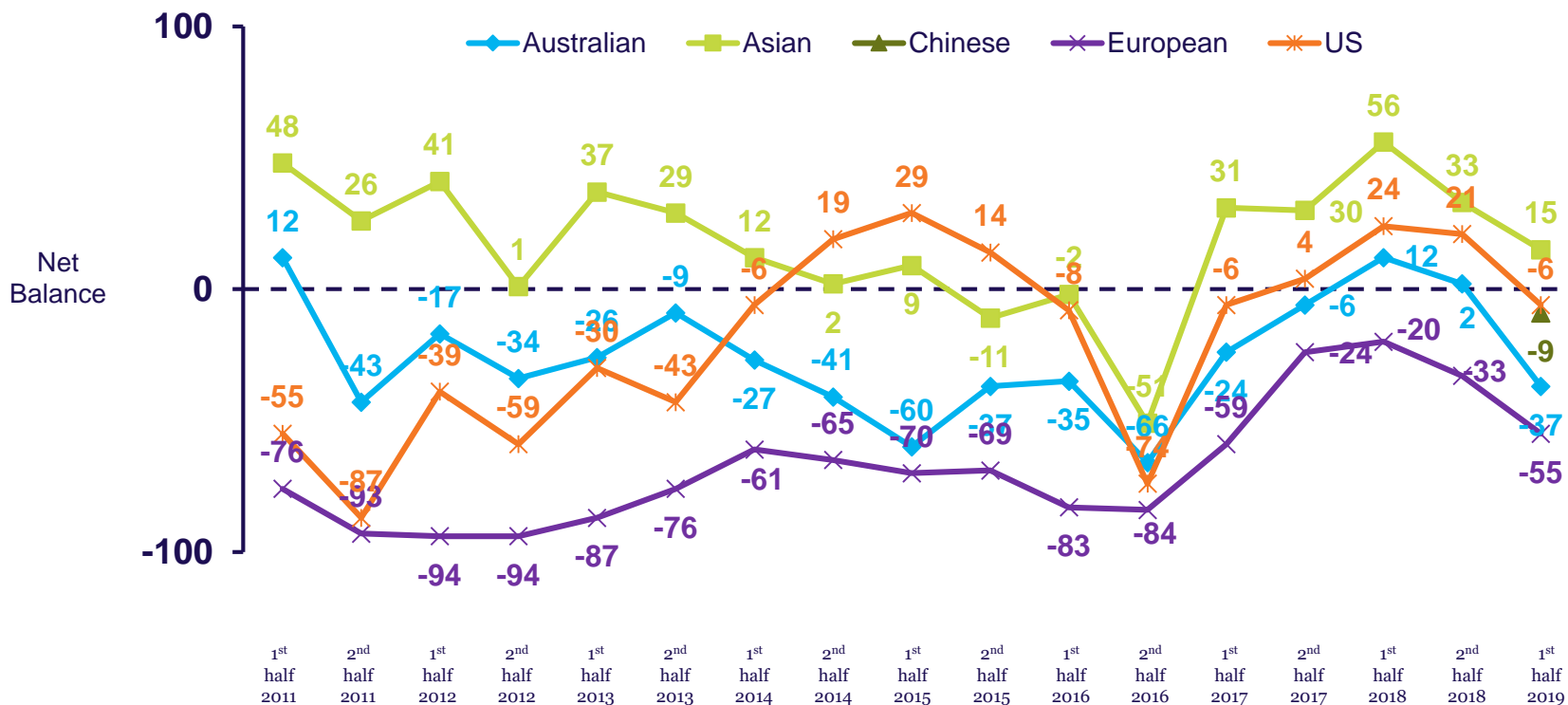
Compared to the second half of 2018, directors have become negative about the future health of major global economies.



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

Directors' outlook for the health of the Asian economy is highest as the only one remaining in positive territory. Compared to the second half of 2018, there are lower assessments of the health of the Australian and US economies for the next 12 months. The European economy continues to be perceived as weak overall. China debuts as somewhat weak with regards to directors' view for this economy in the next 12 months.

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



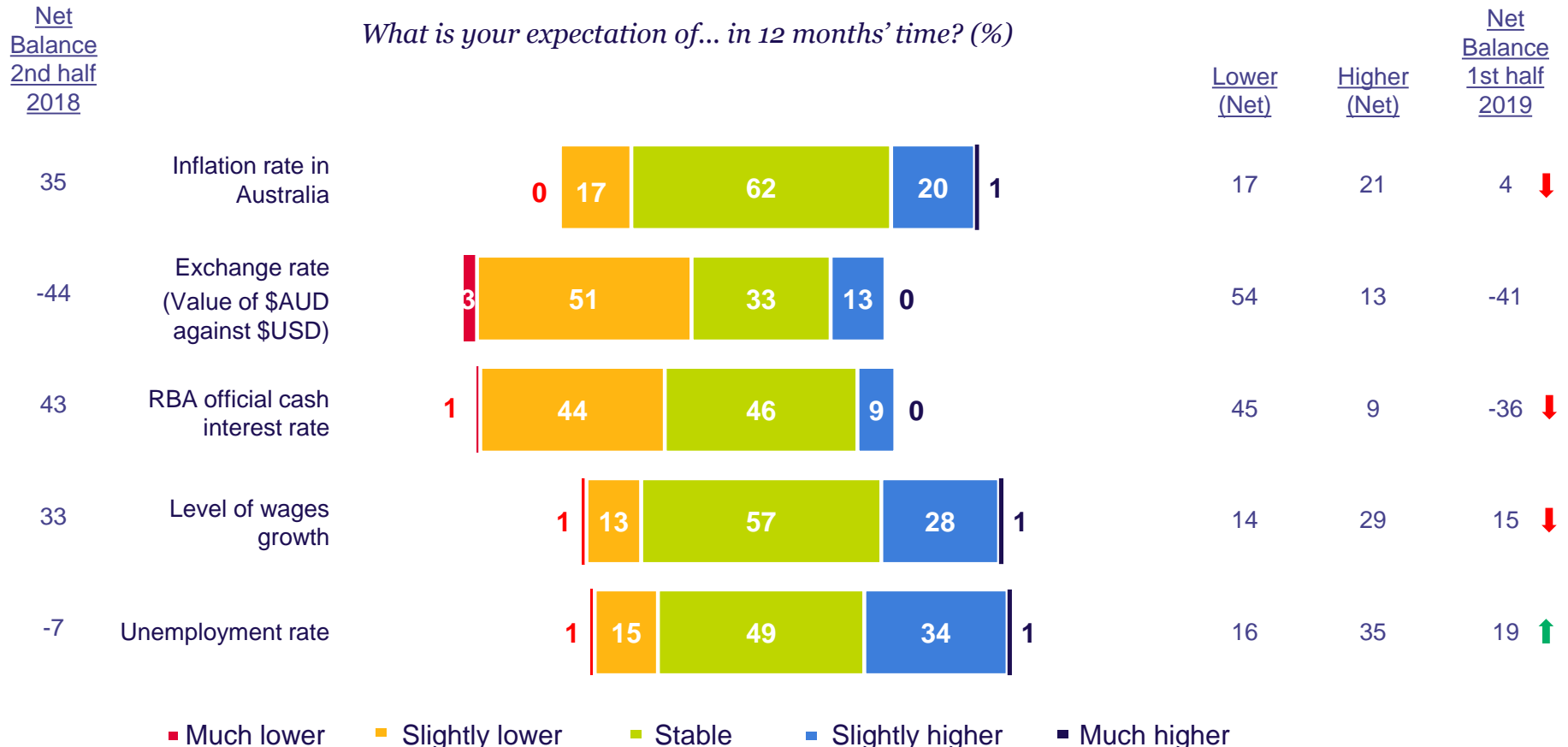
Chinese economy - New question 1st half 2019

Source: 1,3-6

Base: All respondents; W1 2011 n=511; W2 2011 n= 523; W1 2012 n= 554; W2 2012 n=540; W1 2013 n=504; W2 2013 n=527; W1 2014 n=525; W2 2014 n=501; W1 2015 n=540; W2 2015 n=521; W1 2016 n=833; W2 2016 n=987; W1 2017 n=1106; W2 2017 n=973; W1 2018 n=945; W2 2018 n=1252, W1 2019 n=927

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

*Interest rate expectations have dramatically switched from higher to lower. Compared to the second half of 2018, directors expect a decrease in inflation, the cash interest rate and level of wages growth, while unemployment is expected to increase.*

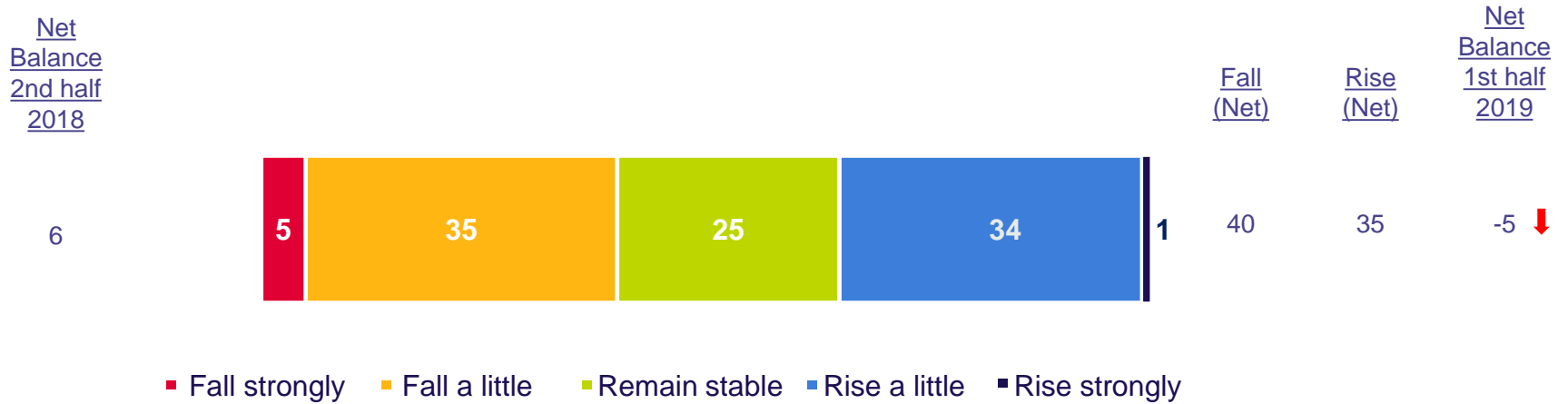




# Expected change to ASX All Ordinaries index - next 12 months

Expectations regarding the ASX All Ordinaries index have become slightly negative, with 40% of directors expecting the index to fall in the next 12 months.

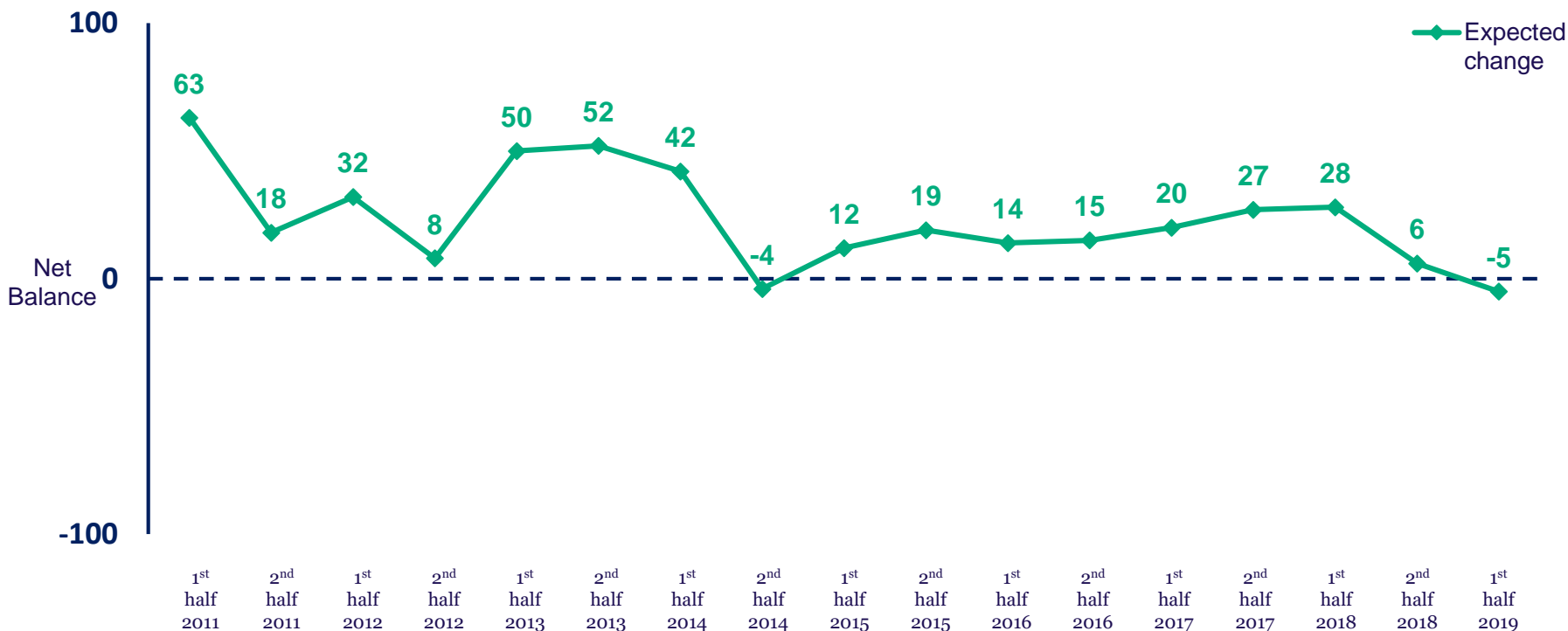
Expected change to ASX All Ordinaries index – next 12 months (%)



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

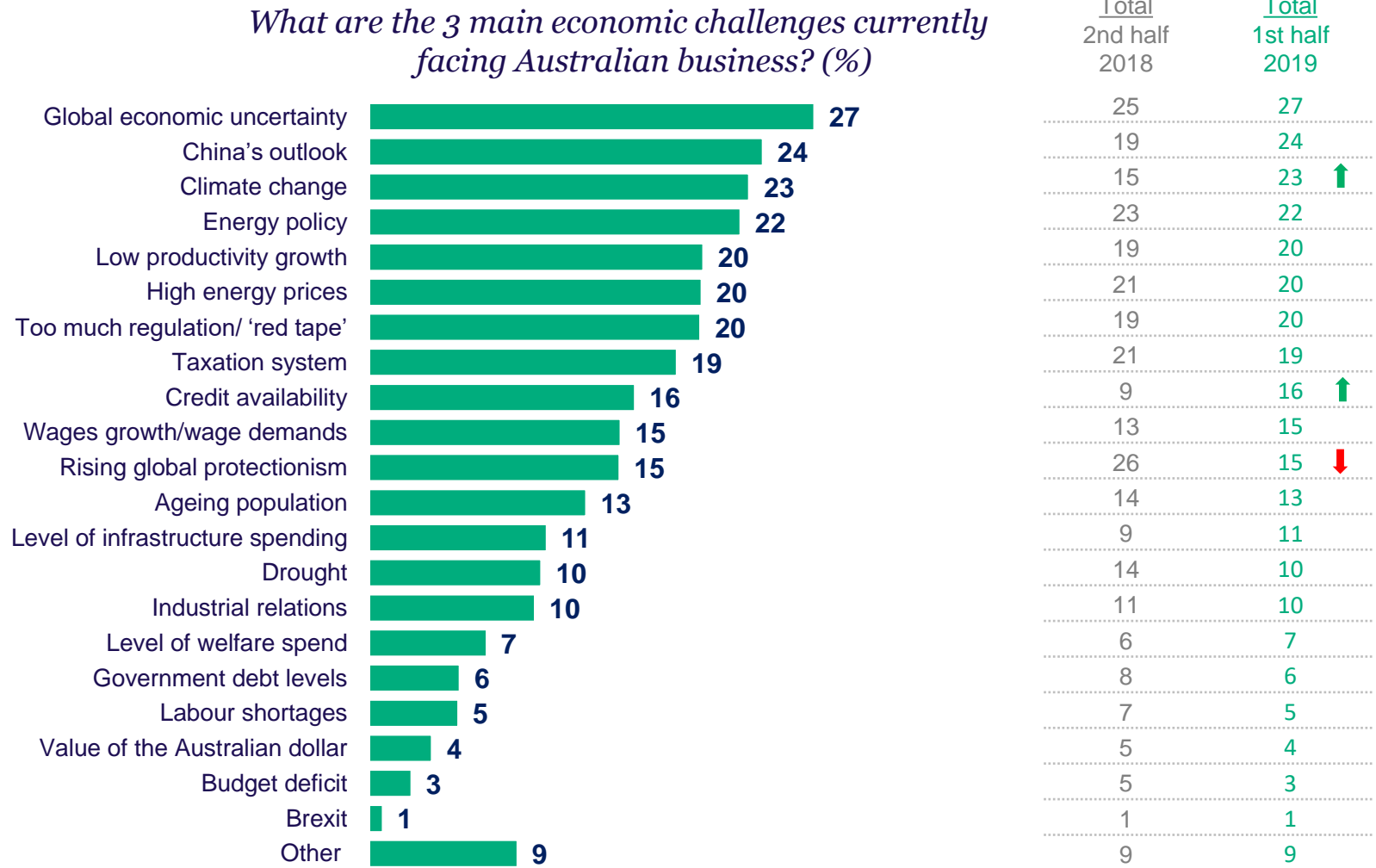
*Sentiment regarding the ASX All Ordinaries index for the coming year has fallen into negative territory, last seen in the second half of 2014.*

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



## Main current economic challenges (Top 3)

*Global economic uncertainty is again the biggest economic challenge currently facing Australian business in the first half of 2019, followed by China's outlook and climate change. Credit availability is mentioned significantly more often by directors compared to second half of 2018.*

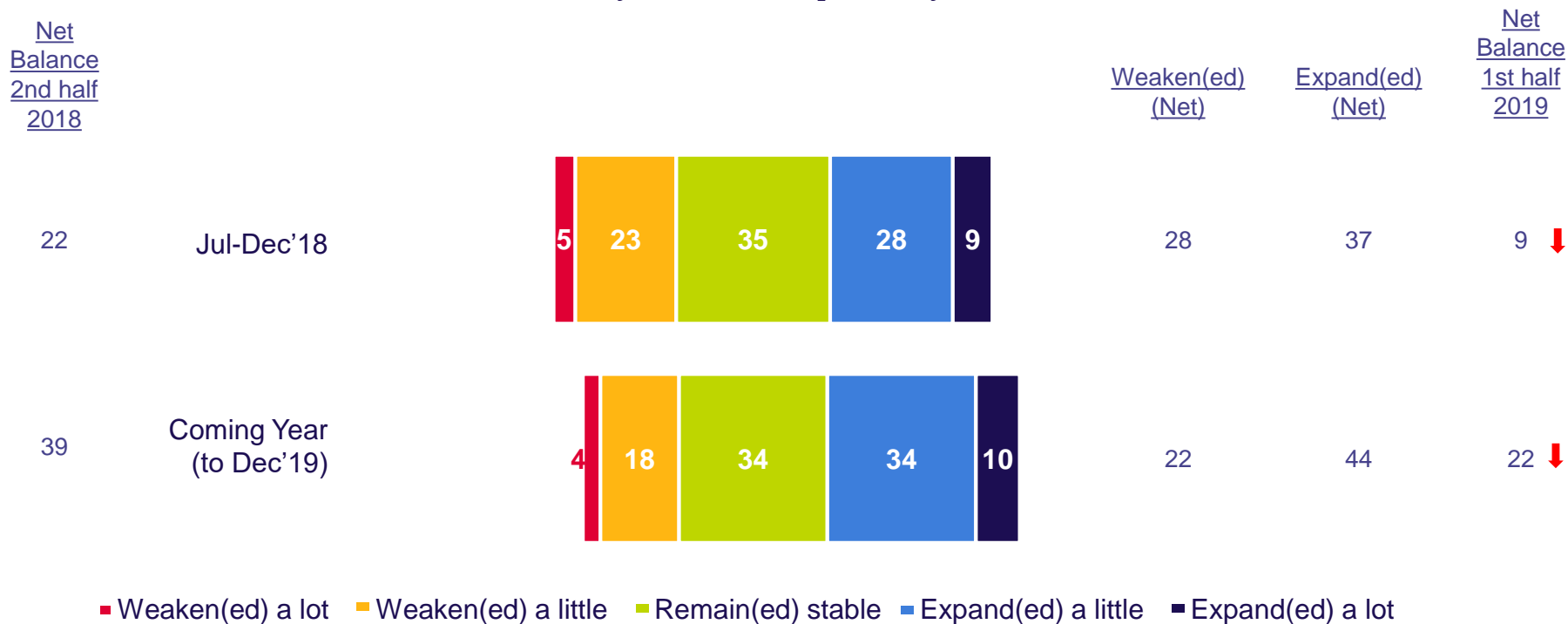


# Business Forecast

# Growth of the business (primary directorship company)

Directors continue to have a positive view regarding the growth of their business, with 44% of directors expecting this to increase in the coming year. However, compared to second half of 2018, directors are relatively less positive.

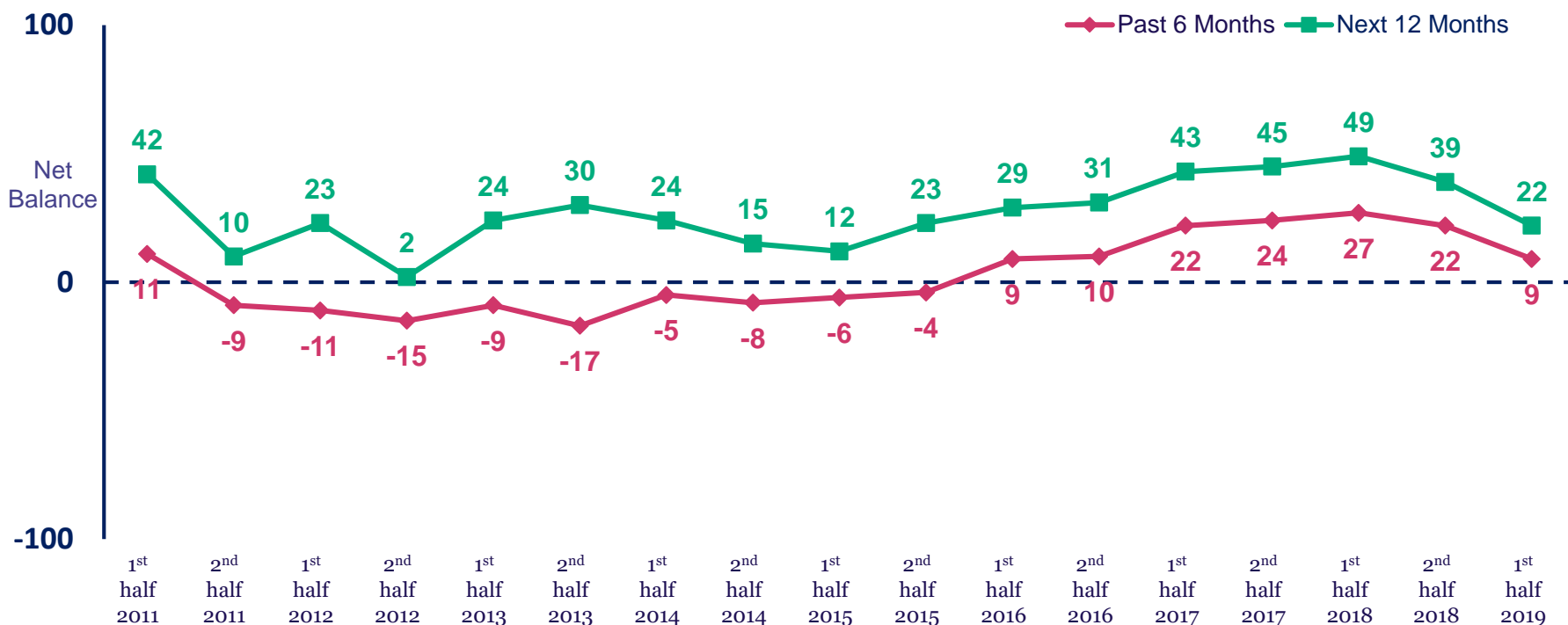
Growth of the business – past and future (%)



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

Directors' views regarding past and future business growth has had a consecutive downward movement, although still in positive territory.

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

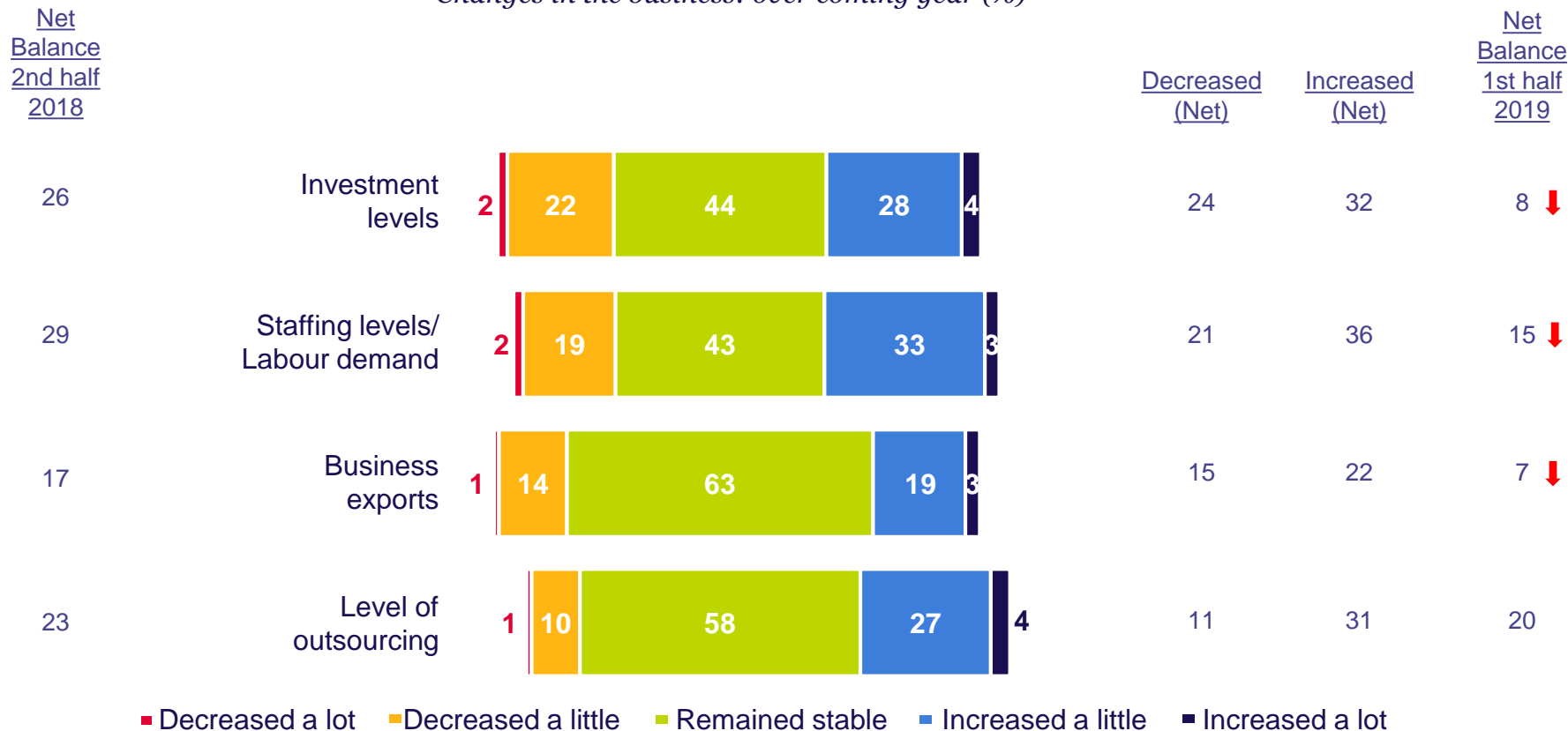


Source: 8 – 9

# Changes in the business – coming year

Directors have mixed opinions about the changes in their business over the coming year. Compared to the second half of 2018 staffing levels/labour demand, investment levels and business exports has significantly decreased, accelerating a trend from the last survey.

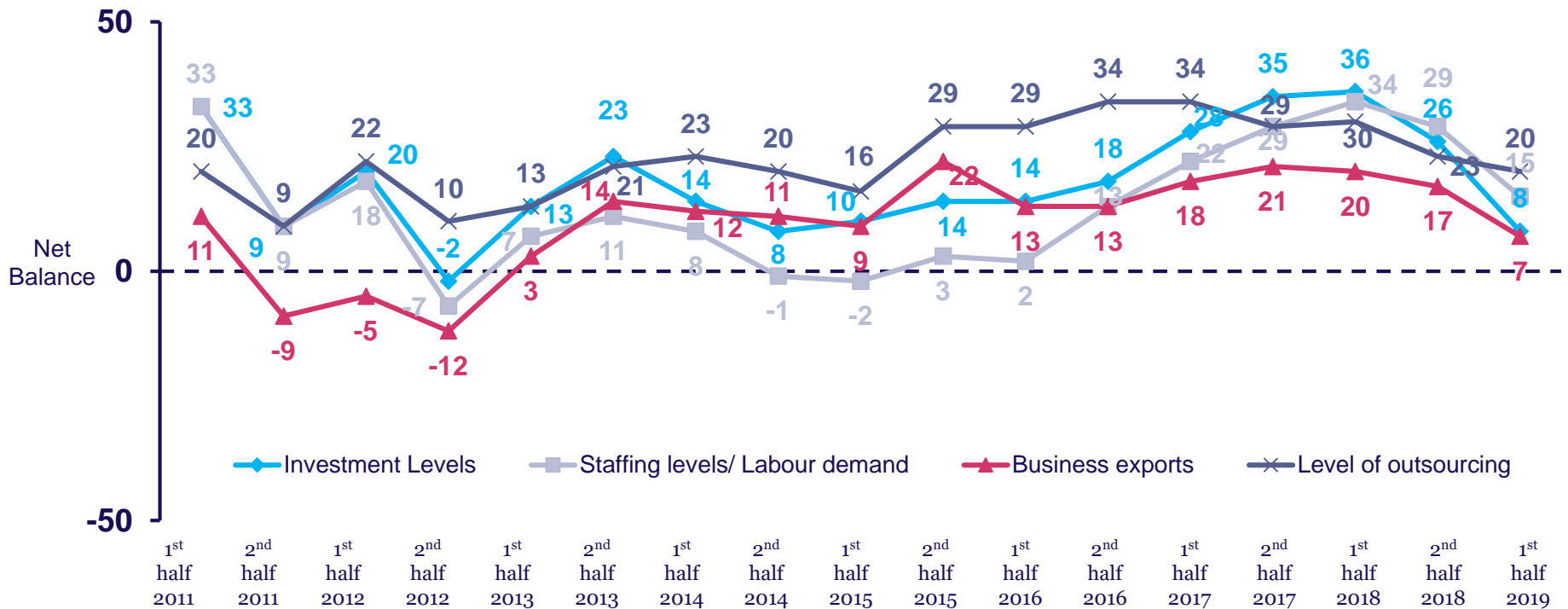
Changes in the business: over coming year (%)



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

The expectation of changes in the business have seen the largest decline for investment levels and staffing levels/labour demand in the first half of 2019.

Changes in the business: over coming year – semi-annual trend (net balance)

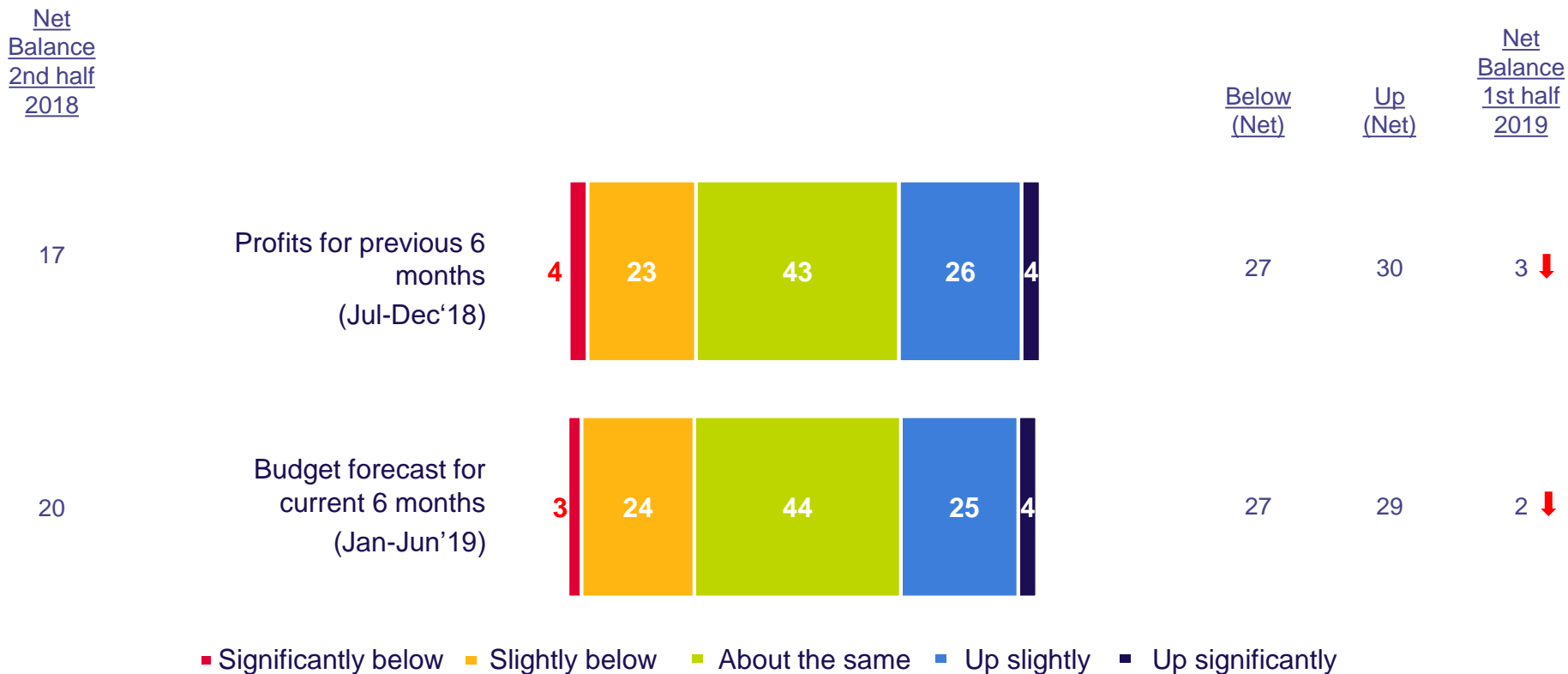




# Profits for current six months compared to...

*A decline in expectations around actual profits for the current six months compared to profits for the previous six months and budget forecast for the current six months. 27% of directors expect a fall in profits compared to the previous six months and 27% expect a decline in profits compared to the budget forecast for the current six months.*

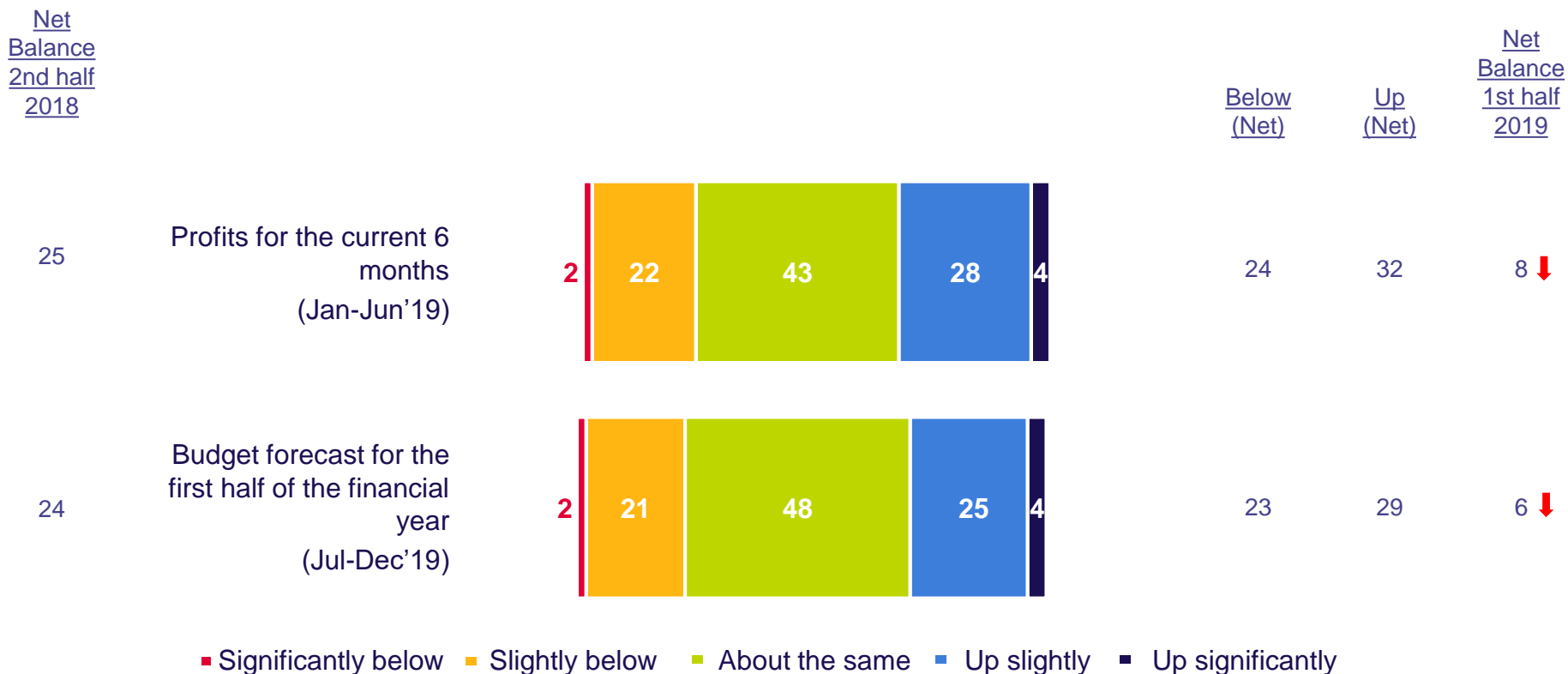
Actual profits for the current six months (Jan-Jun'19) compared to... (%)



# Profits for first half of this financial year compared to...

Expectations of profits for the first half of this financial year (Jul-Dec'19) are still positive compared with the budget forecast, with 29% of directors expecting an increase in profits. However, compared to second half of 2018, directors' expectations are lower.

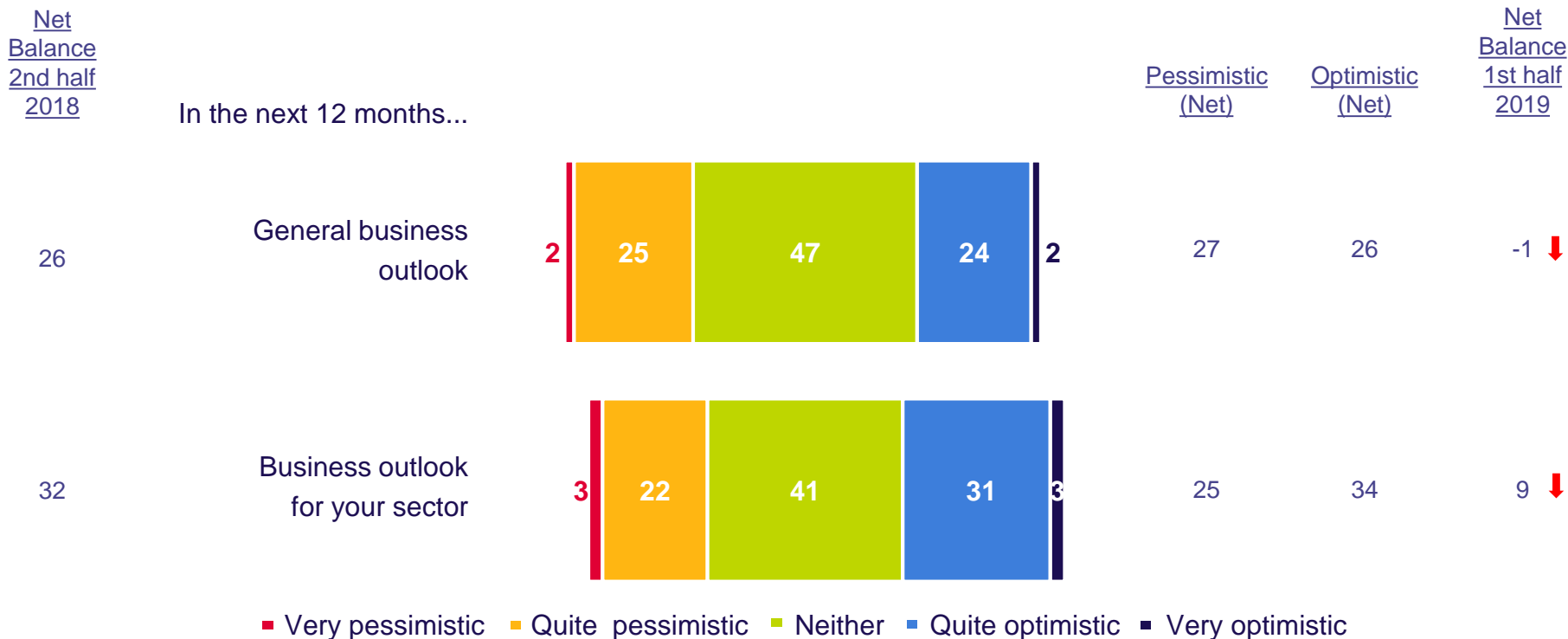
Expected actual profits for the first half of this financial year (Jul-Dec'19) compared to... (%)



# Confidence in business outlook – next 12 months

Directors are less confident about the business outlook in the next 12 months, with 26% indicating they are confident about the general business outlook, while 34% indicate they are confident regarding the outlook for their sector. Confidence regarding the general business outlook and business outlook for directors' sectors have significantly declined compared to the second half of 2018.

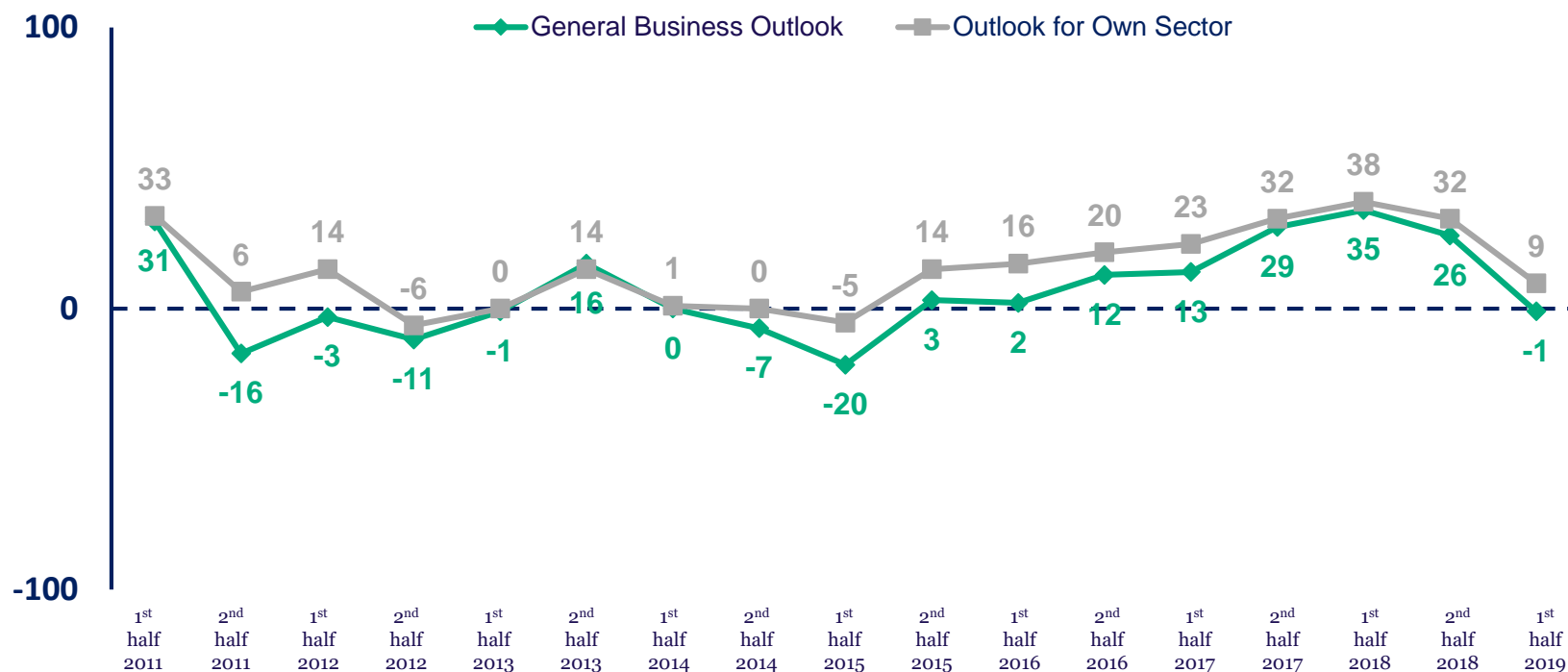
Confidence in business outlook – general and sector – next 12 months (%)



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

The first half of 2019 has seen a further downward movement in directors' confidence regarding the overall business outlook.

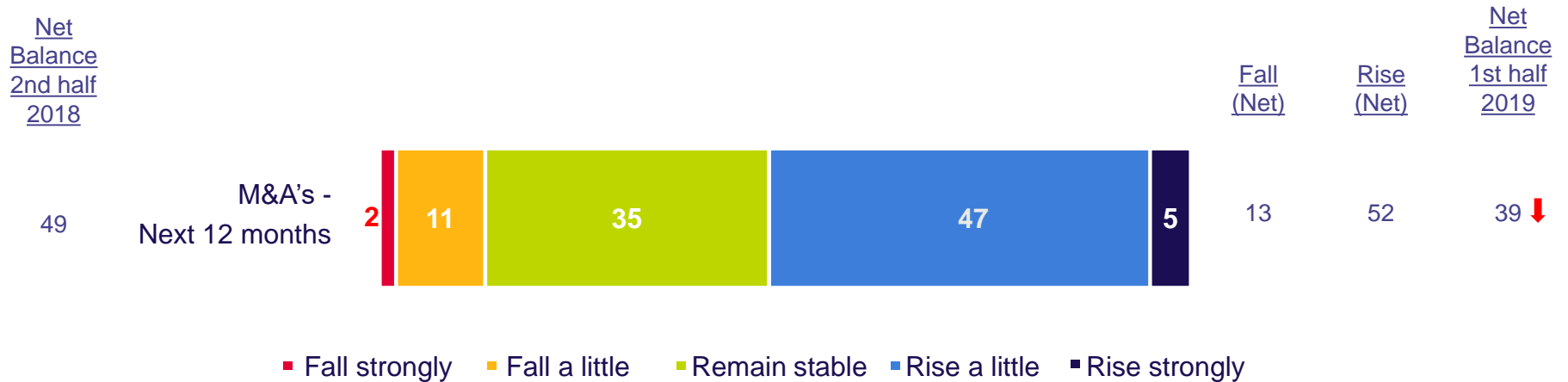
Confidence in business outlook: next 12 months – semi-annual trend (net balance)



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

52% of directors expect a rise in the level of mergers and acquisitions over the coming year. Expectations of change in the level of mergers and acquisitions has significantly declined compared to the second half of 2018.

Expected change in level of mergers and acquisitions - next 12 months (%)



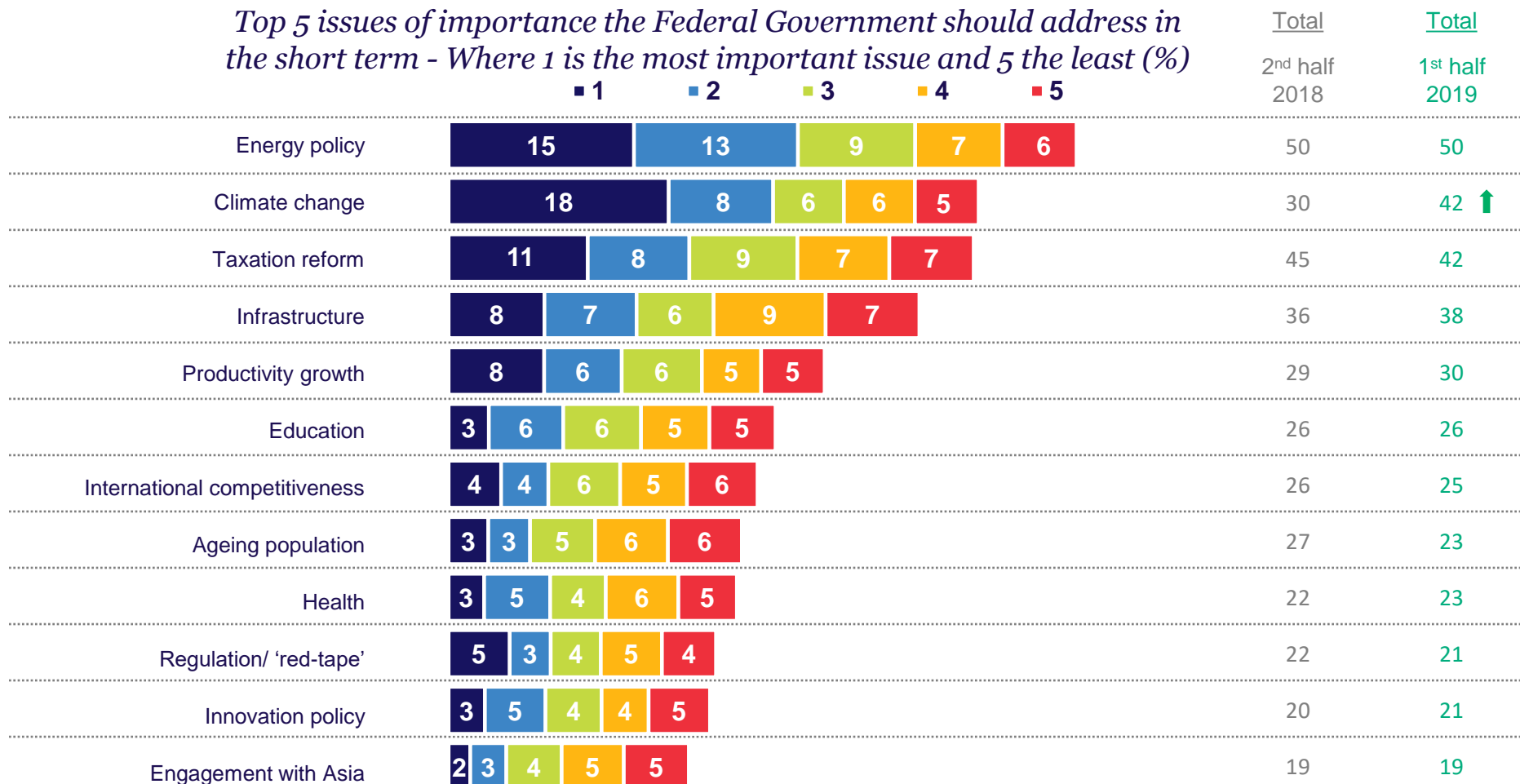
# Government Policy

## *Budgetary*

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

Directors rate energy policy, climate change and taxation reform as the top priorities for the Federal Government to address in the short term. The importance of Climate change has significantly increased since the second half of 2018.

*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 (%)*



26. 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=927

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

*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 2018	Total 1st half 2019
Indigenous disadvantage	1	3	4	4	5	17	17
Federal budget deficit	3	4	4	3	3	20	17
Lack of skills in workforce/ skills shortages	1	3	4	4	3	20	16
Industrial Relations	2	3	4	3	3	15	15
Size of the Federal Government	2	2	2	2	3	12	13
NBN rollout	2	2	3	3	3	13	12
Foreign ownership	2	2	2	3	3	13	12
Border protection	2	2	2	2	3	7	11
Superannuation	1	2	2	2	2	11	10
Defence	1	1	1	1	1	4	5
Skilled immigration including changes to 457 arrangements	1	1	1	2		8	5
Constitutional reform	1	1	1	1		5	4
Childcare policies	1	1	1			4	3

26. 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.

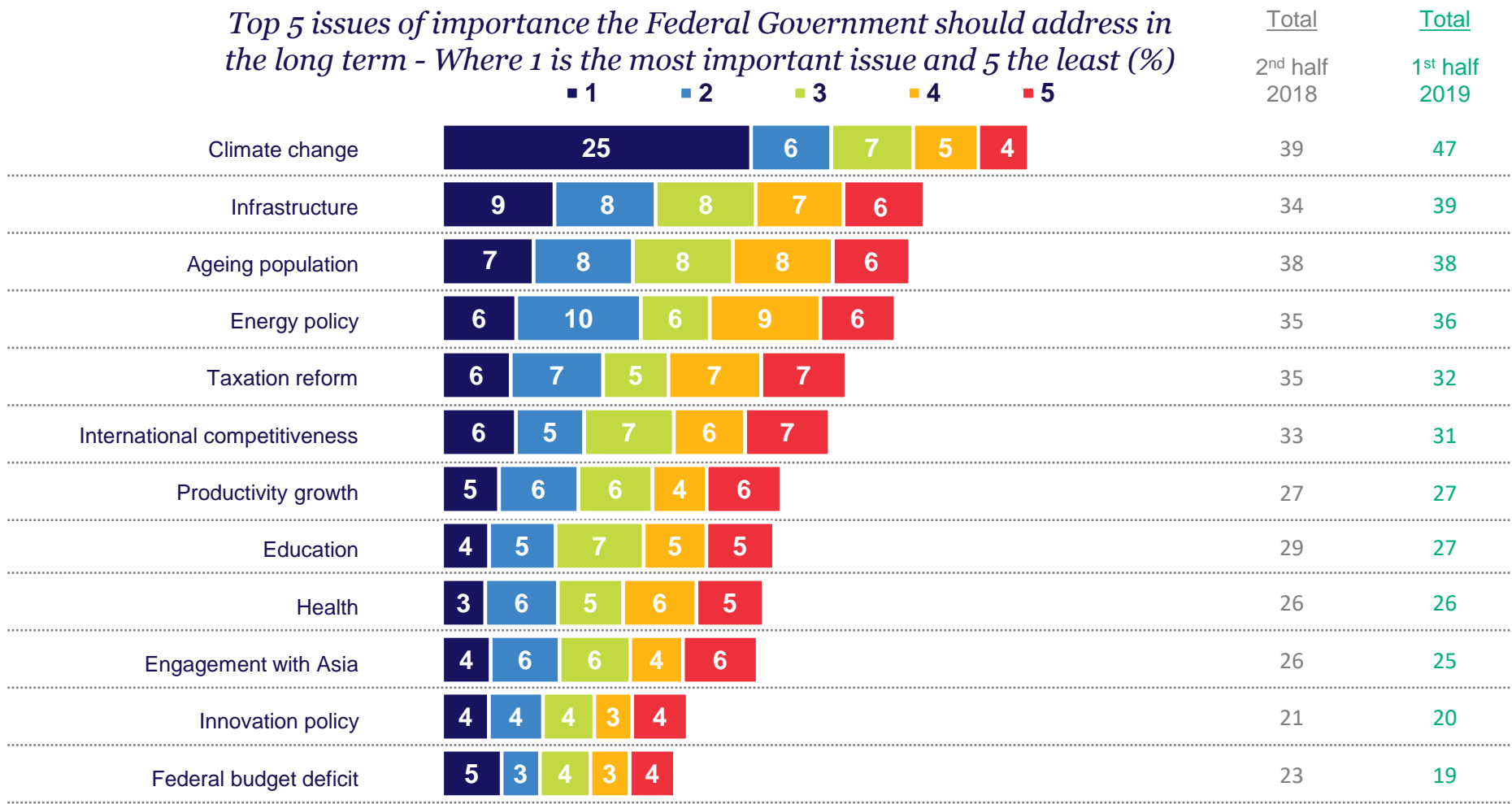
Base: All respondents n=927



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

Consistent with the second half of 2018, directors rate climate change as the top long term priority the federal government should address, followed by infrastructure, an aging population, energy policy and taxation reform.

*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 (%)*

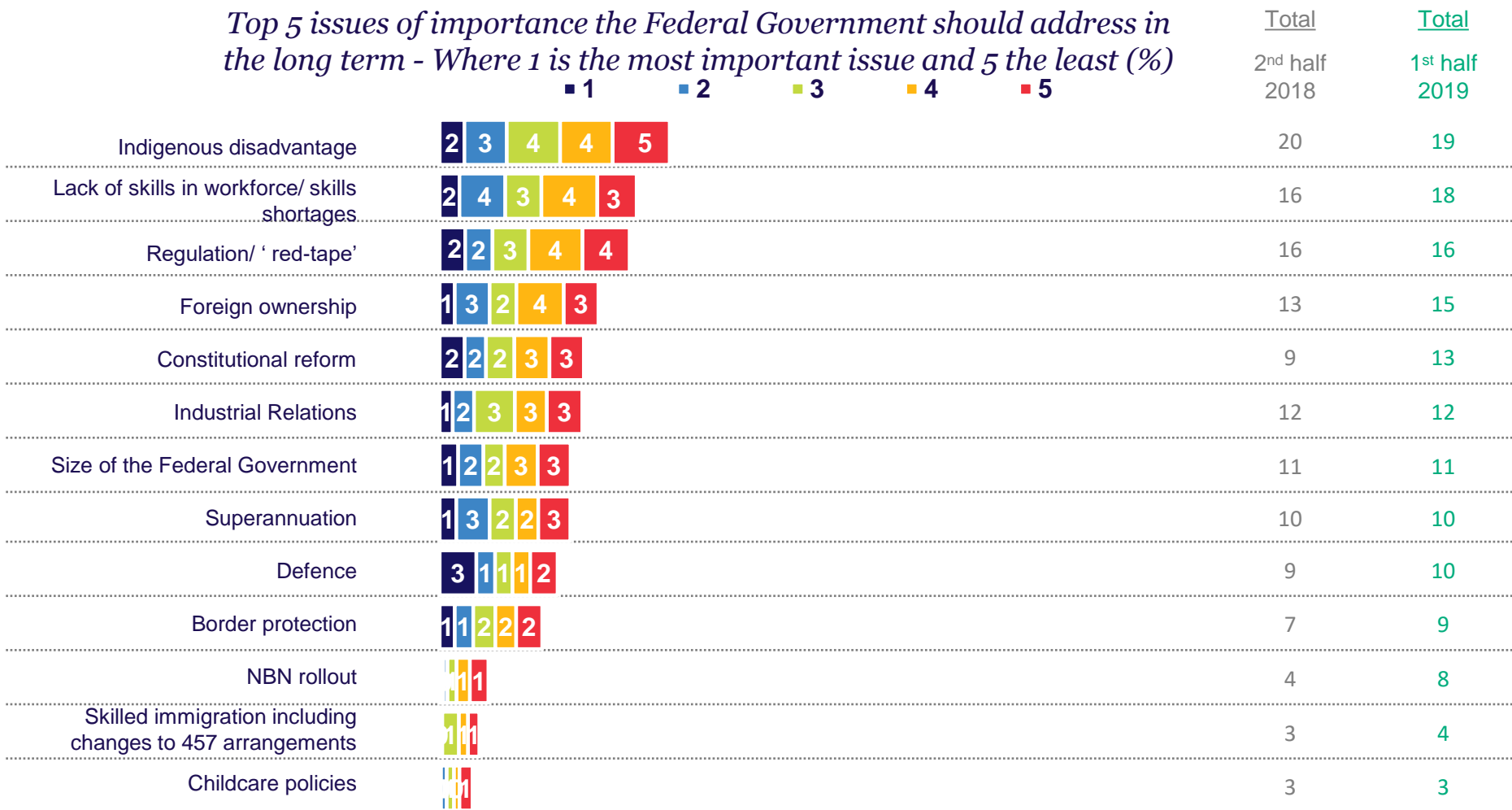


27. Please nominate the top 5 issues of importance, in your opinion, that the federal government should address in the long term (i.e. in the next 10-20 years), where 1 is the most important issue and 5 is the least important.

Base: All respondents n=927

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

*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 (%)*



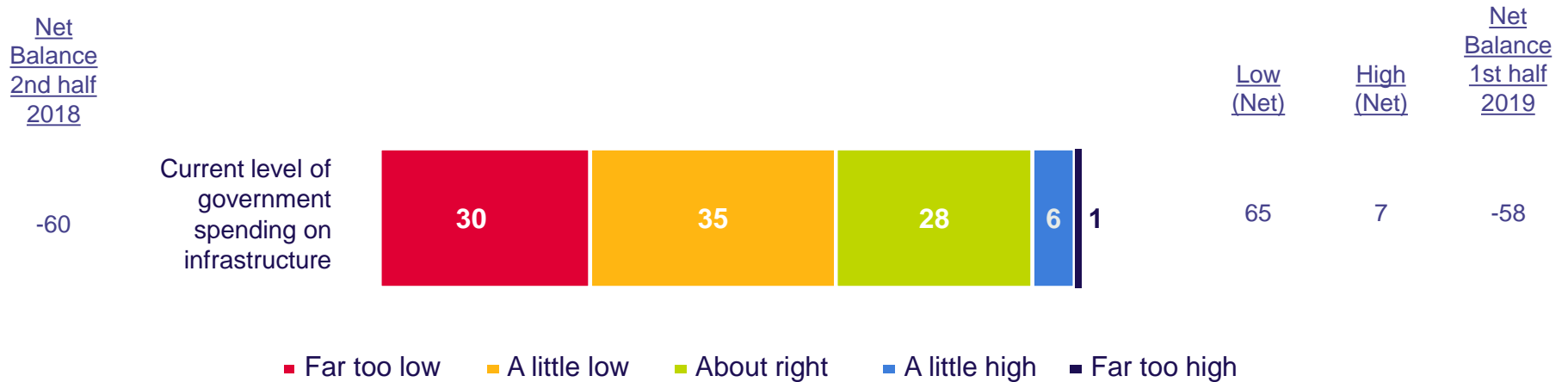
27. Please nominate the top 5 issues of importance, in your opinion, that the federal government should address in the long term (i.e. in the next 10-20 years), where 1 is the most important issue and 5 is the least important.

Base: All respondents n=927

# Current level of government spending on infrastructure

Opinion regarding the level of government spending on infrastructure remains negative, with 65% of directors maintaining the belief that government spending on infrastructure is low.

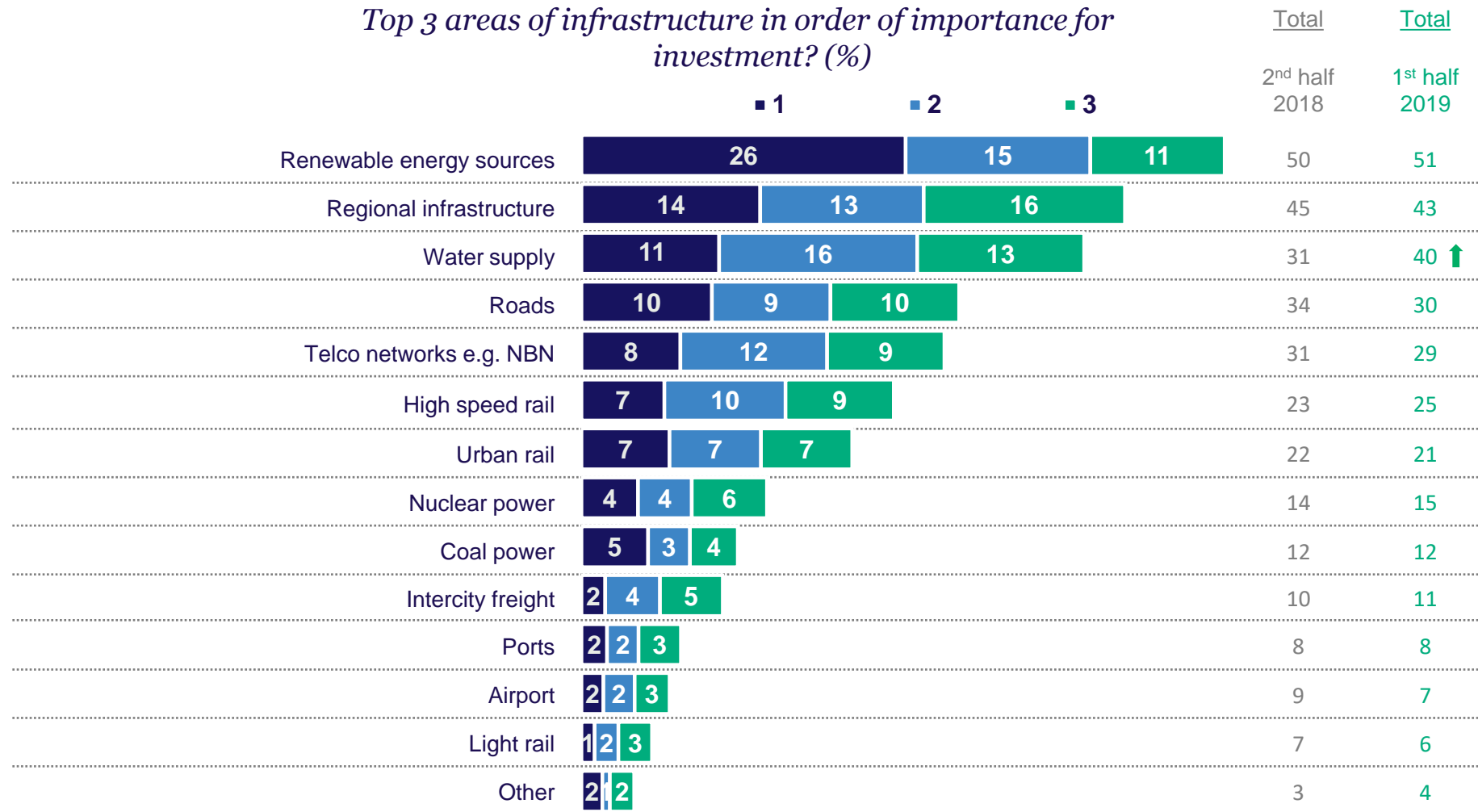
Opinion on current level of government spending on infrastructure (%)



# Investment in Infrastructure (Top 3)

51% of directors rate renewable energy sources as the top area of importance for infrastructure investment, followed by regional infrastructure and water supply.

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



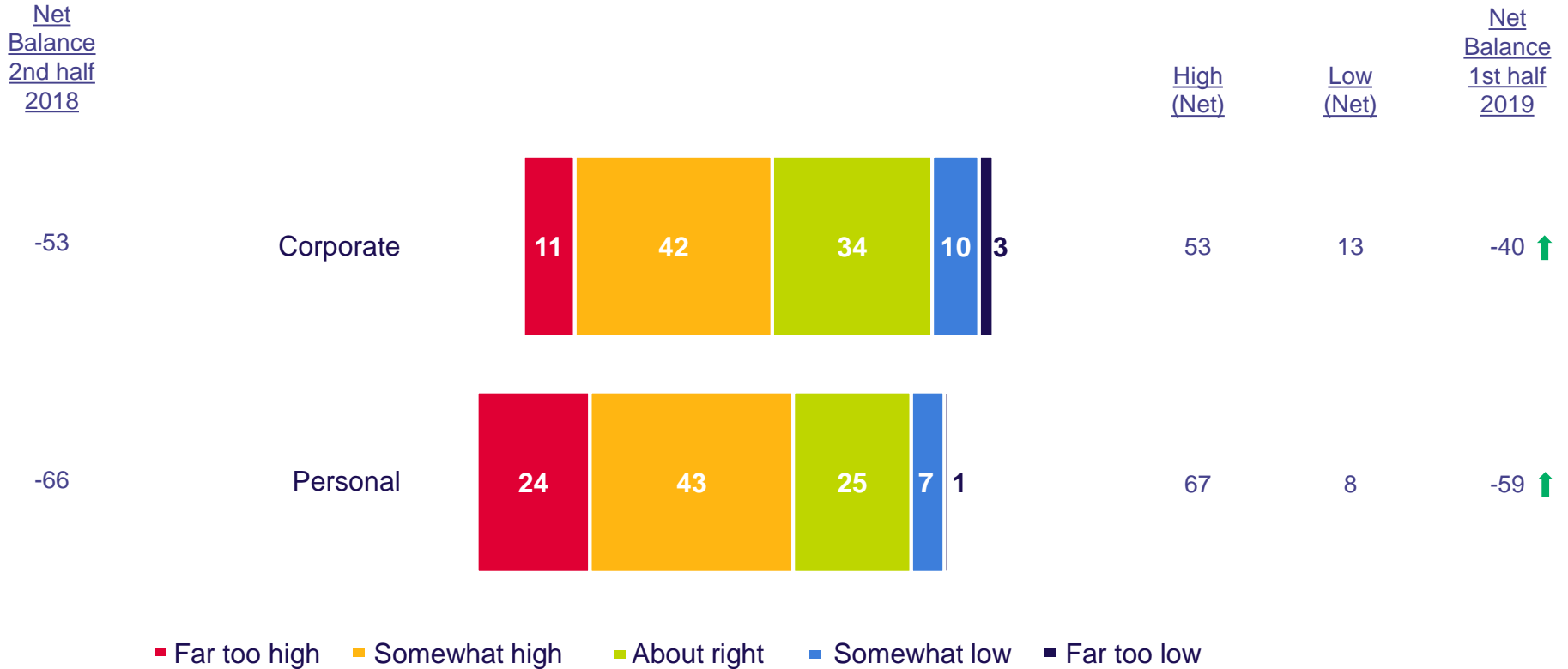
# Government Policy

## *Taxation*

# Level of taxation in Australia

Directors continue to view the level of taxation in Australia in the first half of 2019 as high.

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



# Reform of taxation system

Directors rate personal income tax, followed by company tax 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 tax reform in any future comprehensive review of the current taxation system (%)*

		Total 2nd half 2018	Total 1st half 2019
Personal income tax	52	50	52
Company tax	48	53	48
State based taxes e.g. payroll tax	45	43	45
Multinational tax arrangements, e.g. transfer pricing	39	40	39
GST	29	36	29 ↓
Superannuation taxation	25	23	25
Negative gearing	21	20	21
Capital gains tax	15	14	15
Tax arrangement for NFPs	10	9	10
Dividend imputation	10	4	10 ↑

# Government Policy

## *Regulation*



# Main measures to lift national productivity

Directors continue to nominate less focus on short termism as the top measure for lifting national productivity, followed by a greater focus on fostering innovation, better standards of education, more infrastructure spending and faster adoption of technology.

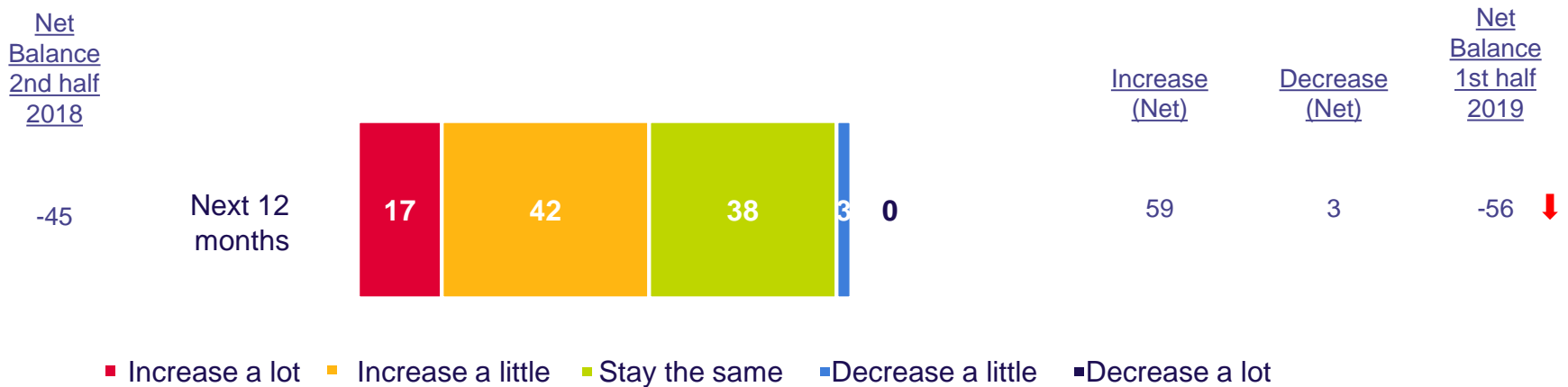
Main measures to lift national productivity (%)

		Total 2 <sup>nd</sup> half 2018	Total 1 <sup>st</sup> half 2019
Less focus on short termism	46	47	46
A greater focus on fostering innovation	33	35	33
Better standards of education	28	28	28
More infrastructure spending	28	28	28
Faster adoption of technology	26	22	26
Improved outcomes between the Commonwealth and the States/Territories	25	24	25
More efficient transport networks	23	19	23
Broad-based tax reform	23	30	23 ↓
Industrial relations reform	18	22	18
Lower company tax rates	17	19	17
Lower personal tax rates	16	12	16
Lower government spending	4	5	4
A lower exchange rate	2	2	2
More competition from offshore	2	1	2
Interest rate cuts	1	2	1
Other	4	3	4

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

Directors continue to expect the level of 'red-tape' to increase in the next 12 months, with 59% expecting an increase.

Level of 'red-tape' – next 12 months

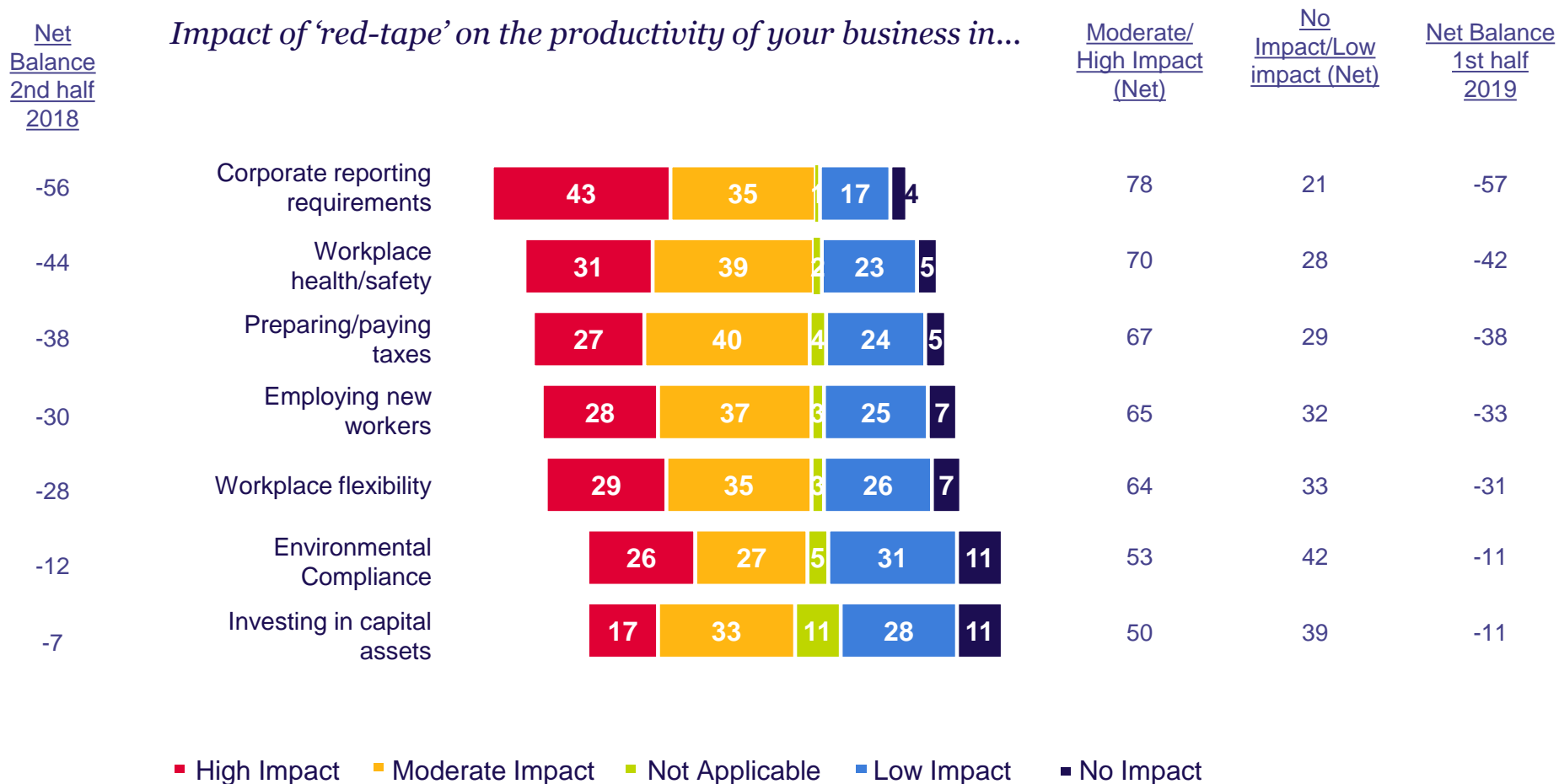


23. What is your expectation of changes in the level of "red-tape" over the next 12 months?

Base: All respondents n=927

# Impact of 'red-tape' on business productivity

78% of directors identify corporate reporting requirements as the aspect of their business most affected by 'red-tape'. This is followed by workplace health/safety and preparing/paying taxes.



24. What impact (cost/time) does 'red-tape' have on the productivity of your business in the following areas?

Base: All respondents n=927

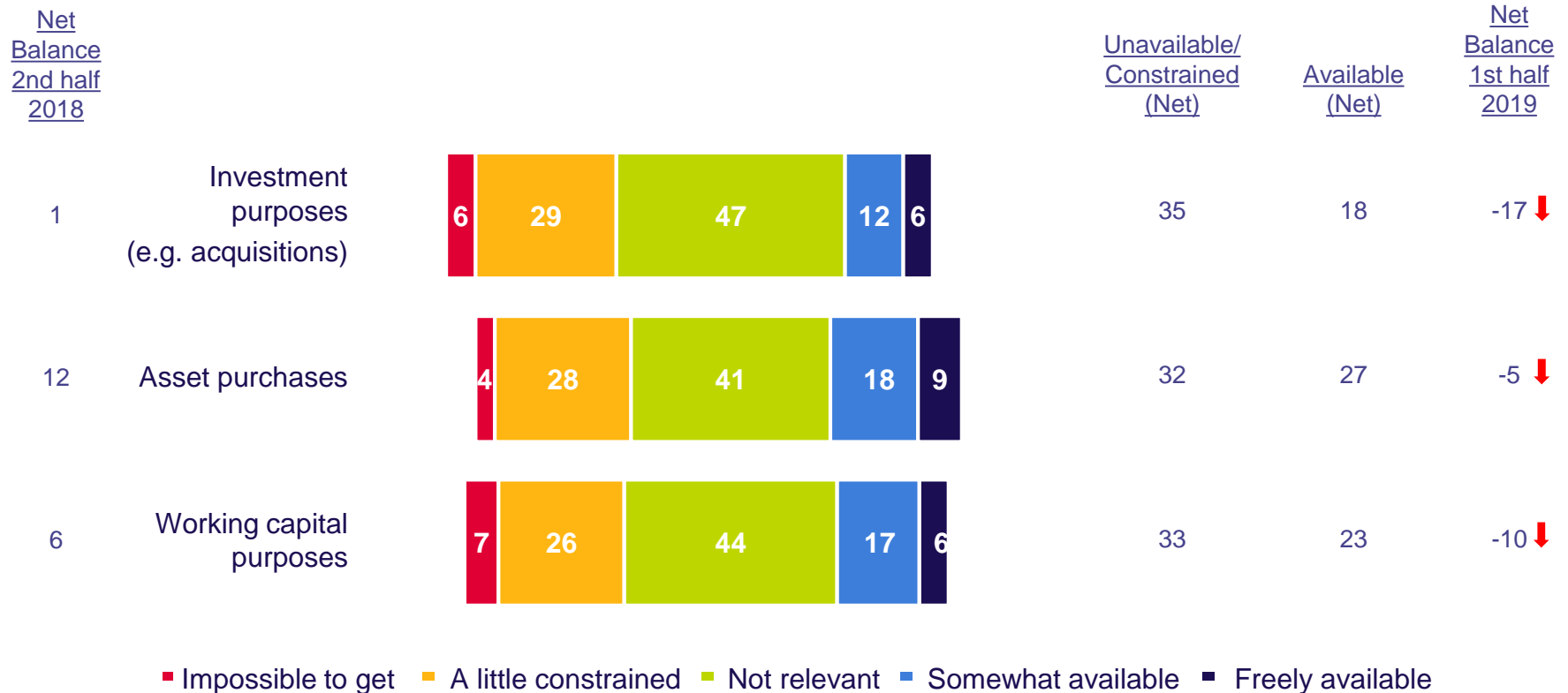
Government Policy

*Credit Availability*

# Credit availability for business – Jul-Dec’18

*Experience around credit availability for businesses over the past six months has significantly worsened compared to the second half of 2018.*

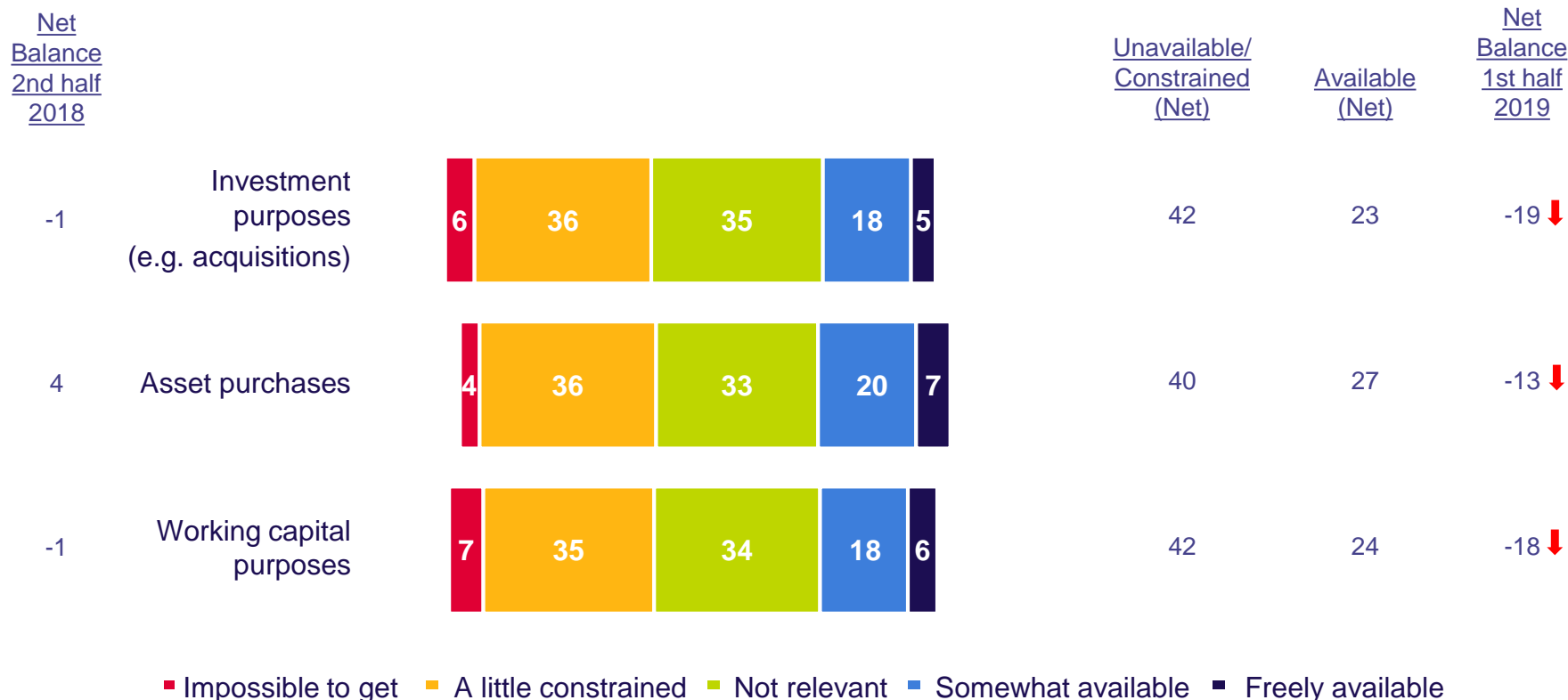
*Credit availability for business – Jul-Dec’18 (%)*



# Credit availability for business – next 12 months

*Expectations of credit availability in the future have become more negative compared to the second half of 2018. 42% of directors expect credit for working capital purposes will be unavailable/constrained in the next twelve months, 42% expect the same regarding credit for investment purposes and 40% expect the same regarding asset purchases.*

*Credit availability for business - next 12 months (%)*



# Government Policy

## *Industrial Relations*

# Extent Federal government should pursue industrial relations reform

*Directors are split on the need for significant industrial relations reform.*

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

	1 <sup>st</sup> half 2019
Significant reform in the next term of government	44
No significant reform of industrial relations is required	56



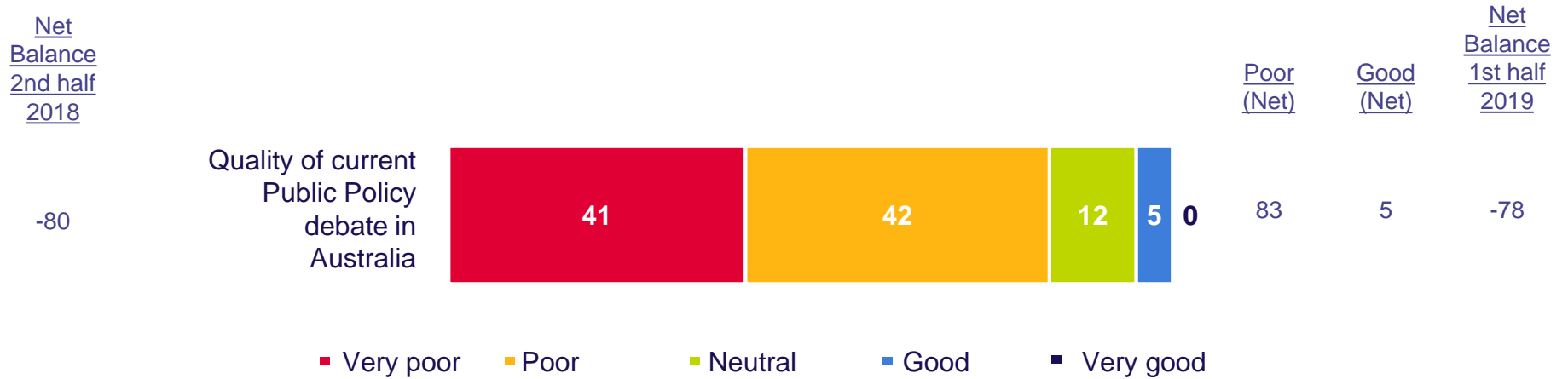
# Government Policy

## *Public Policy*

# Quality of Public Policy debate

Similar to the second half of 2018, 83% of 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

Directors remain negative about the effect of the Federal Government's current performance, with 74% perceiving a negative effect on consumer confidence and 53% perceiving a negative effect on their business decision making.

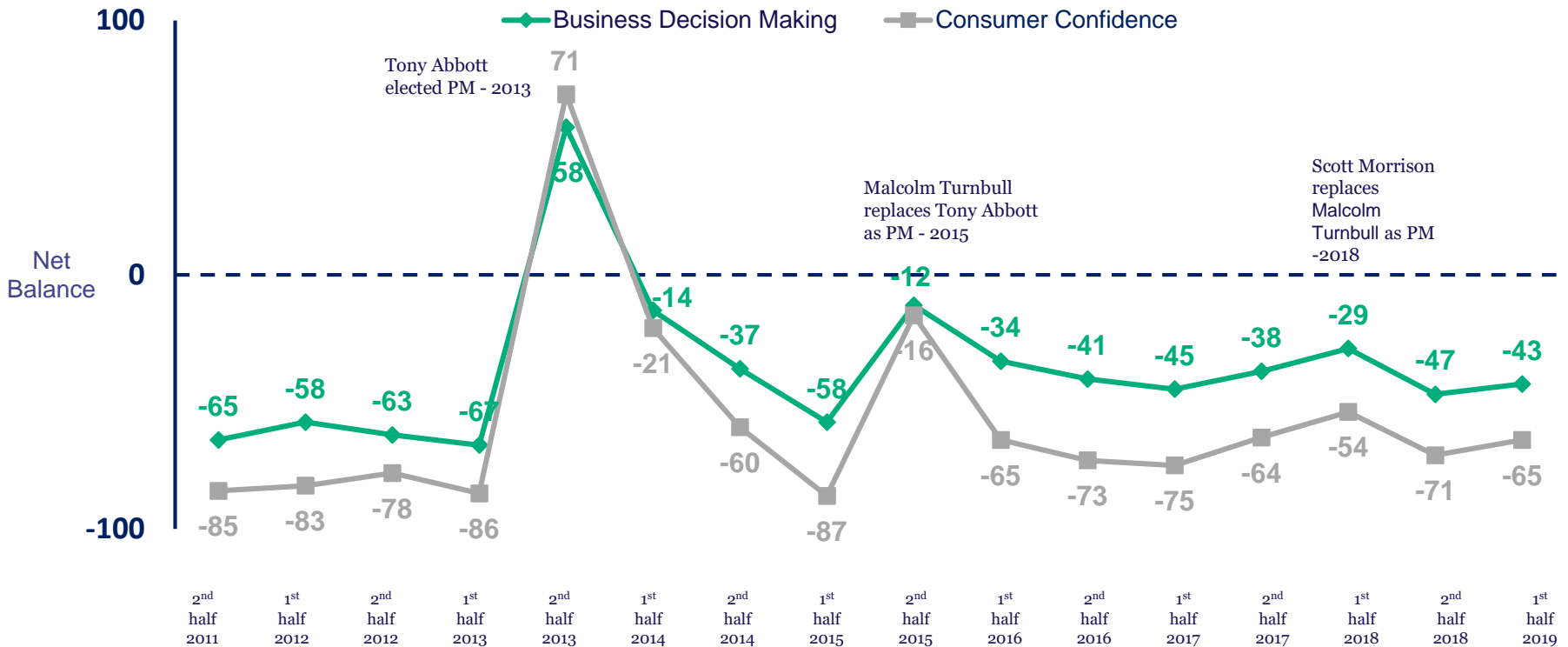
Effect of current federal government's performance on... (%)



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

The effect of the Federal Government’s performance on business decision making and consumer confidence remains in negative territory.

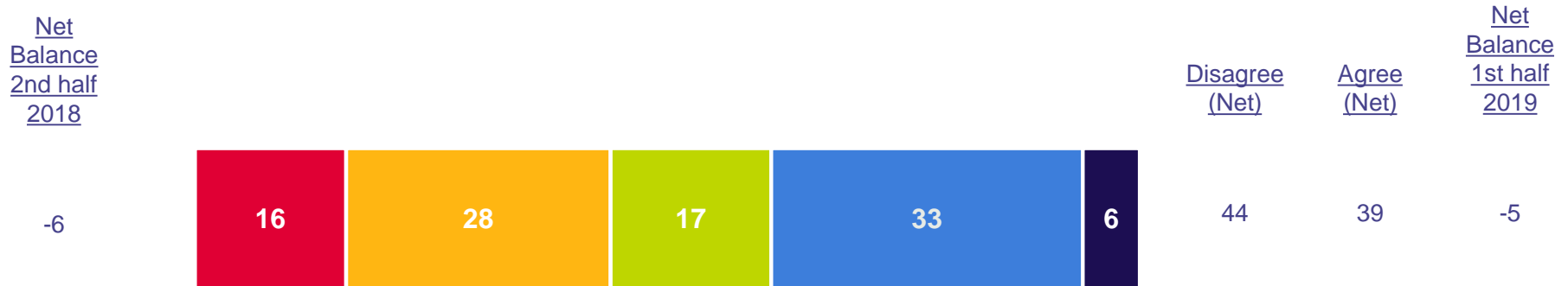
Federal government’s performance affecting... – semi-annual trend (net balance)



# Federal government's understanding of business

Directors are slightly negative about the Federal Government's understanding of business, with 44% disagreeing with the statement that the current Federal Government understands business.

*The current federal government understands business ... ? (%)*



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

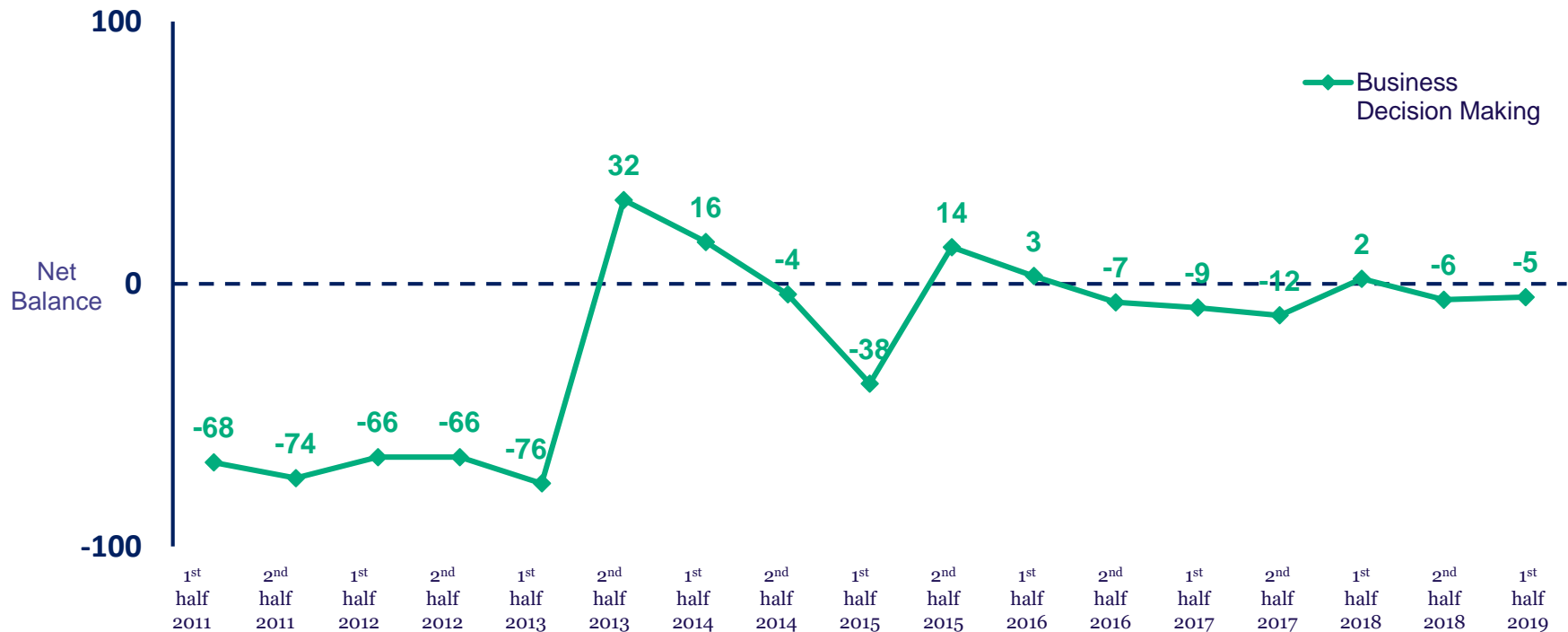
25. To what extent do you agree or disagree with the statement, "The current federal government understands business"?

Base: All respondents n=927

# Federal government's understanding of business – semi-annual trend

The view in the first half of 2019 regarding the Federal Government's understanding of business has remained in negative territory.

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



# Senate's effect on business confidence

70% of directors feel that the make up of the Senate is negatively affecting business confidence.

Senate's effect on business confidence (%)



■ Very negatively 
 ■ Somewhat negatively 
 ■ No effect 
 ■ Somewhat positively 
 ■ Very positively

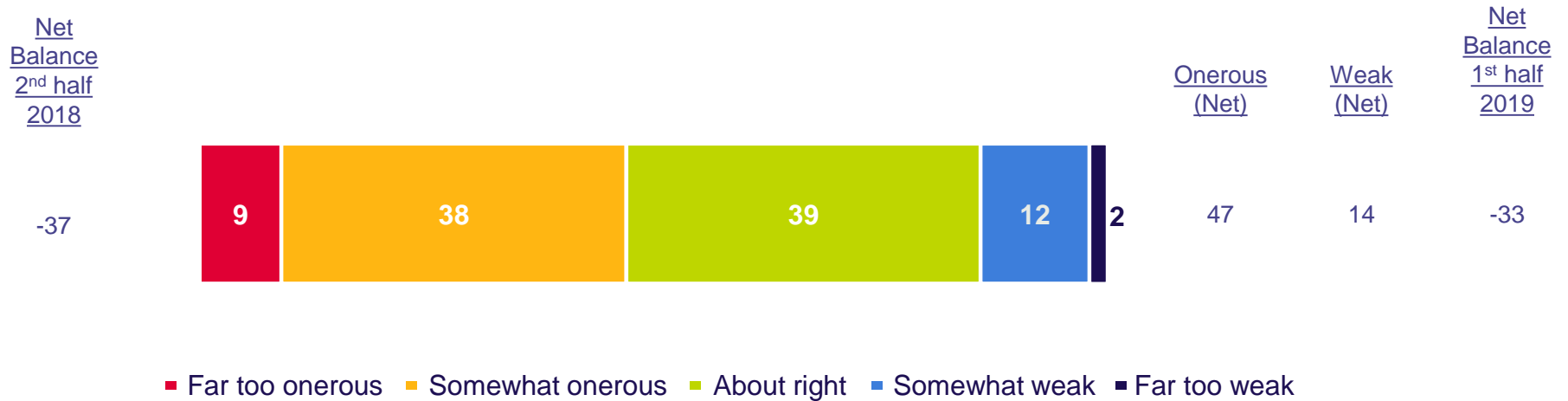


# Key Issues for Directors and Boards

# Current governance regulations

Directors continue to feel negative about current governance regulations, with 47% perceiving them to be onerous.

Are current governance regulations...? (%)

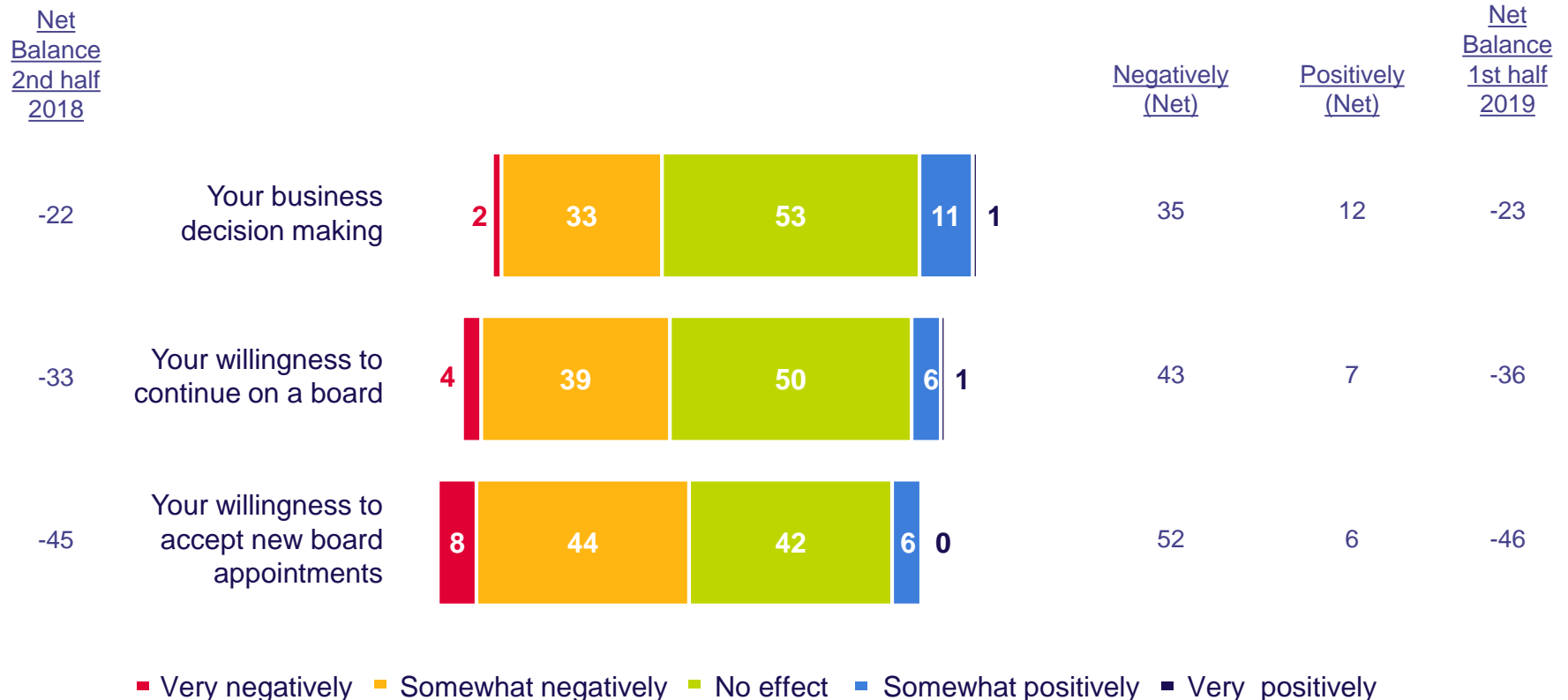


34. In your opinion, are current governance regulations...?  
Base: All respondents n=927

# Impact of legislation on director liability

52% of directors believe legislation on directors' liability is negatively impacting on their willingness to accept new board appointments.

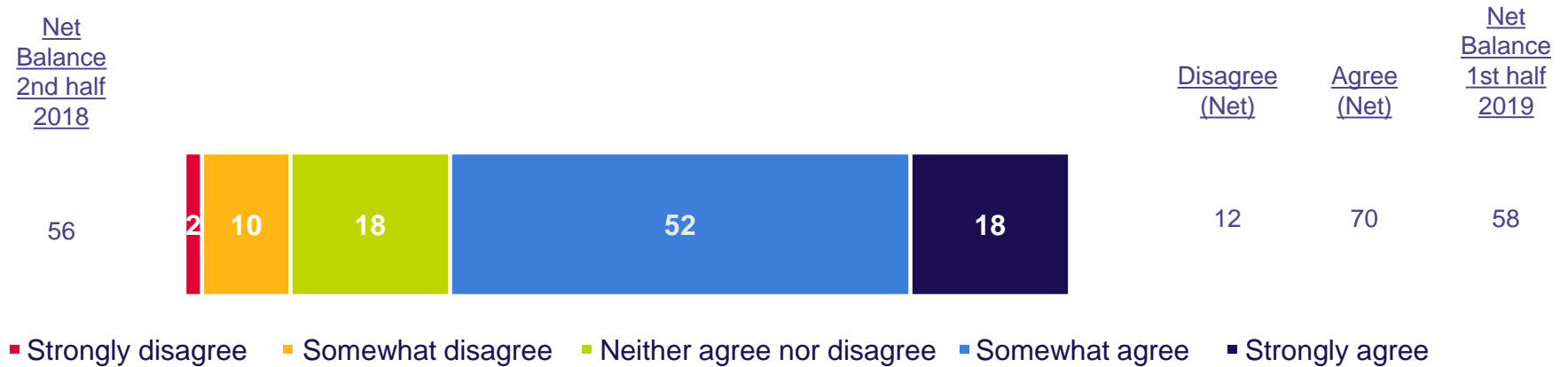
How legislation on directors' liability is affecting... (%)



# Business decision making and risk aversion

70% 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? (%)



# Reason for risk-averse decision making culture

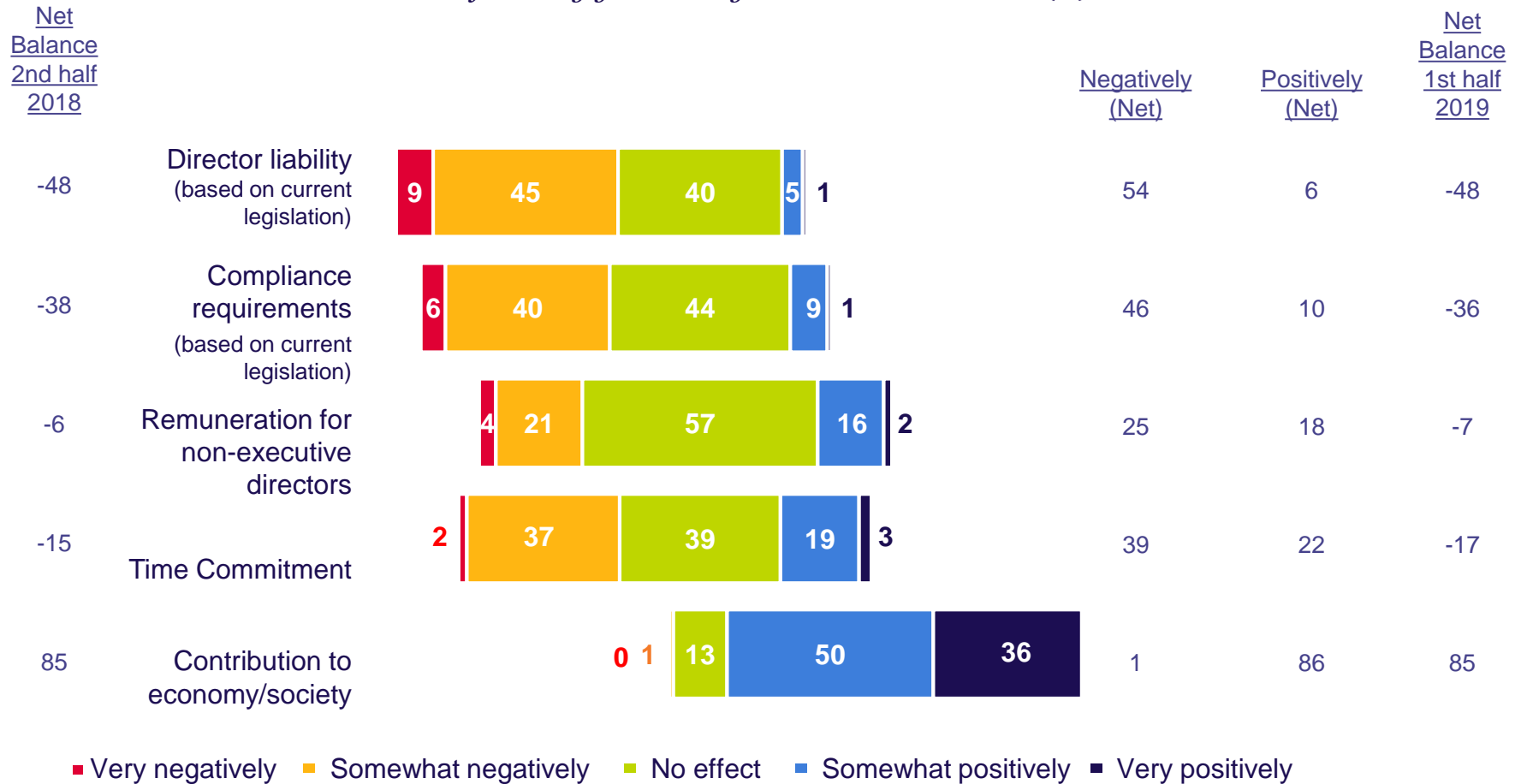
30% of directors believe the reason there is a risk-averse decision making culture on Australian boards is due to excessive focus on compliance over performance, followed by pressure from shareholders for short-term returns.

Main reason that there is a risk-averse decision making culture (%)	Total	Total
	2nd half 2018	1st half 2019
Excessive focus on compliance over performance	28	30
Pressure from shareholders for short-term returns	21	21
Lack of genuine diversity in the boardroom	11	13
Uncertainty surrounding national policy settings	9	10
Director liability provisions	9	9
Increased penalties for directors	7	6
Excessive scrutiny from the media	5	5
Class actions	3	2
Excessive scrutiny from investors	1	1
Uncertainty about new technologies	2	1
Other/something else	2	3

# Factors influencing your willingness to serve on a board

Consistent with the second half of 2018, 86% of directors believe that the contribution they make to the economy and society influences their willingness to serve on a board, while 54% 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

Directors remain negative about the adequacy of public company remuneration reports, with 45% of directors perceiving them to be inadequate.

Adequacy of public company remuneration reports (%)

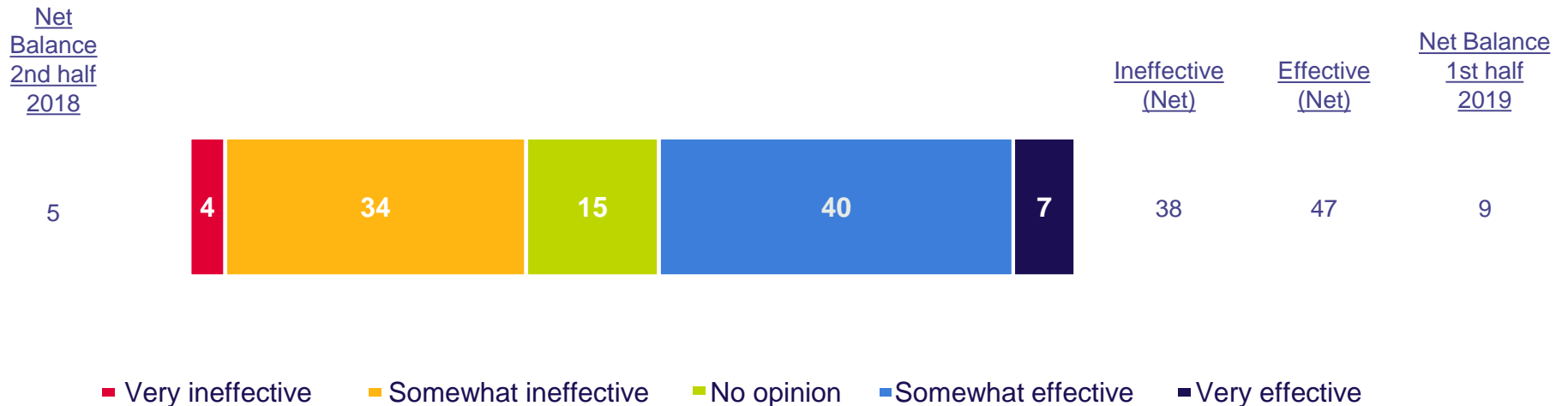


■ Wholly inadequate 
 ■ Somewhat inadequate 
 ■ About right 
 ■ Somewhat adequate 
 ■ Very adequate

# Effectiveness of corporate reporting

Director opinion is mixed about the effectiveness of corporate reporting, with a marginally higher proportion rating it as effective versus ineffective.

Effectiveness of corporate reporting(%)

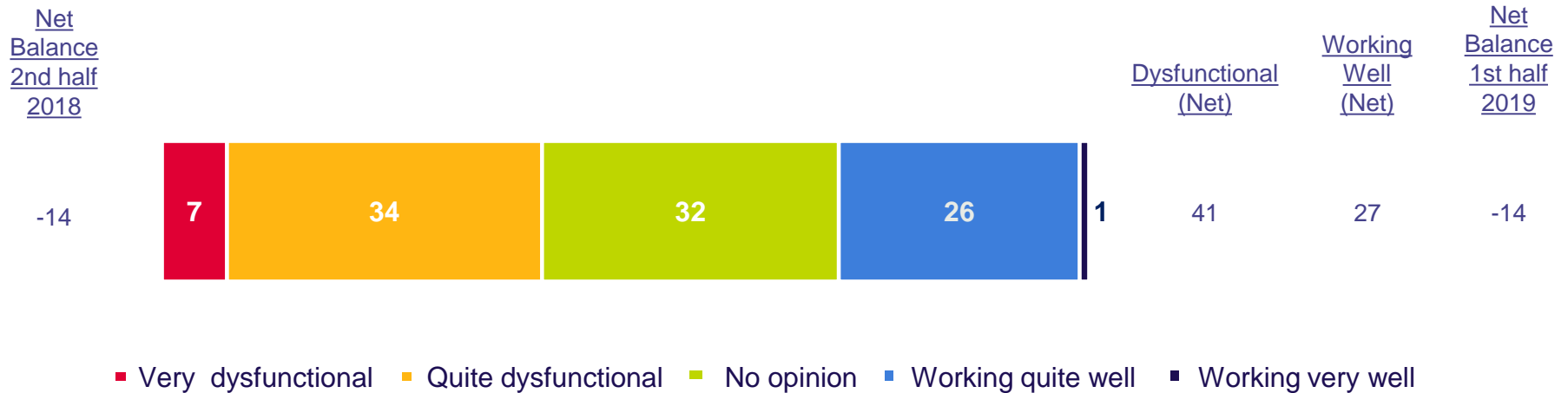




# Current AGM system

Opinion regarding the current AGM system remains consistent in the first half of 2019, with 41% of directors believing that the current AGM system is dysfunctional.

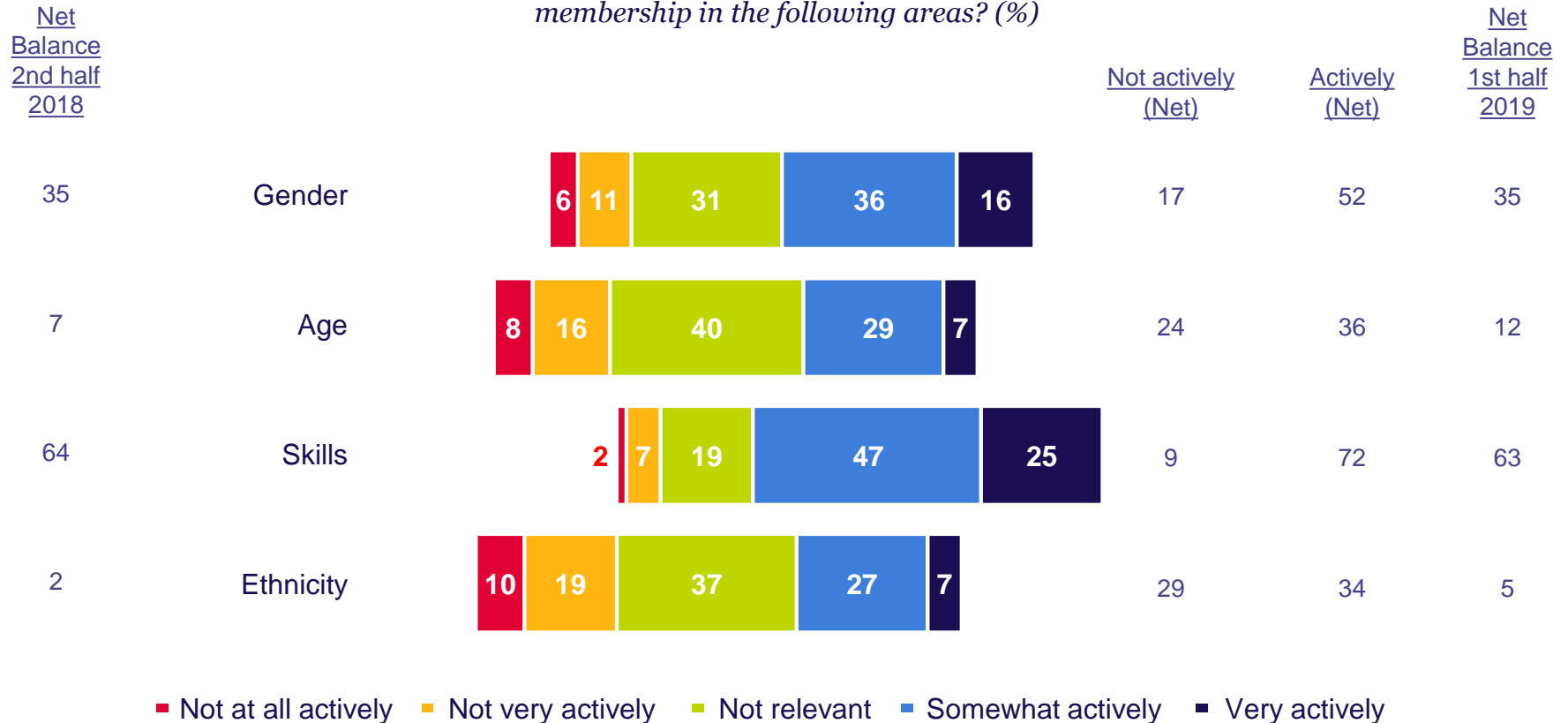
Functionality of the current AGM system (%)



# Board diversity: policy and efforts to increase

The effort made to increase the diversity in board membership was stable in the first half of 2019. 72% of directors state their business is actively seeking to improve skills diversity and 52% are actively trying to increase diversity in terms of gender.

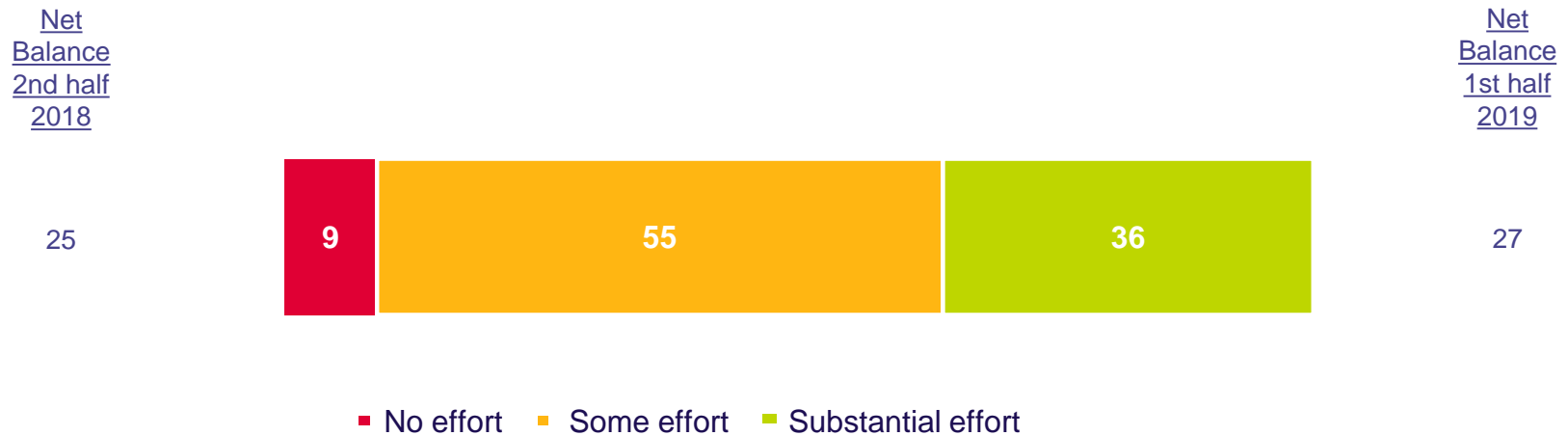
To what extent is your board actively seeking to increase diversity of board membership in the following areas? (%)



# Extent Board is trying to effect change in culture

91% of directors believe their Board is trying to effect change in culture within their organisation.

*Extent Board is trying to effect change in culture in the organisation (%)*



# Steps to regain and rebuild public trust

53% of directors believe that demonstrating respect for customers/clients/communities should be prioritised by boards in order to rebuild public trust, followed by trustworthiness of leadership and improving corporate culture.

Steps boards to take to regain/rebuild public trust (%)

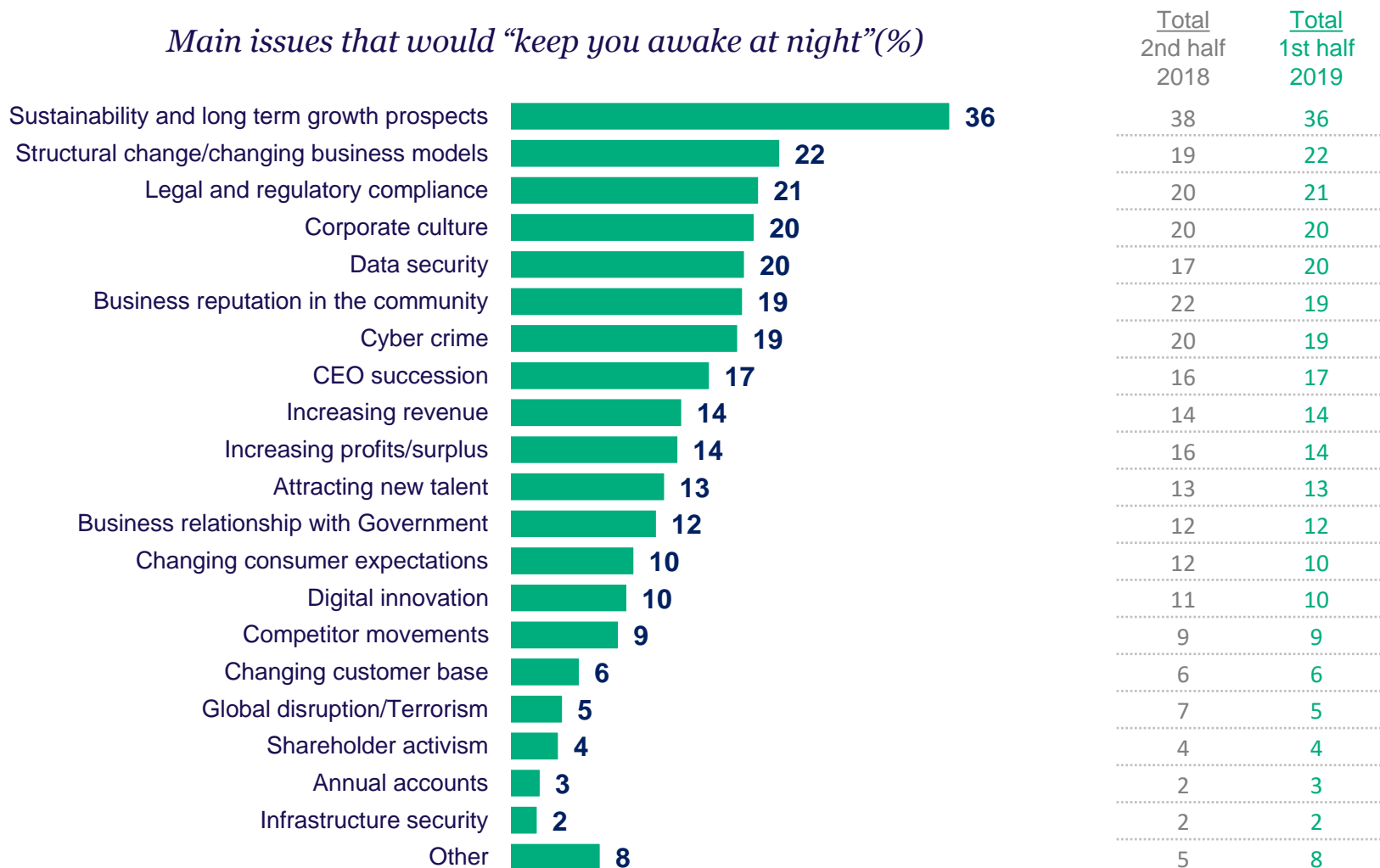


# Topical Issues

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

*Sustainability and long term growth prospects continues to be the main issue that keeps directors “awake at night”. Structural change/changing business models, legal and regulatory compliance, corporate culture and data security are also pertinent.*

*Main issues that would “keep you awake at night”(%)*



# Summary of Key Indicators

# Summary of key indicators

(1 of 6)

Indicator (expected change in coming 12 months)	Scale	1 <sup>st</sup> half 2019 net balance	2 <sup>nd</sup> half 2018 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-37 ↓	2
Health of the Asian economy	Weak/strong	15 ↓	33
Health of the Chinese economy	Weak/strong	-9	n/a
Health of the European economy	Weak/strong	-55 ↓	-33
Health of the US economy	Weak/strong	-6 ↓	21
Inflation rate (Australia)	Lower/higher	4 ↓	35
Exchange rate (value of AUD versus USD)	Lower/higher	-41	-44
RBA cash rate	Lower/higher	-36 ↓	43
Level of wages growth	Lower/higher	15 ↓	33
Unemployment rate	Lower/higher	19 ↓	-7
Expected change in ASX All Ordinaries index	Fall/rise	-5 ↓	6



# 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 2019 net balance	2 <sup>nd</sup> half 2018 net balance
<b>Business conditions</b>			
Growth of primary directorship business	Weak/strong	22 ↓	39
Change in business investment levels	Decrease/increase	8 ↓	26
Change in business staffing levels/labour demand	Decrease/increase	15 ↓	29
Change in level of business exports	Decrease/increase	7 ↓	17
Change in level of outsourcing	Decrease/increase	20	23
Expectations of profits for Jan-Jun 2019 actual versus forecast*	Below/up	2 ↓	20
Expectations of profits for Jul-Dec 2019 actual versus forecast*	Below/up	6 ↓	24
Confidence in general business outlook*	Pessimistic/opt	-1 ↓	26
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	9 ↓	32
Expected change in level of mergers and acquisitions	Fall/rise	39 ↓	49
<b>Infrastructure</b>			
Perception of level of government spending on infrastructure*	Low/high	-58	-60
<b>Perception of current level of taxation*</b>			
Perception of current level of corporate taxation*	High/low	-40 ↑	-53
Perception of current level of personal taxation*	High/low	-59 ↑	-66

↑ Significantly higher vs. 2<sup>nd</sup> half 2018@ 95% confidence level

↓ Significantly lower vs. 2<sup>nd</sup> half 2018@ 95% confidence level

# Summary of key indicators

(3 of 6)

Indicator	Scale	1 <sup>st</sup> half 2019 net balance	2 <sup>nd</sup> half 2018 net balance
<b>Regulation, legal issues, reporting</b>			
Expected change in level of 'red-tape' in coming 12 months	Increase/decrease	-56 ↓	-45
Impact of 'red-tape' on preparing/ paying taxes	High impact/low impact	-38	-38
Impact of 'red-tape' on workplace health/safety	High impact/low impact	-42	-44
Impact of 'red-tape' on workplace flexibility	High impact/low impact	-31	-28
Impact of 'red-tape' on employing new workers	High impact/low impact	-33	-30
Impact of 'red-tape' on corporate reporting requirements	High impact/low impact	-57	-56
Impact of 'red-tape' on environmental compliance	High impact/low impact	-11	-12
Impact of 'red-tape' on investing in capital assets	High impact/low impact	-11	-7

# Summary of key indicators

(4 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 <sup>st</sup> half 2019 net balance	2 <sup>nd</sup> half 2018 net balance
<b>Tax, credit, M&amp;A</b>			
Credit availability for investment purposes	Constrained/available	-19 ↓	-1
Credit availability for asset purchases	Constrained/available	-13 ↓	4
Credit availability for working capital	Constrained/available	-18 ↓	-1
<b>Public Policy</b>			
Quality of current Public Policy debate in Australia*	Poor/good	-78	-80
<b>Regulation, legal issues, reporting</b>			
Agreement with 'Federal Government understands business'*	Disagree/agree	-5	-6
<b>Regulation, legal issues</b>			
How is the current Federal Government's performance affecting your business decision making?*	Negatively/positively	-43	-47
How is the current Federal Government's performance affecting consumer confidence?*	Negatively/positively	-65 ↑	-71

↑ Significantly higher vs. 2<sup>nd</sup> half 2018@ 95% confidence level

↓ Significantly lower vs. 2<sup>nd</sup> half 2018@ 95% confidence level

# Summary of key indicators

(5 of 6)

Indicator	Scale	1 <sup>st</sup> half 2019 net balance	2 <sup>nd</sup> half 2018 net balance
<b>Regulation, legal issues</b>			
Perception of governance regulations	Onerous/weak	-33	-37
Extent legislation on directors affect your business decision-making	Negatively/positively	-23	-22
Extent legislation on directors affect your willingness to continue on a board	Negatively/positively	-36	-33
Extent legislation on directors affect your willingness to accept new board appointments	Negatively/positively	-46	-45
Risk-averse decision-making culture on Australian boards	Disagree/agree	58	56
Adequacy of public company remuneration reports	Inadequate/adequate	-29	-24
Effectiveness of corporate reporting	Ineffective/effective	9	5
Functionality of current AGM system	Dysfunctional/ functional	-14	-14

# Summary of key indicators

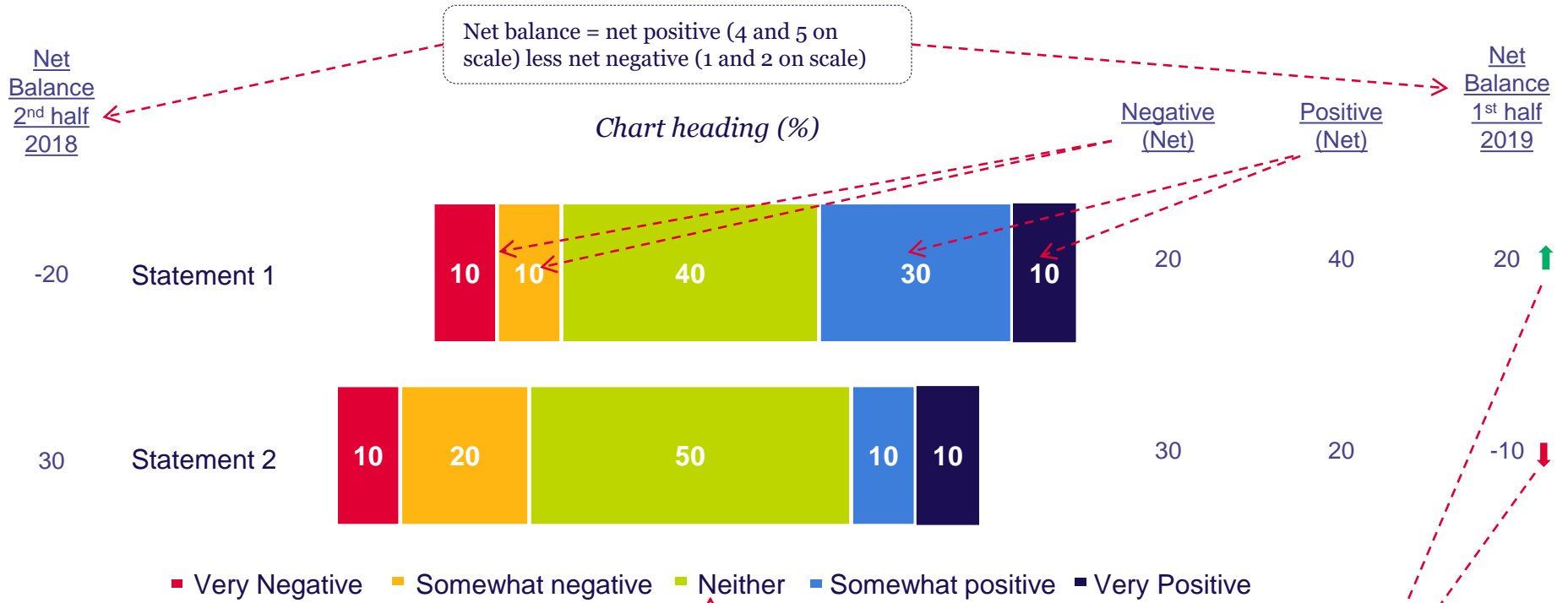
(6 of 6)

Indicator (expected change in coming 12 months, with the exception of*)	Scale	1 <sup>st</sup> half 2019 net balance	2 <sup>nd</sup> half 2018 net balance
<b>Board diversity</b>			
Board actively seeking to increase diversity of gender on board	Not actively/actively	35	35
Board actively seeking to increase diversity of age on board	Not actively/actively	12	7
Board actively seeking to increase diversity of skills on board	Not actively/actively	63	64
Board actively seeking to increase diversity of ethnicity on board	Not actively/actively	5	2
<b>Directorship conditions</b>			
Impact of directors' liability on willingness to serve on a board	Negatively/positively	-48	-48
Impact of compliance requirements on willingness to serve on a board	Negatively/positively	-36	-38
Impact of remuneration on willingness to serve on a board	Negatively/positively	-7	-6
Impact of contribution to economy/society on willingness to serve on a board	Negatively/positively	85	85
Impact of time commitment on willingness to serve on board	Negatively/positively	-17	-15

↑ Significantly higher vs. 2<sup>nd</sup> half 2018@ 95% confidence level

↓ Significantly lower vs. 2<sup>nd</sup> half 2018@ 95% confidence level

# Explanation of charts – example only



5 -point scale where 1= very negative and 5= very positive

↑ Indicates a significant **increase** from 2<sup>nd</sup> half 2018 net balance @95% confidence level  
↓ Indicates a significant **decrease** from 2<sup>nd</sup> half 2018 net balance @95% confidence level

Total number of respondents that answered the question

Question number: Question text  
Base: All respondents n=xxx