



Director Sentiment Index: Research summary

First Half 2020
Delivered by IPSOS Connect

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 regulations.

The survey was conducted with 1,550 members between 12 – 22 March 2020. Given the changing environment in the context of COVID-19, these results represent responses received after 16 March (a sample of 1014).

Gender



Primary directorship based



Primary directorship company



Sentiment plummets

Overall sentiment has plummeted, falling a further 38.4 points to negative 59.6 overall.

The decline is largely due to increased pessimism about the domestic and global economies as the COVID-19 crisis creates unprecedented disruption and uncertainty.

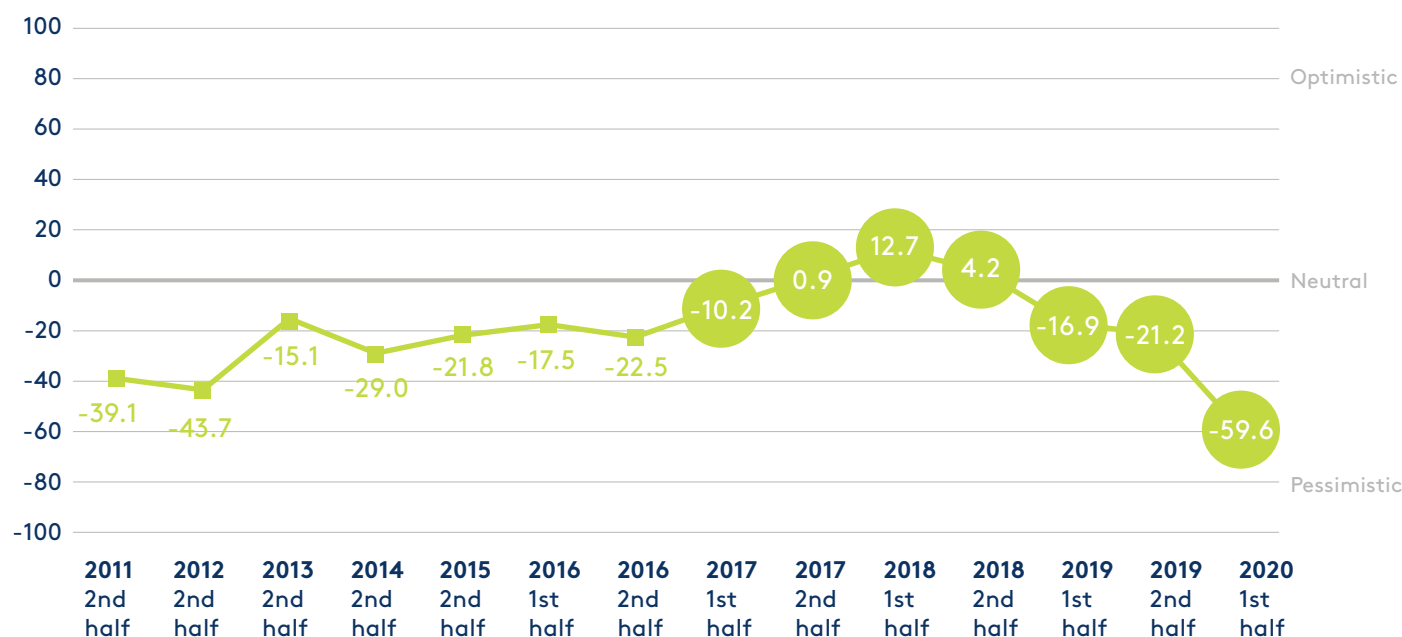
Directors' outlook for the health of the European economy is lowest, followed by the Australian economy, which along with Asia's, are at their lowest point since the inception of the Director Sentiment

Index in 2011. The majority of directors expect the weak conditions to continue in the next 12 months.

The results also highlight that directors continue to feel negative about the impact of legislation on director liability in the first half of 2020.

COVID-19 is the main economic challenge currently facing Australian business, mentioned by nearly nine in ten directors. This is followed by global economic uncertainty, climate change and China's outlook.

Overall Director Sentiment Index

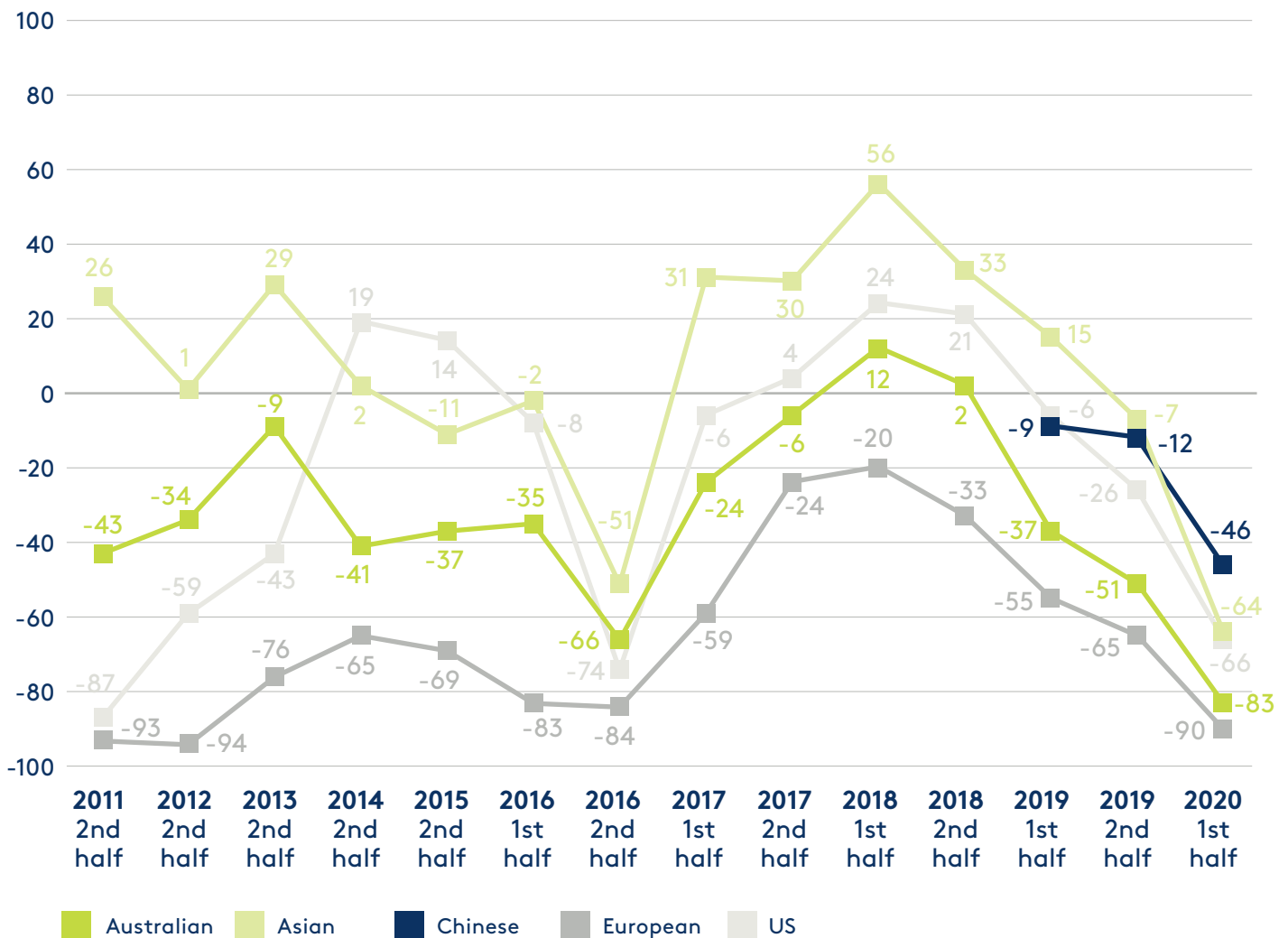


Weak economic conditions on horizon

Director sentiment about the health of world economies has declined significantly in the last six months.

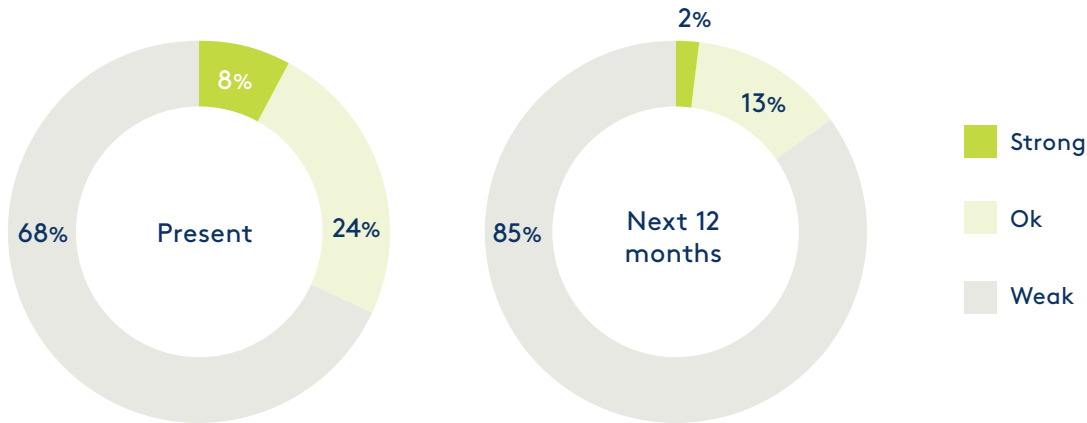
Health of world economies over next 12 months -semi-annual trend

Sentiment regarding all world economies is in negative territory. Directors' outlook for the health of the Australian and Asian economies are at their lowest point since the inception of the tracker.



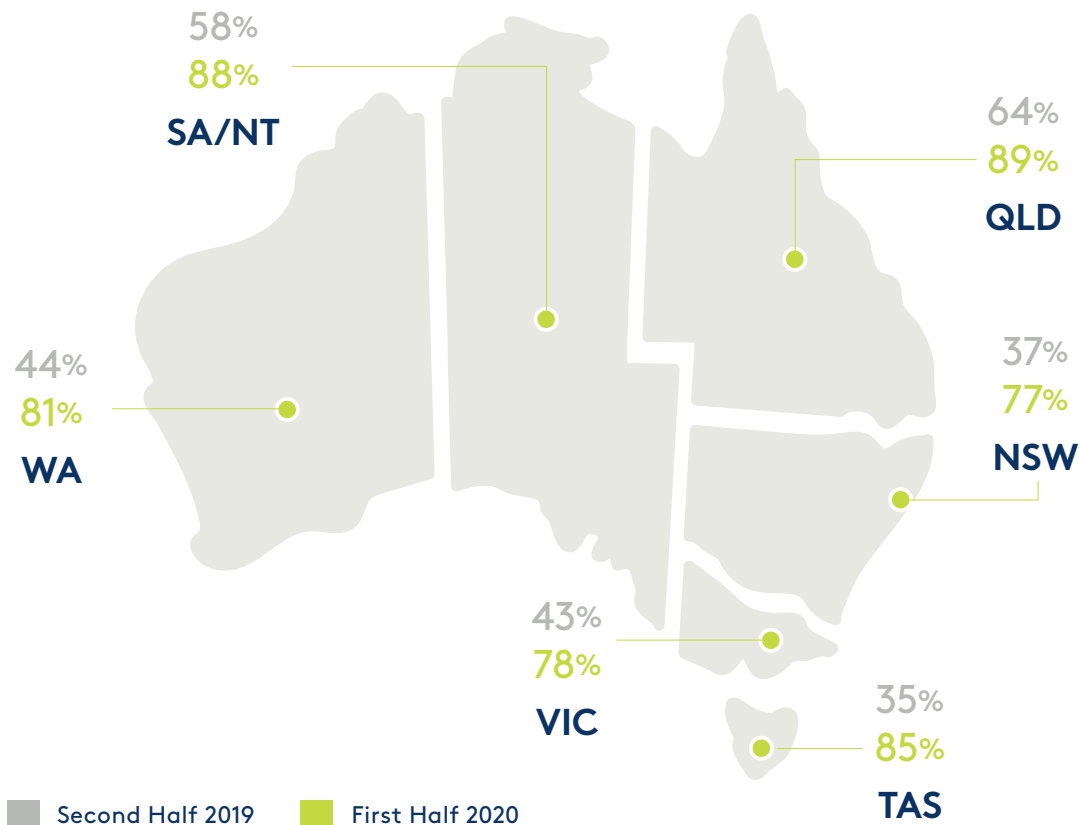
Compared to the second half of 2019, the assessment of the Australian economy now and over the next 12 months is significantly more negative. Only two per cent of directors expect conditions to be strong over the coming year with 85 per cent expecting it to be weak.

Health of Australian economy



Unsurprisingly, the percentage of directors expecting their state/territory economy to be weak over the next 12 months has increased substantially.

Percentage of directors rating economies as weak over next 12 months

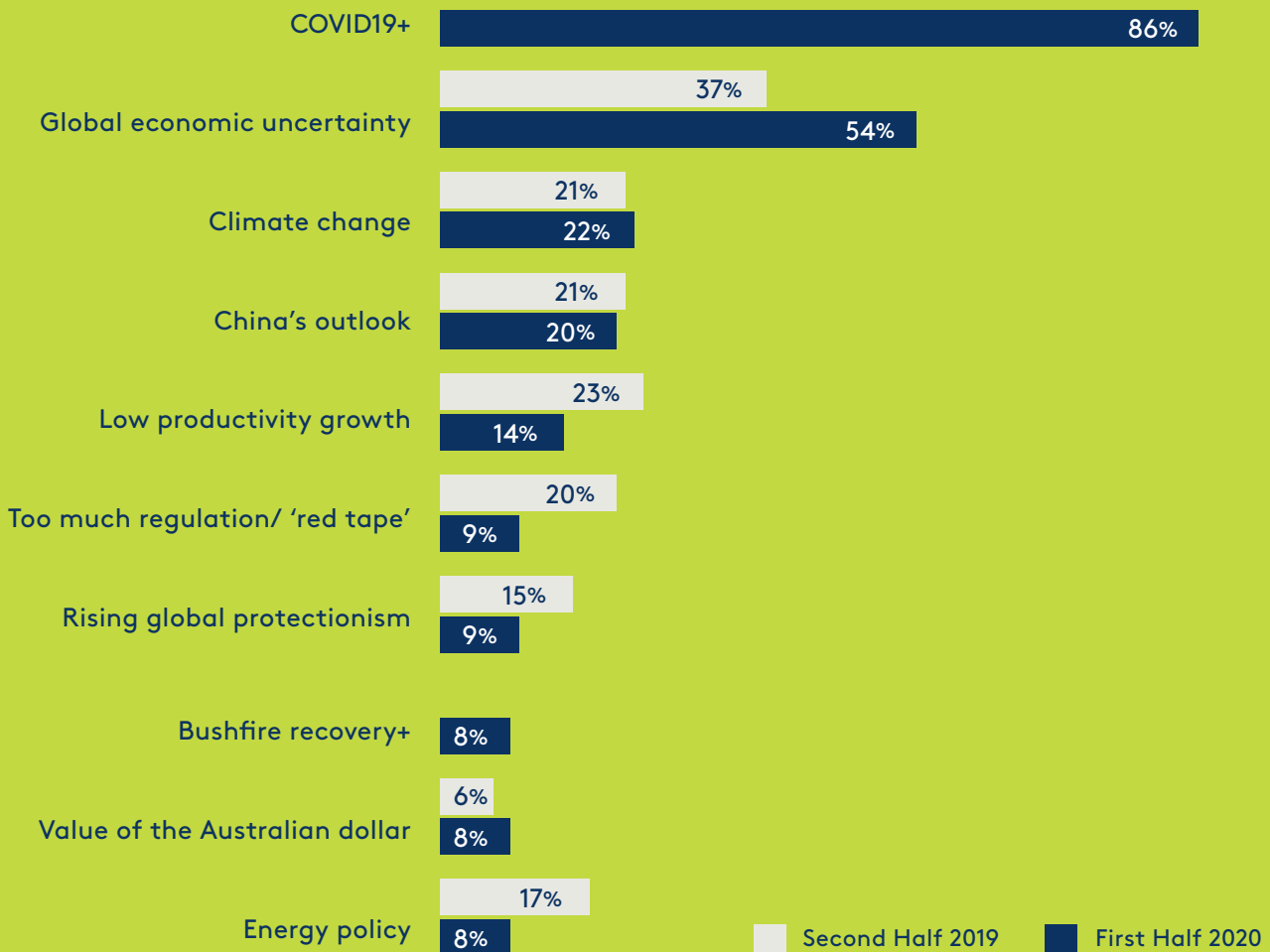


COVID-19 is the main economic challenge

COVID-19 is the main economic challenge currently facing Australian business, mentioned by nearly nine in ten directors. This is followed by global economic uncertainty, climate change and China’s outlook.

Global economic uncertainty, as well as COVID-19 (which was not measured last survey) are mentioned significantly more often by directors compared to the second half of 2019.

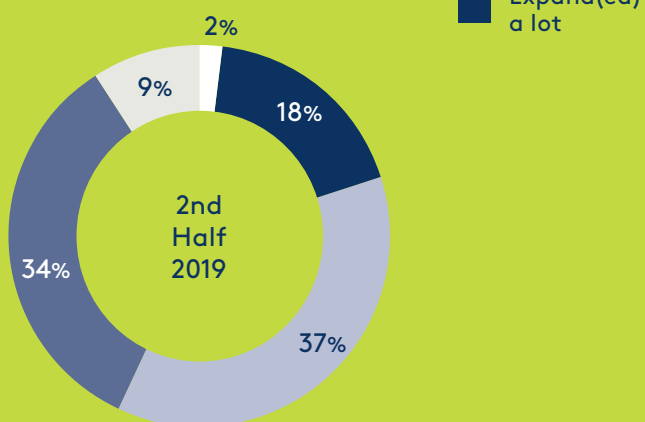
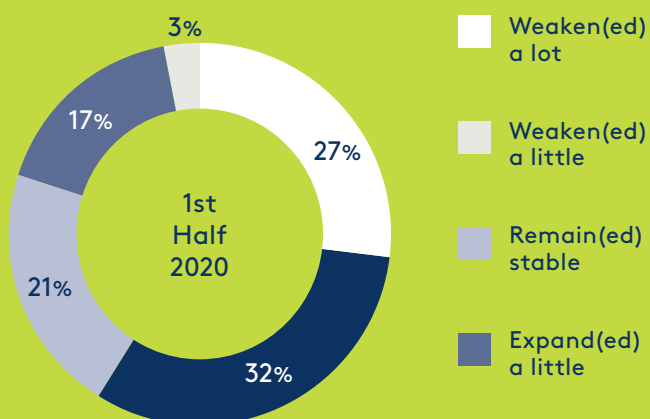
Main economic challenges facing Australian Business



The impact of COVID-19

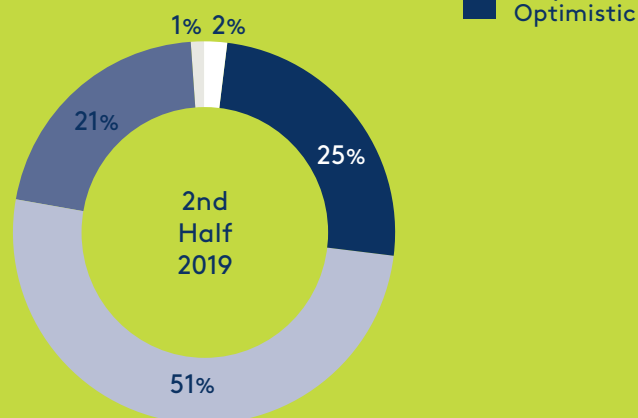
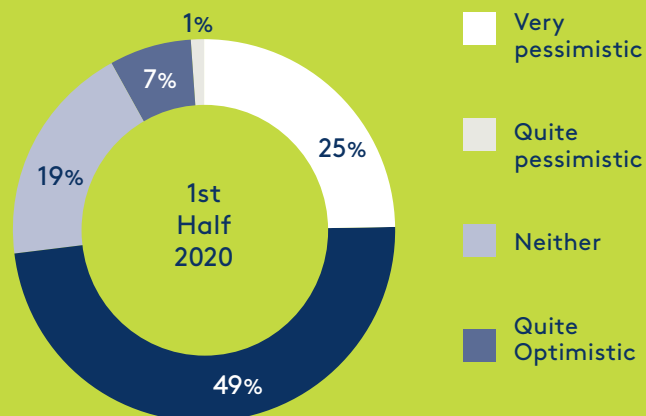
A majority of directors are expecting their business to weaken in the coming year, with 59 per cent now in negative territory, up from 20 per cent from the second half of 2019.

Expected growth in business - coming year



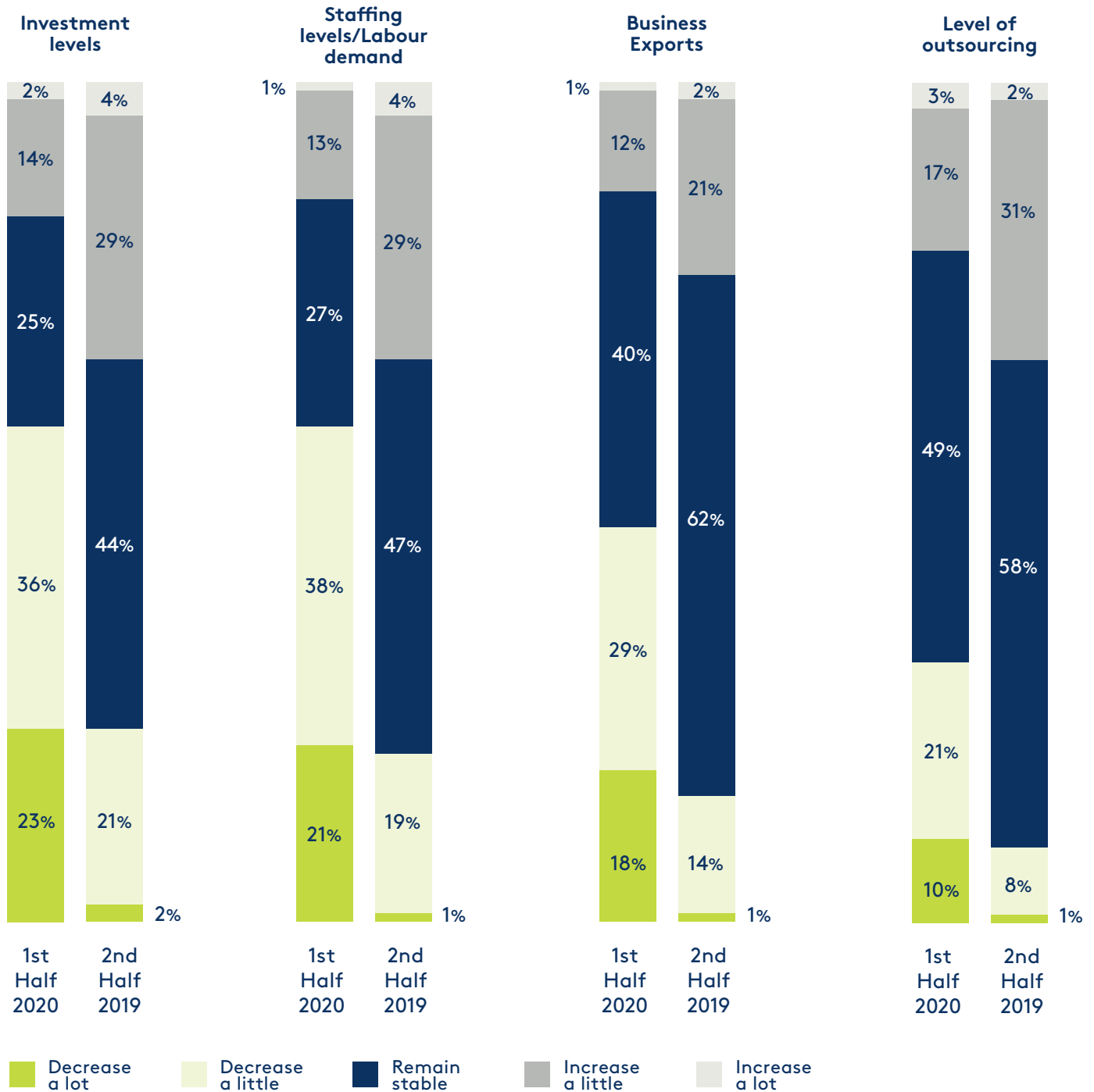
Compared to the second half of 2019, directors' confidence regarding the business outlook in the next 12 months is significantly more negative, with 73% of directors indicating they are pessimistic about the general business outlook (up from 27%) and 54% pessimistic about the business outlook for their own sectors (up from 24%).

Confidence in business outlook



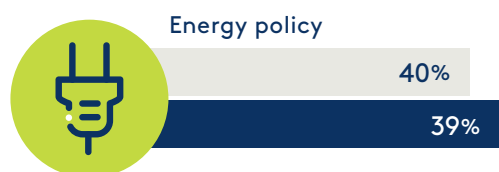
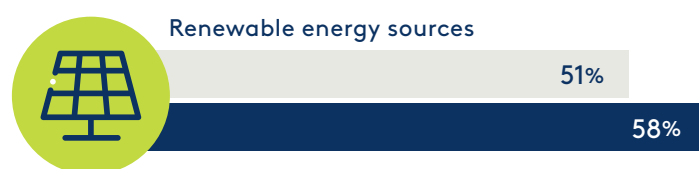
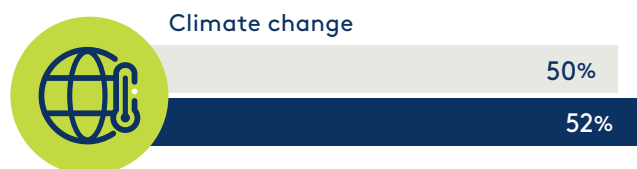
Changes in the business over coming year

Three in five directors expect staffing levels/labour demand and investment levels to decrease over the coming year. For comparison, in the 2nd half of 2019, just one in five directors believed these things would decrease in the coming year.



Consistent with the second half of 2019, directors rate climate change as the top long-term priority the federal government should address, followed by energy policy, infrastructure, taxation reform and international competitiveness.

Directors rate renewable energy sources as the top area of importance for infrastructure investment, with a significantly higher proportion of directors nominating this area compared to the second half of 2019. This is followed by regional infrastructure and water supply (which topped the list in the 2nd half of 2019).



■ Second Half 2019 ■ First Half 2020

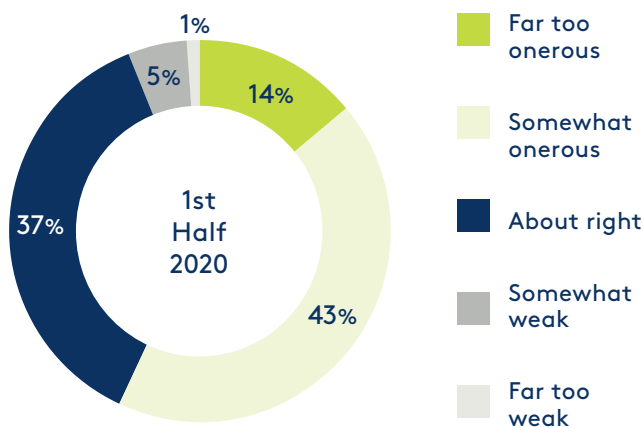


■ Second Half 2019 ■ First Half 2020

Director and board issues

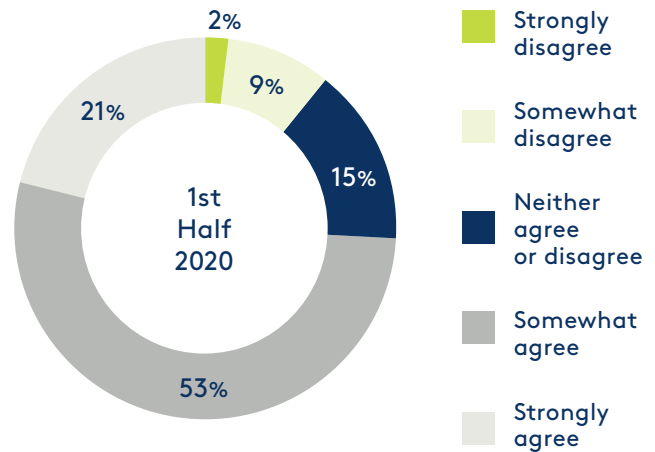
Compared to the second half of 2019, directors are slightly more negative about current governance regulations, with 57% perceiving them to be onerous.

Are current governance regulations onerous?



Directors overwhelmingly agree that there is a risk-averse decision-making culture on Australian boards which is driven by an excessive focus on compliance over performance, followed by pressure from shareholders for short-term returns, lack of genuine diversity in the boardroom and director liability provisions.

Is there a risk-averse decision-making culture on Australian boards?



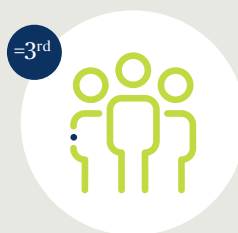
Reason for risk-averse culture



1st
Excessive focus on compliance over performance



2nd
Pressure from shareholders for short-term returns



3rd
Lack of genuine diversity in the boardroom



4th
Director liability provisions

For more information, please contact

e: media@aicd.com.au
