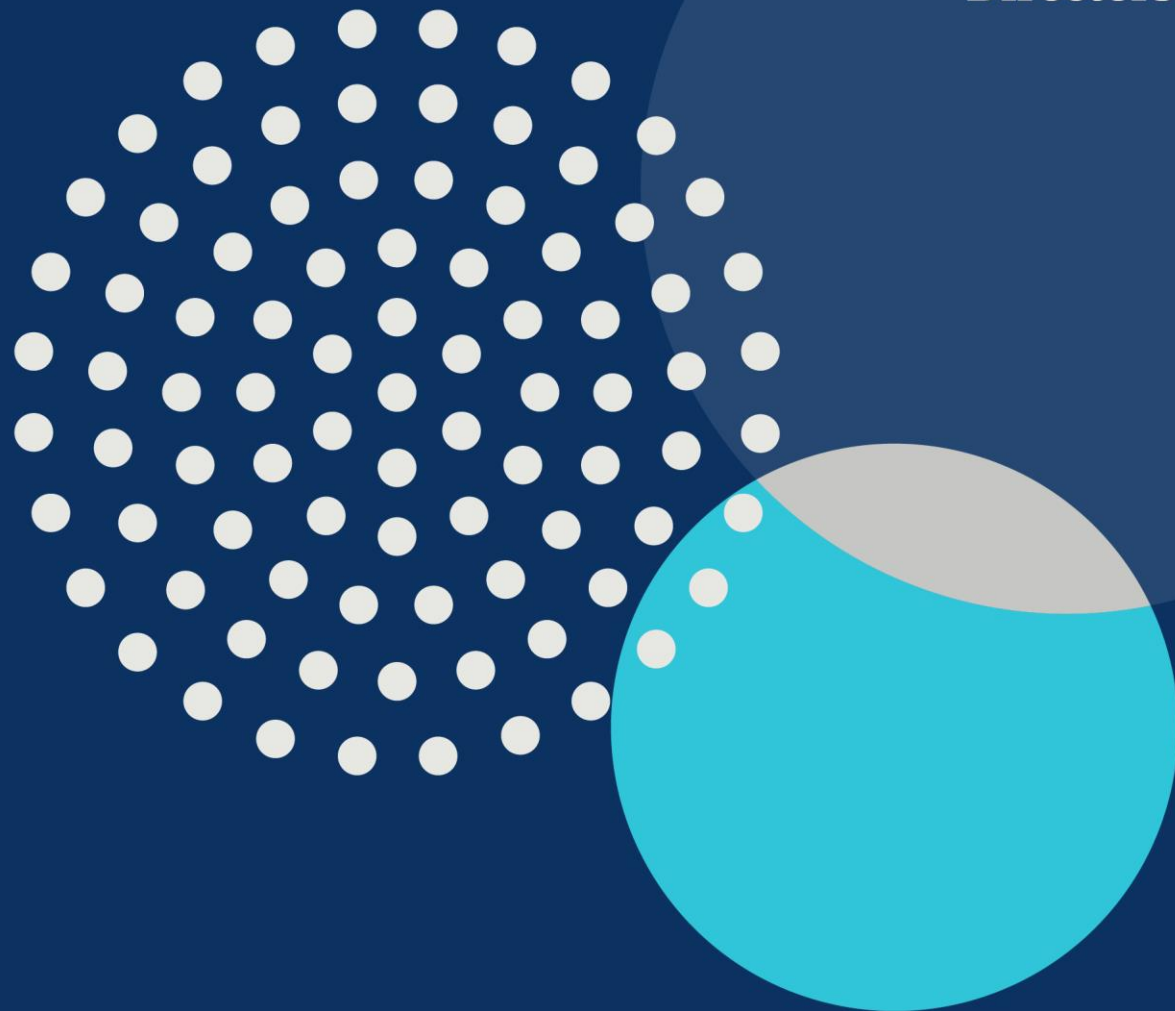


# The governance impact of COVID-19

AICD Member Survey Findings  
June 2020



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# Executive Summary

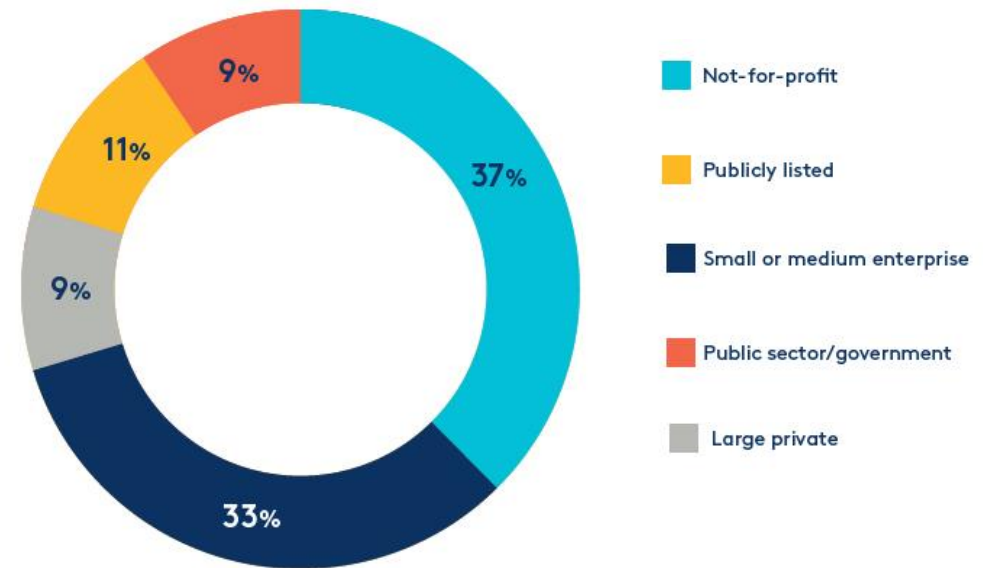
# Sector snapshot

Members of the Australian Institute of Company Directors were invited to take part in the survey between 18 May – 2 June 2020. A total of 2,371 members participated.

The sectoral breakdown of respondents' primary directorship was:

- 11% listed entity
- 9% large private company
- 33% small or medium enterprise (SME)
- 38% not-for-profit (NFP)
- 9% public sector / government.

**Q: Which best describes the organisation of your primary board or governance role?**



## EXECUTIVE SUMMARY

# COVID-19 - Navigating disruption

## Workforce

- Organisations have **implemented a range of cost-savings measures for workforce arrangements from the top down**, with around 44% expecting to have reduced workforces over the next six months.
- At the same time, **40%** also indicate **staffing levels have remained unaffected during the crisis** and are expected, for the most part, to remain unchanged in the aftermath of the crisis - suggesting measures such as the Federal Government's JobKeeper Subsidy Scheme have helped organisations to ride out the worst impact of COVID-19.

## Insolvent trading relief

- **The Federal Government's temporary relaxation of insolvent trading laws has had the greatest impact amongst SMEs**, with 16% (compared with 12% of all respondents) saying it had impacted their decision to continue trading through the crisis.

## Financial reporting

- A significant proportion of directors (**39%**), especially NFPs (43%), are **concerned with making going concern assessments or solvency declarations** in light of the pandemic.
- A significant **minority (28%)** of members from 30 June year end companies **expect difficulties with meeting reporting obligations**.

## Government support measures

- The **JobKeeper Subsidy Scheme** has, of all the COVID-19 policy measures, provided organisations with **by far the greatest relief during the pandemic** – particularly in the SME and NFP sectors.

## EXECUTIVE SUMMARY

# Subdued outlook, need to be bold

### Greatest challenges

- Over the medium-term, members view **broader macro-economic policies and settings** to be the **greatest concerns** for their organisations, while **navigating new health and safety requirements as and when staff return** is anticipated to remain a preoccupation.

### Operating capacity

- Sentiment regarding the **capacity organisations will operate at over the next six months**, compared to pre-COVID-19 levels, is understandably subdued – with an **average of 84%** across all respondents.

### Strategic re-set

- Members rate addressing **uncertainty surrounding cash flow and customer demand** as the **top priority** in the post-COVID-19 recovery phase, while **pivoting business operationally** and **adapting to new ways of working** will also be a core focus.

### Policy settings

- Members overwhelmingly support **(69%) pro-growth, pro-innovation policy settings** as a **critical area for government** to help organisations recover from COVID-19.

### Economic outlook and Government policies

- Regarding the **lifting of public health restrictions** and **phasing out of government economic support measures**, such as JobKeeper, a large majority of members support **a cautious and conservative approach** to minimise the chances of further COVID-19 outbreaks and to sustain recovery.
- Members were near unanimous in supporting a reform program with most **favouring a radical rethink of government policy agenda (68%) for a post-COVID-19 world**, over a package of long-standing economic reforms (e.g. corporate tax cuts, lifting of GST) (28%).



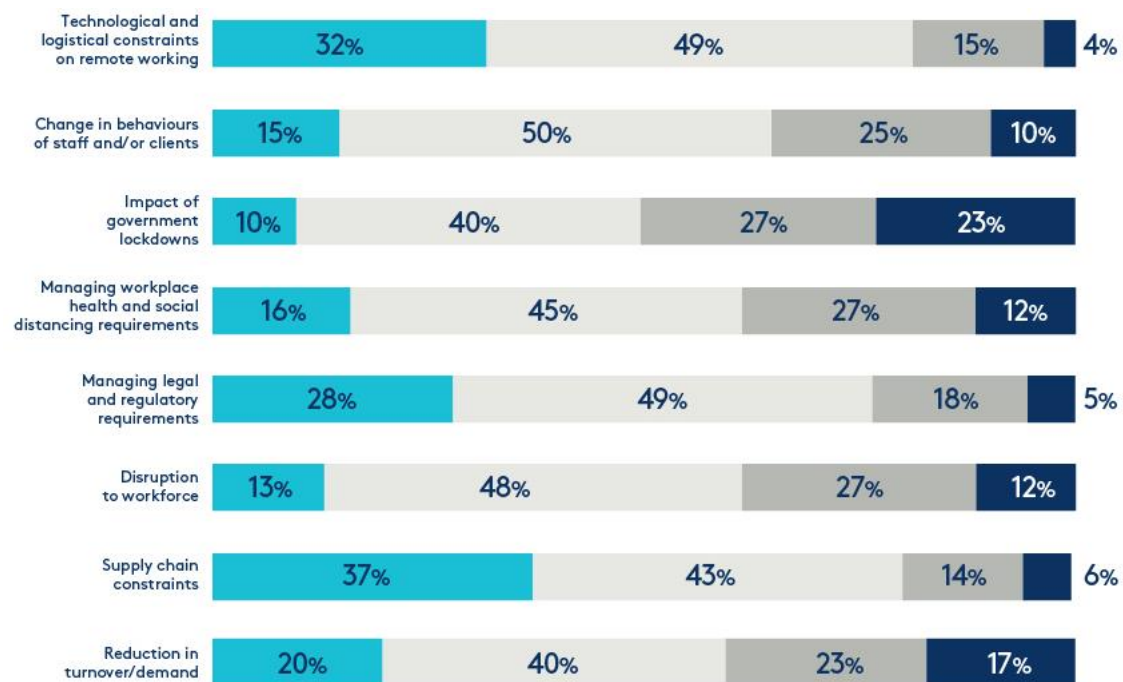
# COVID-19 - Navigating disruption

# Key challenges – dealing with lockdown

## COVID-19 related challenges

- Members ranked the **top three COVID-19 related challenges** that their organisations have faced during the pandemic as **1) impact of the government mandated lockdowns; 2) reduction in turnover or demand; and 3) disruption to the workforce.**

**Q: Please rate how challenging each of the following issues has been for your organisation**



\*Responses from the public / government sector have been omitted from these results due to significant variance from other sectors. A full set of results are available as an Excel file [here](#).

The **challenges that ranked least** among respondents were **supply chain constraints** and **technological constraints on remote working** suggesting organisations were not as vulnerable as may have been feared.

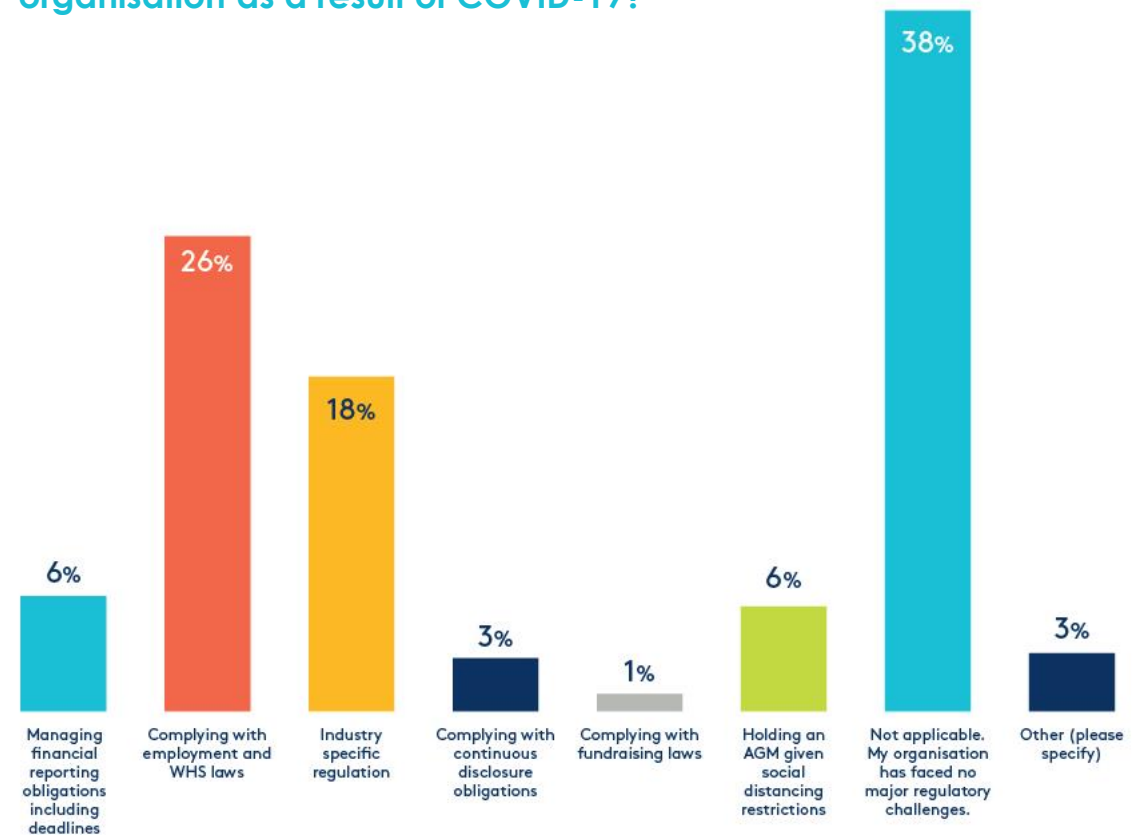


# COVID-19 challenges – employment, WHS

## Regulatory challenges

- In terms of specific regulatory challenges during the pandemic, **38% of respondents indicated their organisation has faced no major regulatory challenges**, while **26% consider complying with employment and WHS laws** and **18% industry specific regulation their greatest regulatory challenge**.
- This relatively benign view of the impact of regulation suggests that government and regulators were able to move quickly enough to respond to the crisis through emergency relief measures.

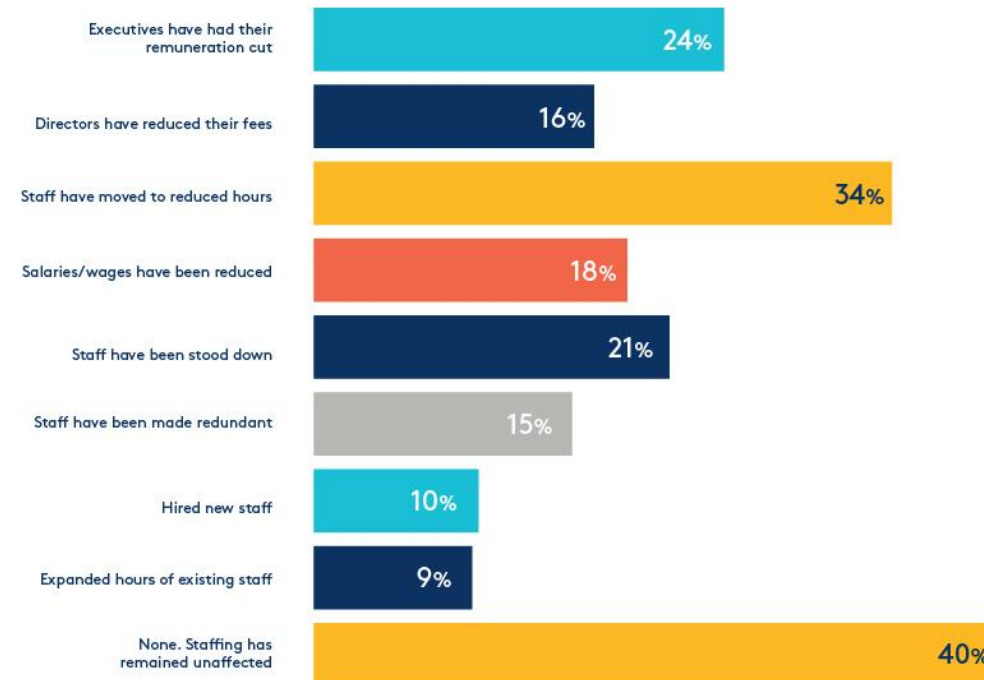
Q: To date, what has been the biggest regulatory challenge facing your organisation as a result of COVID-19?



# Workforce impact

- While **40% of members indicated that their organisation's staffing levels have remained unaffected during the crisis** (compared with 49% for public sector / government respondents), the survey illustrated among the top five responses a **majority of members' organisations have put in place cost-saving measures in relation to their workforce.**
- Excluding the public sector / government respondents, the four most common workforce measures were **staff moving to reduced hours (34%), executive remuneration being reduced (24%), staff being stood down (21%) and staff salaries/wages being reduced (18%).**

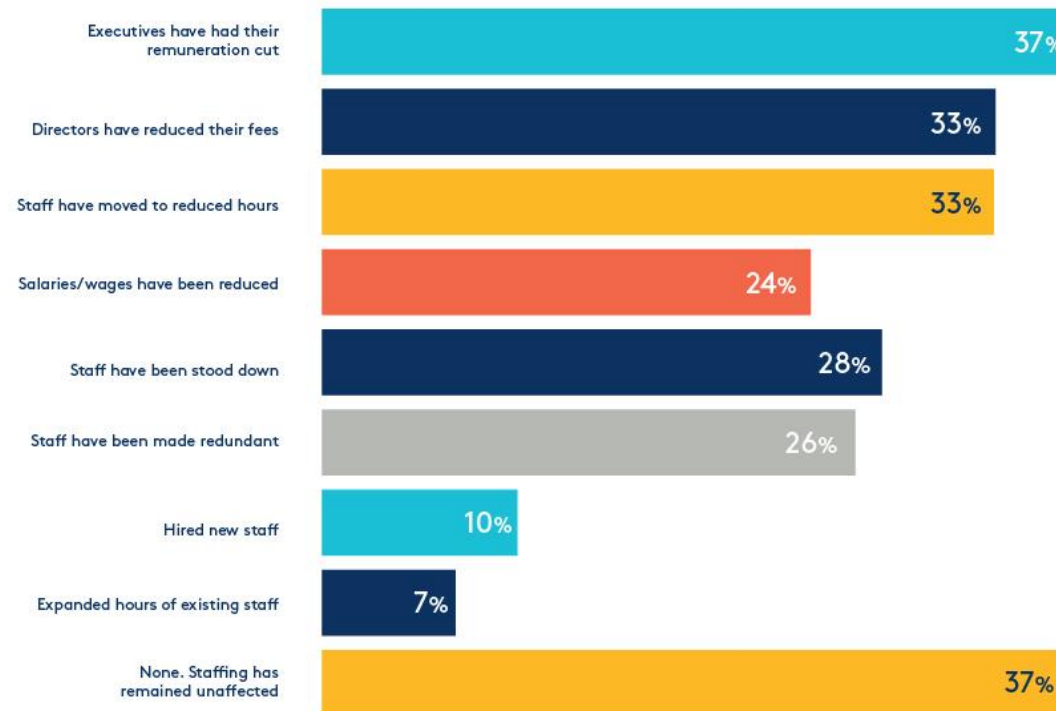
**Q: Which of the following measures has your organisation been required to implement for your workforce? – All respondents**



# Redundancies hit listed sector

- Redundancies were a more common measure taken by listed companies. The proportion of members nominating **redundancies was higher for those from listed companies (26%)** as compared with large private (22%) and SMEs (17%) or, even more starkly, NFPs (11% of respondents).

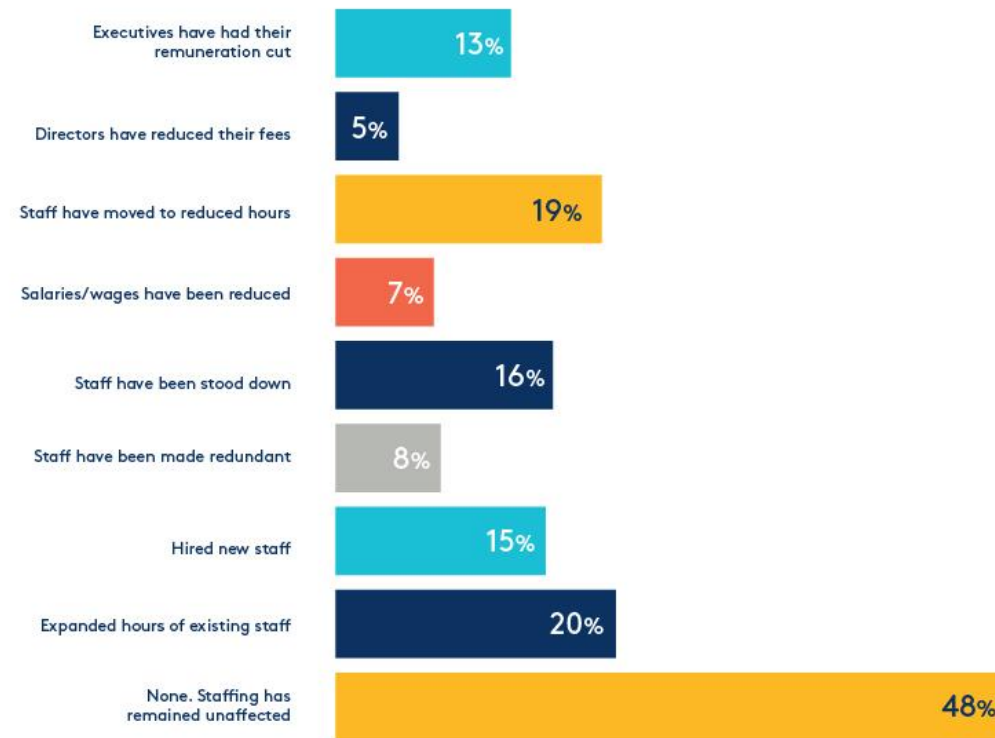
**Q: Which of the following measures has your organisation been required to implement for your workforce? – Listed respondents**



# But more work for government...

- Increasing staff hours and hiring new staff ranked in the top five responses for the **public sector / government segment** – indicative of the increased demands of government.

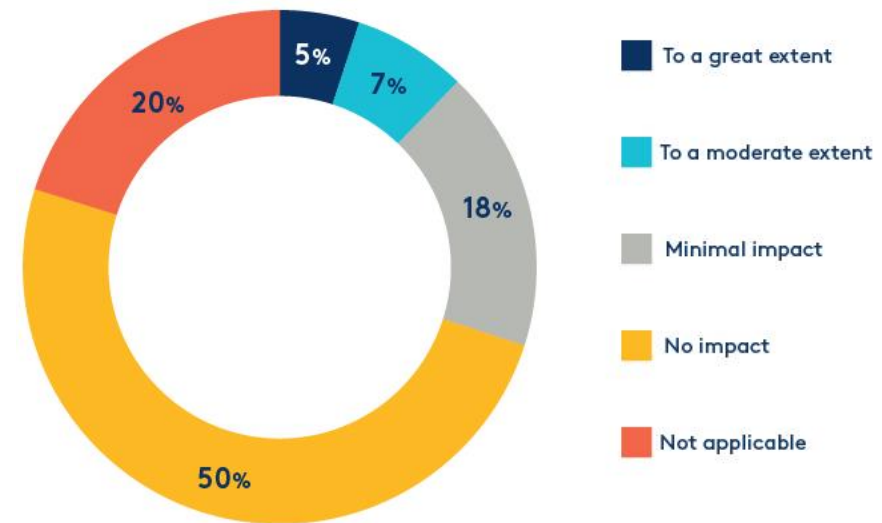
**Q: Which of the following measures has your organisation been required to implement for your workforce? – Public / Government sector respondents**



# Insolvent trading relief delivers, especially for SMEs

- Although of no impact for 50% of respondents, a notable **12%** (for SMEs, 16%) consider the availability of **the temporary six-month relief from personal liability for trading while insolvent** has to a moderate or great extent **influenced their board's decision-making on whether to continue to trade through**.
- The survey results suggest the Government's emergency amendment to the Corporations Act 2001 (Cth) (Corporations Act) has achieved its policy objective – providing a safety net for directors at a time when otherwise many may have felt compelled to place their company into voluntary administration.
- The depth of reliance on this safe harbour (particularly for SMEs), suggests that come late September, when the relief is due to expire, there will be many organisations facing difficult financial decisions, especially when combined with the expected phasing out of other support measures such as JobKeeper at a similar time.
- The temporary relief may also provide impetus for a broader re-think of Australia's insolvency settings as the economy looks to recover from the COVID-19 shock.

**Q: To what extent has the six-month relief for directors from personal liability for trading while insolvent, legislated in response to COVID-19, influenced your board's decision-making on whether to continue trading through?**



\*Responses from the public / government sector have been omitted from these results due to significant variance from other sectors. A full set of results are available as an Excel file [here](#).

# Grappling with financial reporting

## Reporting deadlines

- For entities with a 30 June financial year end, while **72%** of respondents anticipated **no problems with meeting financial reporting obligations** as a result of COVID-19, **28%** (for listed, 33%) anticipate **some or significant problems with meeting their reporting obligations**, such as completing audits and reporting deadlines due to the impacts of physical distancing and staffing levels.

Q: If your company has a 30 June end of financial year, what effect do you expect COVID-19 will have on meeting your reporting obligations?

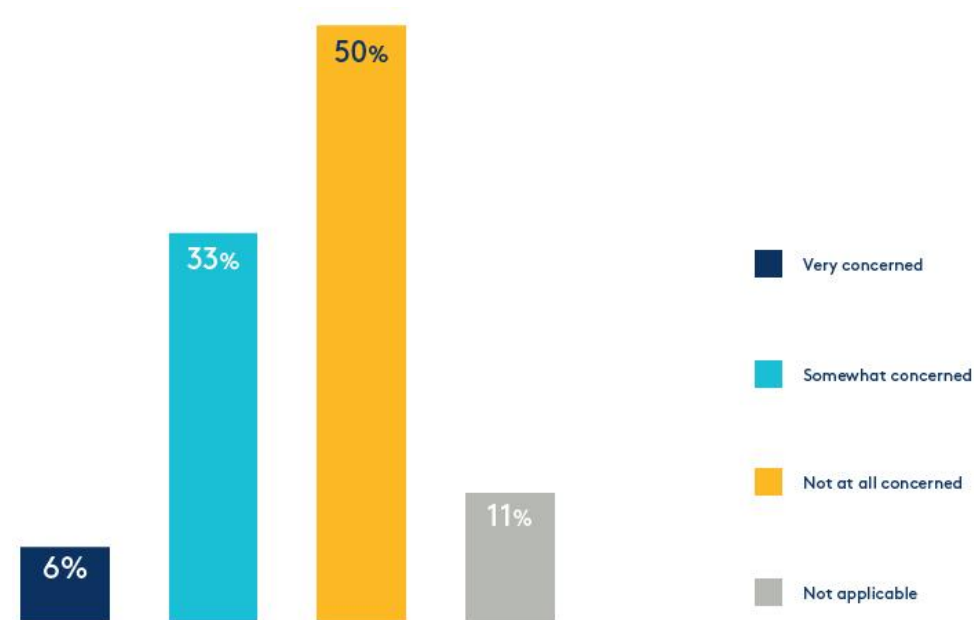


# Going concern and solvency

## Going concern and solvency assessments

- Similarly, while **50%** of respondents indicated they had **no concerns**, **39%** were **somewhat or very concerned about making going concern or solvency assessments** due to the impact of COVID-19 on their organisation.

Q: To what extent is your board concerned about making going concern or solvency assessments due to the impact of COVID-19 on your business?



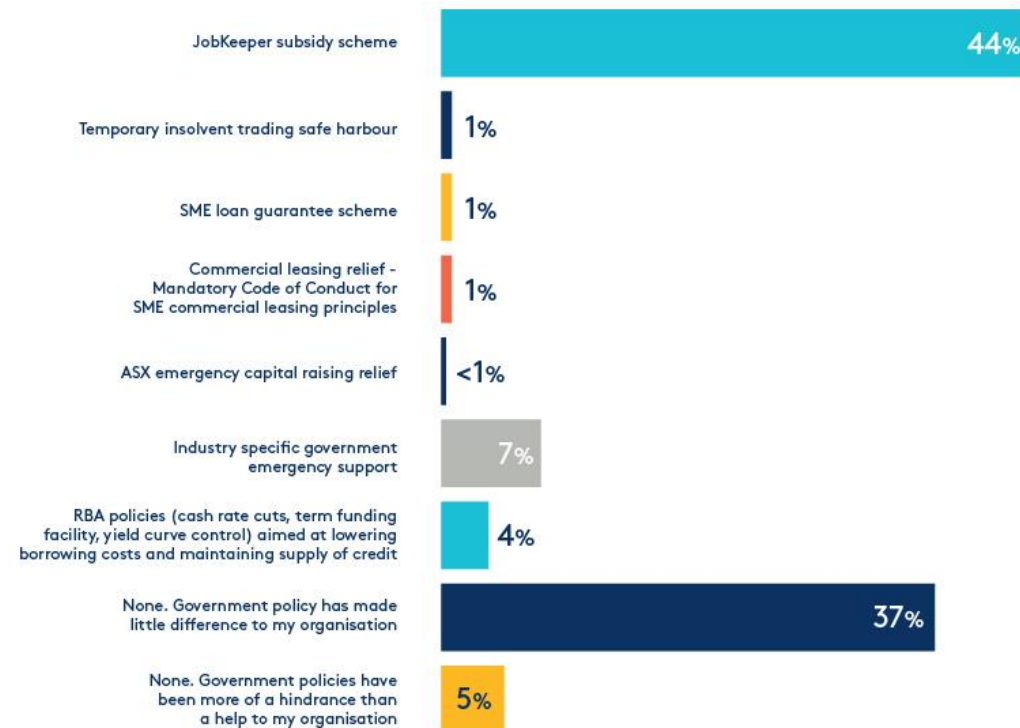
\*Responses from the public / government sector have been omitted from these results due to significant variance from other sectors. A full set of results are available as an Excel file [here](#).

- Notably, **43% of NFP members**, **41% of SME members**, and **31% of listed members indicated that this was the case**, reflecting the high degree of uncertainty created by the pandemic and difficulty planning for the coming 12 months.

# JobKeeper critical, especially for NFPs

- When asked to select which COVID-19 policy measures had been of the greatest assistance to members' organisations during the crisis, **44%** indicated that the **JobKeeper Subsidy Scheme had provided the most relief** – noting this number jumps to 47% amongst SMEs and 51% amongst NFPs.
- 37% of respondents noted that the Government's policy measures had made little or no difference to their organisation.**
- While **7%** of respondents (for NFPs, 11%) advised that **industry specific government emergency support had provided the most assistance.**
- In the **listed** and **large private** segments, minority responses of **7%** and **9%** respectively identified that **Reserve Bank of Australia (RBA) policies** (such as cash rate cuts, term funding facility, yield curve control) aimed at **lowering borrowing costs** and **maintaining supply of credit** had been the **greatest assistance.**

**Q: To date, which COVID-19 policy measure has most assisted your organisation?**



\*Responses from the public / government sector have been omitted from these results due to significant variance from other sectors. A full set of results are available as an Excel file [here](#).





Looking ahead

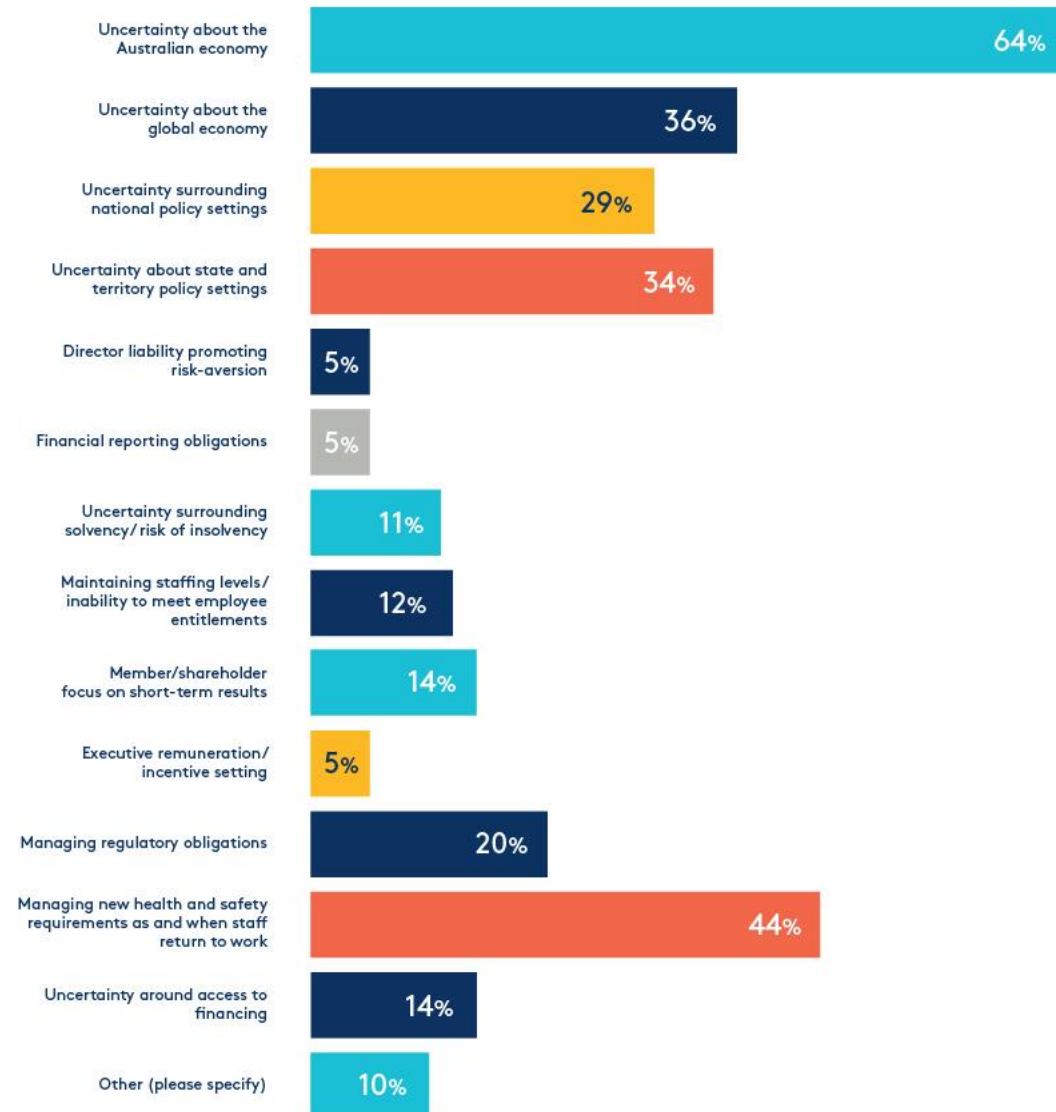
# June to December

# Challenges going forward: Economic and policy uncertainty

- AICD members anticipate that **broader macro-economic issues** and **government policy uncertainty** will present the **greatest challenges for their organisations over the next six months**.
- Among the top challenges anticipated in the post-COVID-19 environment, members cited:
  - **uncertainty about the Australian economy (64%);**
  - **uncertainty about the global economy (36%);**
  - **uncertainty about state and territory policy settings (34%); and**
  - **uncertainty surrounding national policy settings (29%).**
- Critically, **managing new health and safety requirements as and when staff return to work** featured in the top three of responses for members across every segment (overall **44% of respondents**).
- These results suggest that directors are looking to governments at all levels for certainty regarding what support will be offered going forward and the regulatory environment in which organisations will be expected to operate.

# Challenges going forward

Q: Please pick the three biggest challenges you anticipate for your board in the next six months.



# Reduced operating capacity



On average, Members expect their organisation to run at **84%** capacity over the next six months, compared to pre COVID-19 levels

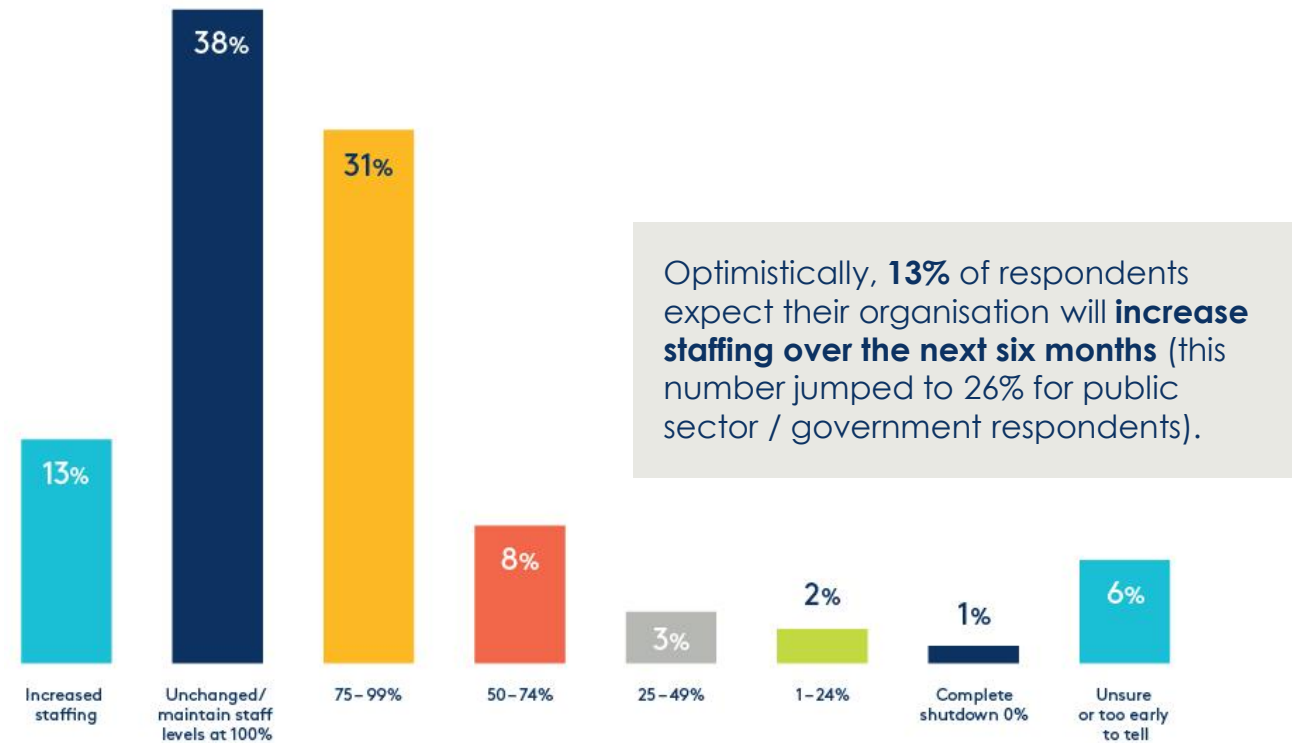
The **public sector / government** was more confident with an estimate of **91% capacity**, while **SMEs were least optimistic at 79% capacity**.

# Workforce reductions expected

## Workforce

- When asked what members expect staffing levels of their organisation to look like for the next six months compared to pre-COVID-19 levels, **38% indicated staff levels were likely to remain unchanged and be maintained at 100%** - roughly correlating with the 40% of respondents who noted their staffing levels have remained unaffected during the crisis.
- However **around 44% of respondents expected to have reduced workforces moving forward**. In particular, **31% of respondents** (41% and 35% respectively for listed and large private) considered **staffing levels would be between 75% - 99% of pre-COVID levels**, whilst 8% of respondents pegged their estimate at 50% - 75%. Just under 5% of respondents considered staffing levels would drop below 50%.

Q: Which best describes your expectations for staffing levels within your organisation over the next six months compared to pre-COVID-19 levels?



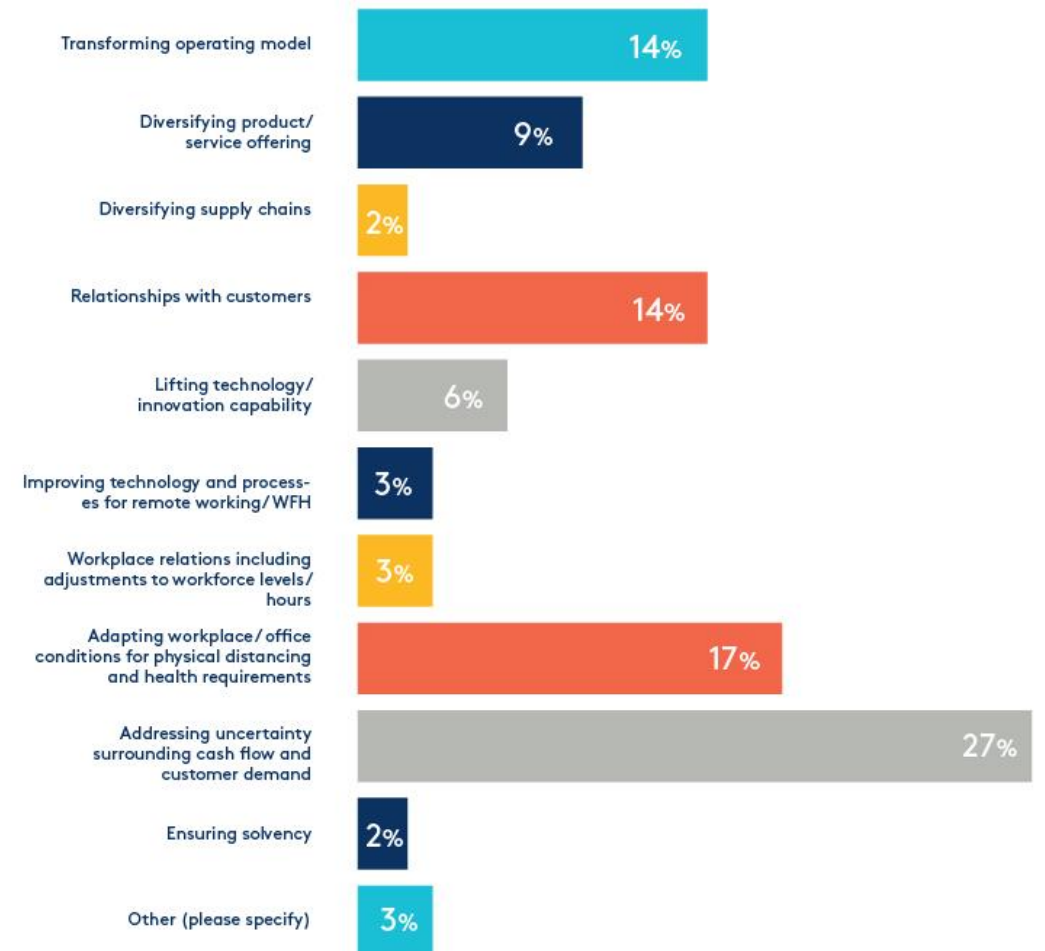
# Strategic re-set

- When asked to nominate their highest strategic priority in the next six months, the most common response was **addressing uncertainty surrounding cash flow and customer demand (27%)**, followed by **adapting workplace / office conditions for physical distancing and health requirements (17%)**.
- Other notable responses were **relationships with customers (14%)**, **transforming operating model (14%)** and **diversifying product/service offering (9%)**.
- Corresponding to results indicating that supply chain constraints and technological constraints on remote working were not major challenges for respondents at the peak of the crisis, among the **lowest ranking strategic priorities** over the next six months were **diversifying supply chains** and **improving technology and processes for remote working** – suggesting that supply chain resilience has been stronger than initially thought and members have had fewer difficulties with technology as part of the transition to a remote working environment.

# Strategic re-set

**Q: What do you anticipate will be the highest strategic priority for your board over the next six months?**

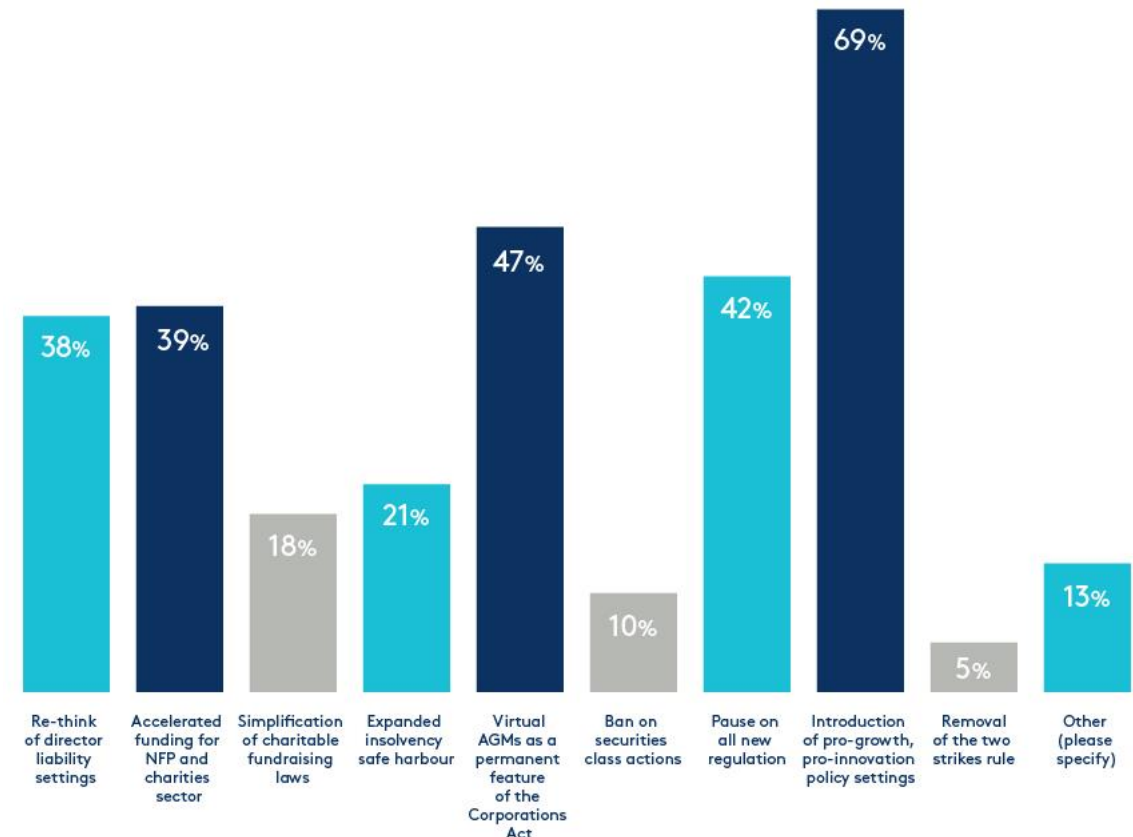
**Other commonly cited strategic priorities** included increased fundraising activities, diversifying customer base, continuing to move business to a digital platform, capital raising, implementing recovery plans, abandoning unproductive ways of working, improving governance and risk management as well as strategic application of key learnings from the crisis.



# Ease regulation, opt for growth

- To assist organisations recover from the impact of COVID-19, an **overwhelming 69% majority** rated the **introduction of pro-growth, pro-innovation policy settings** as the area where members would most like to see further reform or relief looking forward.
- Also ranking high amongst responses were:
  - (47%) virtual AGMs as a permanent feature of the Corporations Act** (59% amongst listed)
  - (42%) pause on all new regulation**
  - (39%) accelerated funding for NFP and charities sector** (76% amongst NFPs)
  - (38%) a re-think of director liability settings** (50% amongst SMEs)

**Q: To help your organisation recover from the impact of COVID-19, in which three areas of governance would you most like to see further regulatory reform or relief?**





# NFPs look for government support

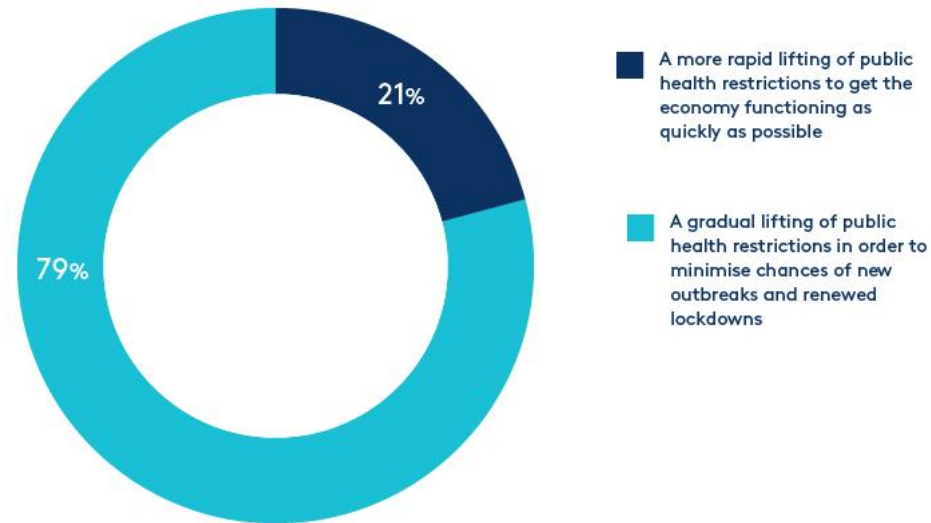
- Viewed with other results, the survey paints a picture of an NFP sector that is firmly looking to government for financial support in navigating their way through the crisis.
- For SMEs, the survey indicates that director liability remains a tension point for boards, as well as insolvency settings with 31% nominating a need for an expanded safe harbour.
- There is a resounding message too that AICD members are looking for governments to think twice before imposing new regulation on organisations as they seek to find a way through the COVID-19 induced recession.

Further areas identified included **modernising the Corporations Act, WHS reform** to accommodate the transition to remote working, **industrial relations reform** and greater flexibility in modern awards, **increased support for NDIS providers, energy policy reform, corporate and payroll tax reform** – noting a small minority of respondents considered no change to the status quo was necessary via further relief or reform measures.

# Cautiously phase-out policy support

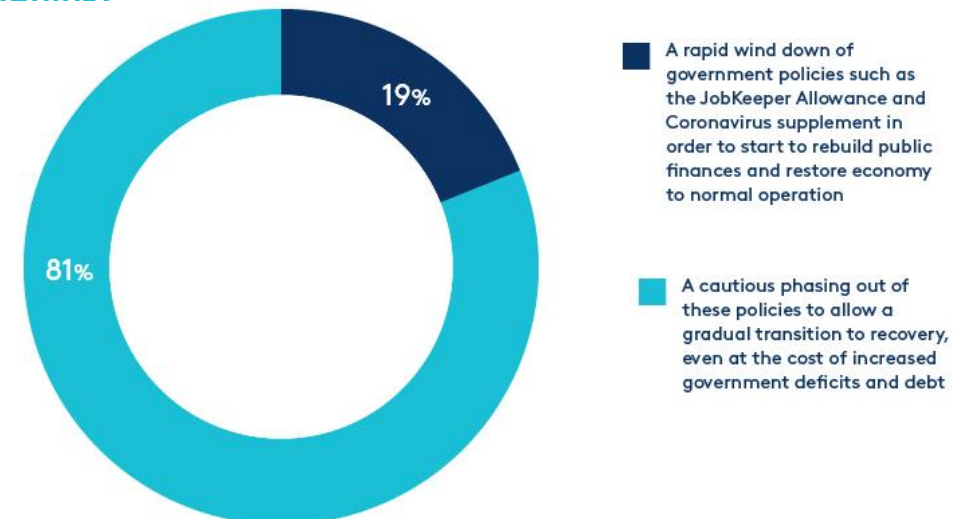
- In an endorsement of government action to date, when asked which of the policy approaches members would like to see in the immediate aftermath of the crisis, the **vast majority (79%)** indicated a **gradual lifting of public health restrictions to minimise chances of outbreaks was to be preferred** over a **more rapid lifting to get the economy functioning again (21%)**.

**Q: In your view, which of the following COVID-19 policy choices would be more appropriate over the next six months?**



- Similarly, **81%** indicated they would prefer to see a **cautious phasing out of government policies**, such as the JobKeeper Subsidy Scheme and Coronavirus Supplement, even at the cost of increased government deficits and debt, as opposed to **19% of respondents who would prefer a rapid wind-down of government policies** in order to start to rebuild public finances and restore the economy to normal operation.

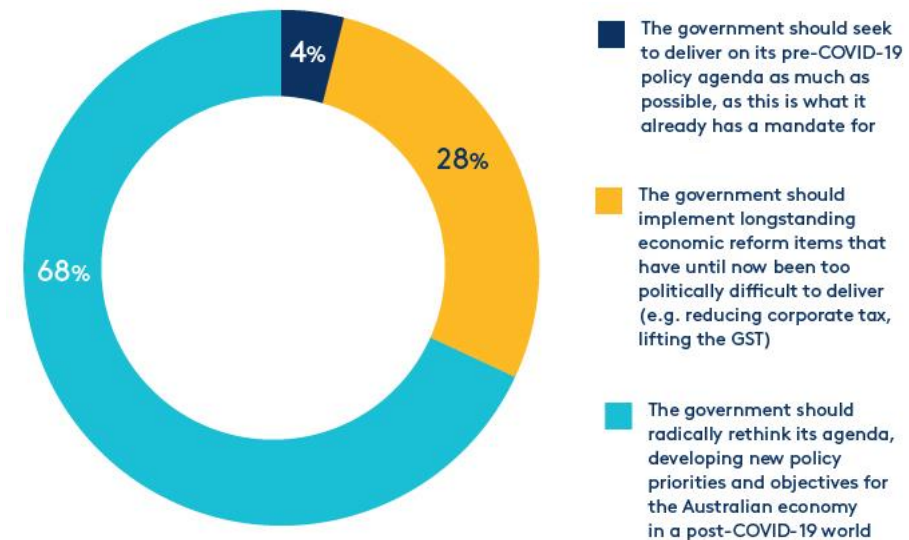
**Q: In your view, which of the following economic policy choices would be more appropriate over the next six months?**



# Radical policy re-think needed for growth

- In one of the most striking results, a **68% majority** considered the government should **radically rethink its agenda, developing new policy priorities and objectives for the Australian economy in a post-COVID-19 world**. This preference received a clear majority of support from every sector.
- While 28% considered the government should implement long-standing economic reform items that have until now been too politically difficult to deliver (e.g. reducing corporate tax, lifting the GST), and just 4% consider government should seek to deliver on its pre-COVID-19 policy agenda rather than adapting.

**Q: Which of the following best captures your view as to the medium-term policy priorities for the government over the next three years?**



- There were some notable sectoral variances in the responses - for example 36% of listed members favour the pursuit of long-standing economic reform items, compared with just 24% amongst NFPs.



Visit the AICD [COVID-19 Resources Hub](#) for information and tools to help business leaders navigate the crisis.

If you have questions about the COVID-19 Member Survey, please contact the AICD Policy Team at [policy@aicd.com.au](mailto:policy@aicd.com.au).