

DIRECTOR SENTIMENT INDEX: RESEARCH SUMMARY FIRST HALF 2018

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Methodology

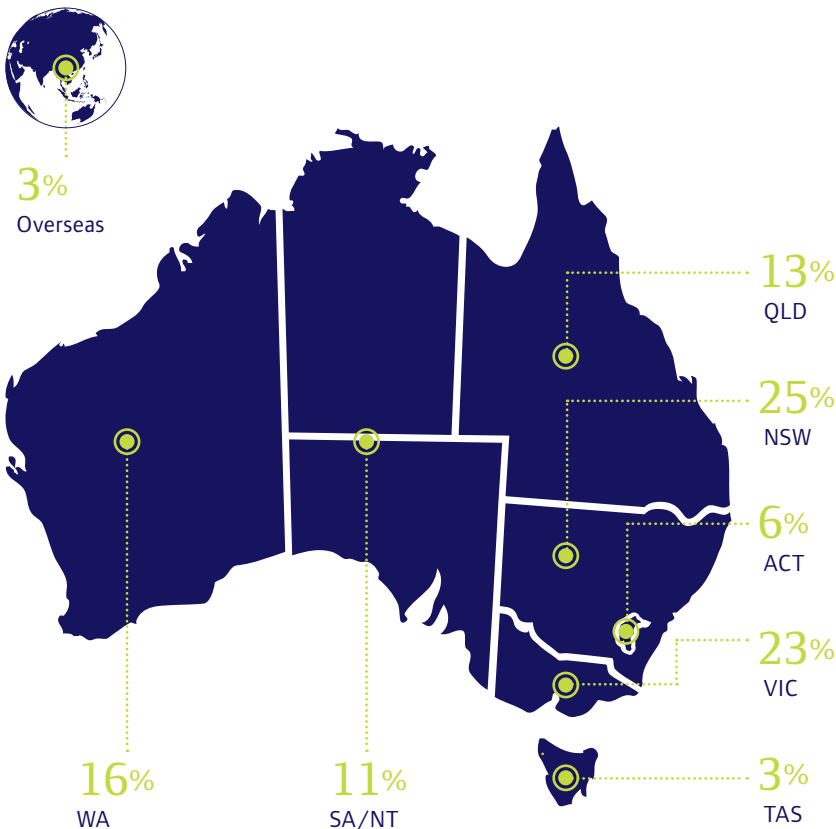
The Director Sentiment Index results are a representation of the Australian Institute of Company Directors membership.

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 regulations.

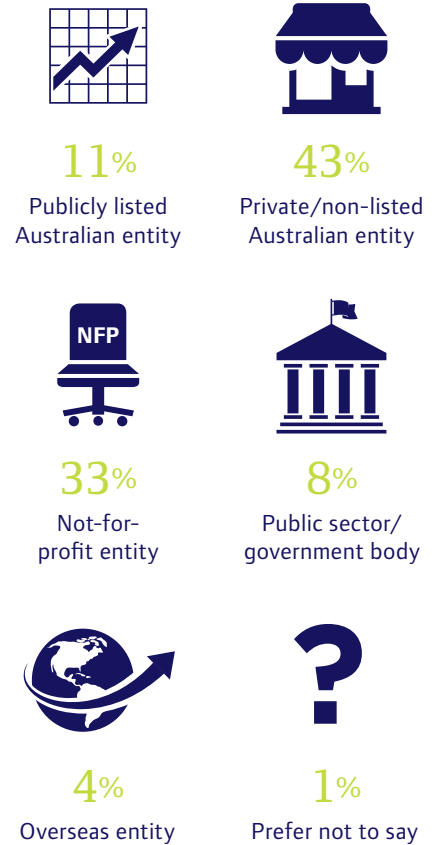
The survey was conducted with 945 members between 8 March and 20 March 2018.

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

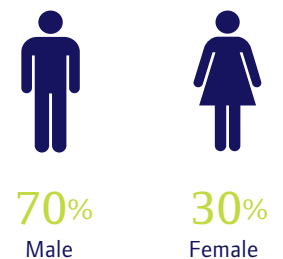
Primary directorship location



Primary directorship company



Gender

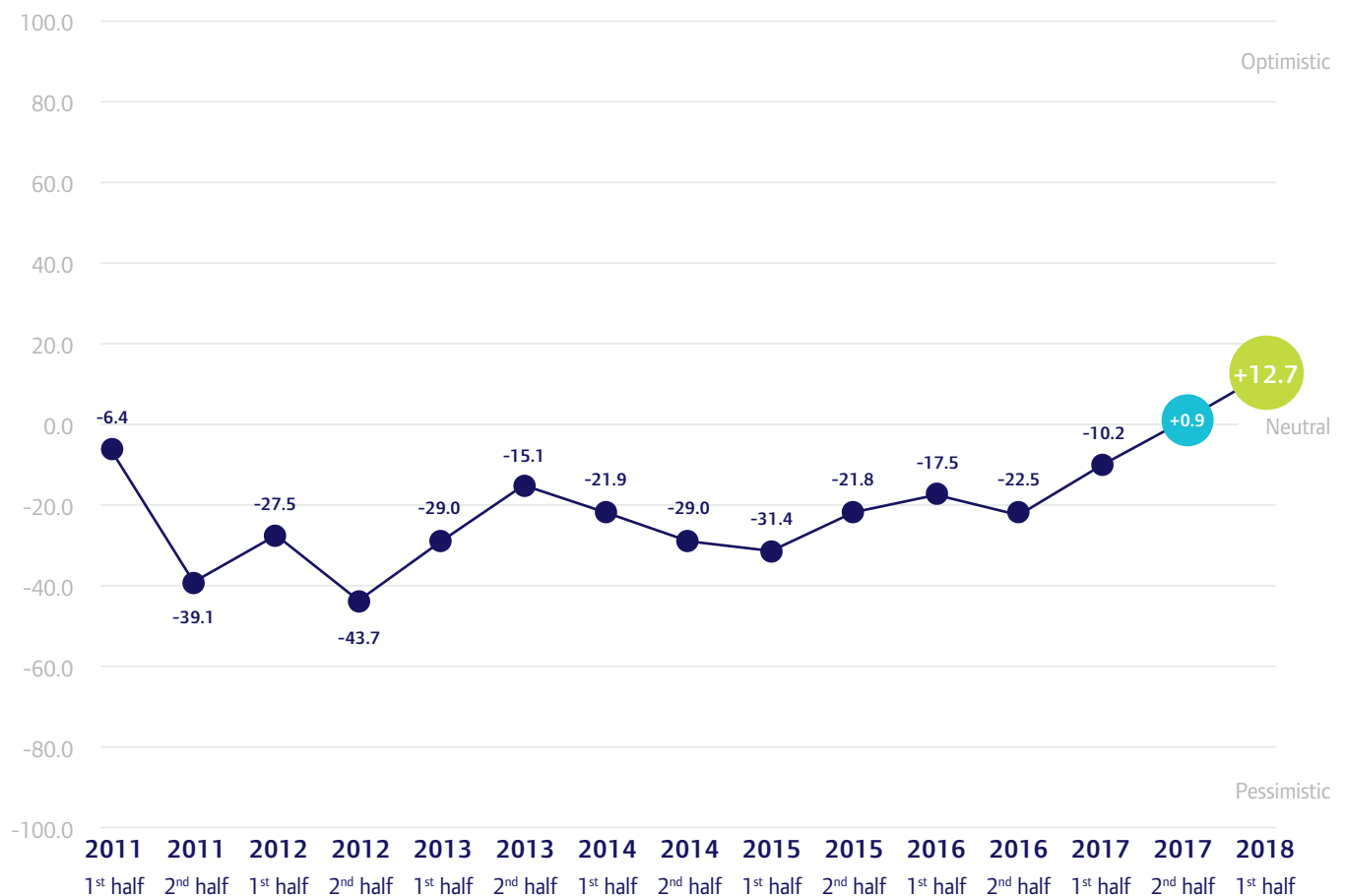


Positive run continues

For the second survey in a row, director sentiment has had a positive index and has now reached its highest point ever, largely off the back of increased confidence about the strength of the Australian economy, as well as other major economies around the world.

Pleasingly directors are also less pessimistic about the impact of the Federal Parliament on business decision-making and consumer confidence.

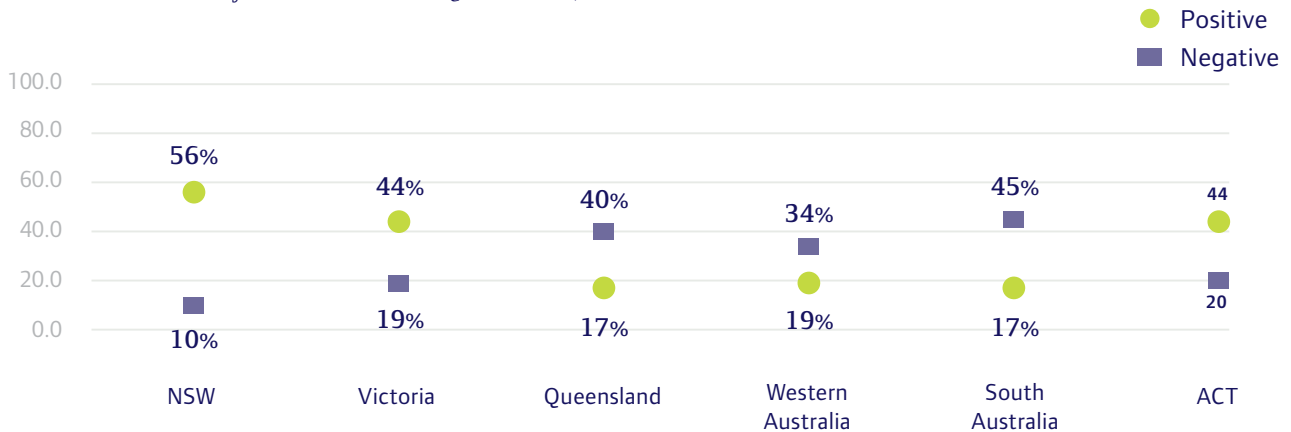
Overall Director Sentiment Index



Directors **optimistic** about the Australian economy

Directors are more optimistic about the Australian economy both now and for the next 12 months than they were in the second half of 2017.

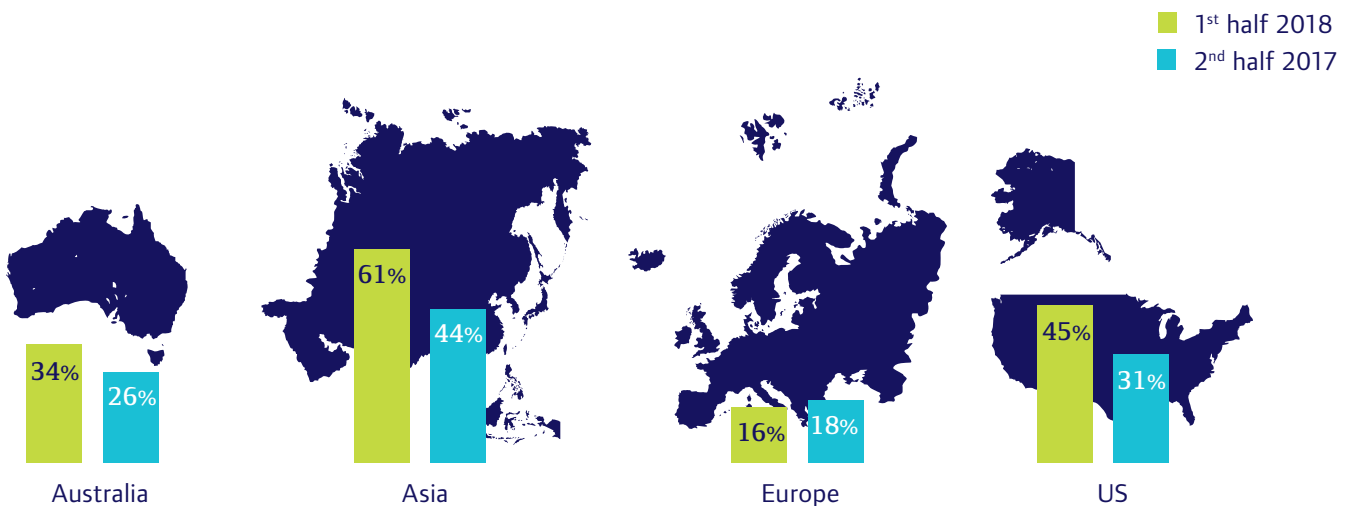
This is primarily driven by directors based in New South Wales and Victoria, who are much more confident in the health of their state economy than directors in Queensland, Western Australia and South Australia.



*Sample size in TAS and NT too low for analysis

Directors are also more optimistic about economies around the world, including Asia, Europe and particularly the United States.

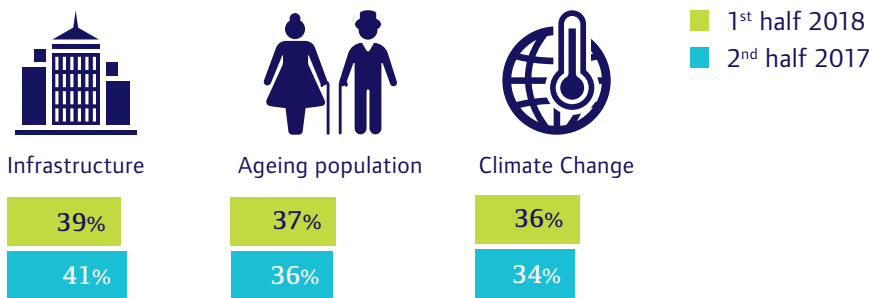
Percentage of directors rating economies as strong over next 12 months



Infrastructure once again a top priority

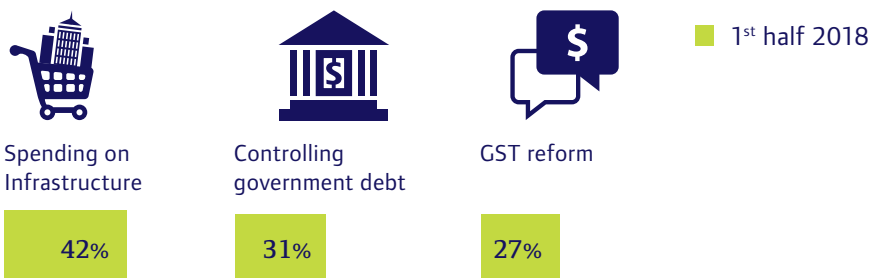
Infrastructure continues to be a top long-term priority for directors, followed by issues associated with our ageing population, tackling climate change and reforming the tax system.

Top three issues of importance the Federal Government should address in the long-term (%)



Spending on infrastructure also ranks as the top priority for directors in the upcoming Federal Budget in May. The next most important priority for directors was controlling government debt, followed by reform to the GST.

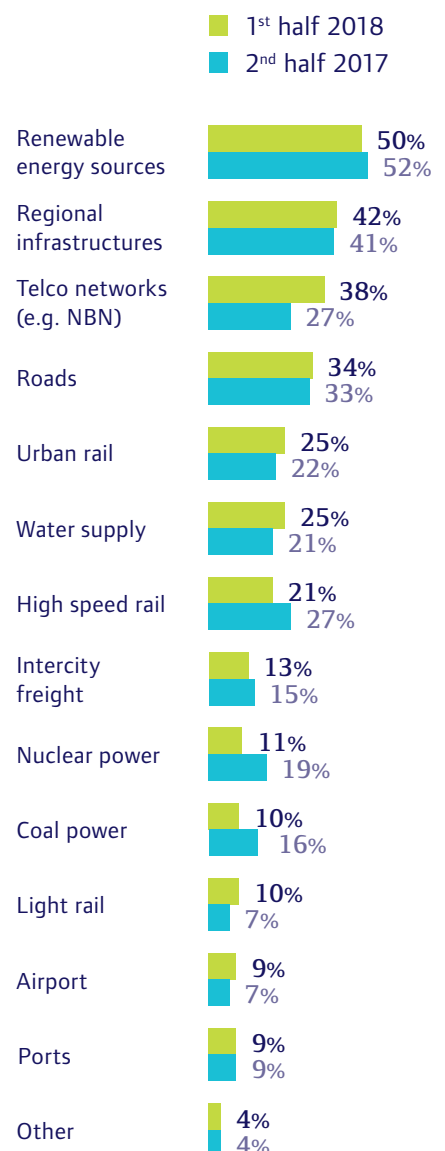
Top three elements the Treasurer should focus on the upcoming Federal Budget (%)



Directors continue to rate renewable energy sources as the priority for additional investment, followed by regional infrastructure and telecommunications infrastructure, particularly the National Broadband Network.

Investment in nuclear power and coal power suffered a substantial drop in support from directors off an already low base, and are now listed as priorities by 11 per cent and 10 per cent of directors respectively.

Areas of infrastructure for investment (%)

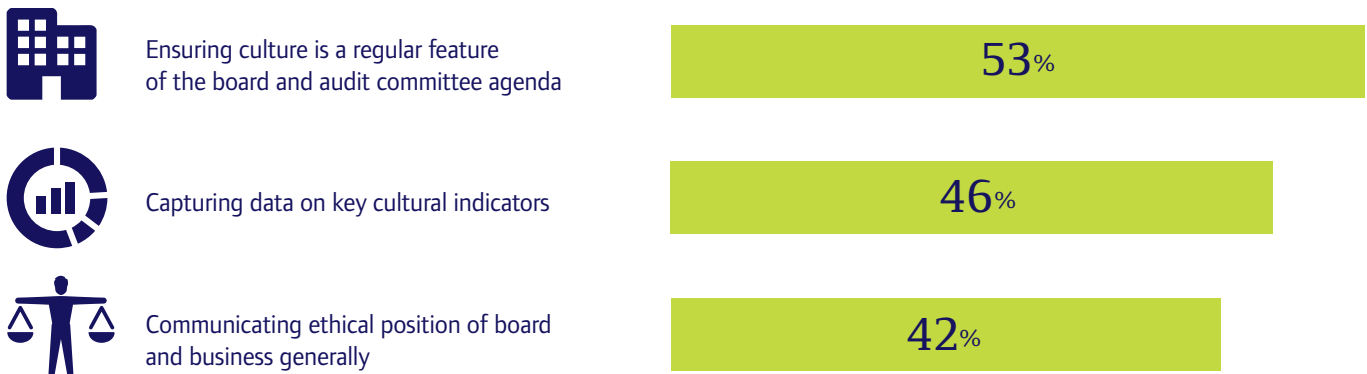


Culture and rebuilding public trust are on the minds of directors

Directors remain committed to fostering a good culture in their organisations.

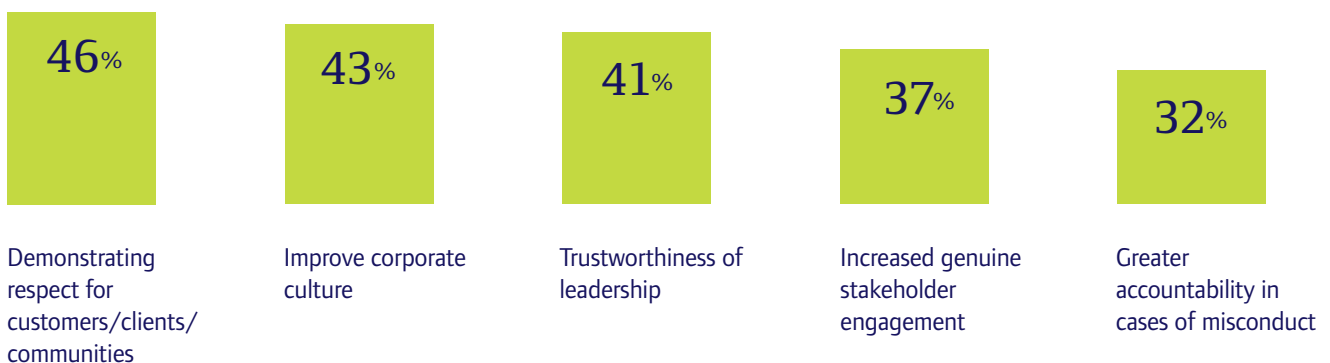
The top three elements that directors are focused on to change corporate culture are ensuring culture is a regular item on the board and audit committee agendas, capturing data on key cultural indicators and communicating ethical positions of the board and the business generally.

Top three elements in making changes in corporate culture (%)



When asked about what steps boards need to take to regain and rebuild public trust directors identified the need to demonstrate respect for their customers/clients/communities they deal with while also improving their corporate culture and the trustworthiness of their leadership.

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



Director and board issues

Sustainability and long-term growth prospects continues to be the main issue keeping directors awake at night.

Structural change/changing business models and issues around corporate culture were also identified as worries by many directors.

Data security also recorded a significant increase in this question, even with survey being conducted before the revelations around Cambridge Analytica and Facebook became public.

What's keeping directors awake?



40%

Sustainability and long-term growth prospects



29%

Structural change/changing business models

Main reason that there is a risk-averse decision making culture



Excessive focus on compliance over performance

31%



Pressure from shareholders for short-term returns

22%



Lack of genuine diversity in the boardroom

16%



Director liability provisions

14%

Once again a majority of directors surveyed (72 per cent) agreed that there is a risk averse decision making culture on Australian boards.

When asked about the main reason for this issue 31 per cent of directors said it was caused by an excessive focus on compliance over performance, 22 per cent believe it comes from shareholder pressure for short-term returns, 16 per cent put it down to a lack of genuine diversity in the boardroom and 14 per cent selected director liability provisions.



22%

Corporate culture



21%

Business reputation in the community



21%

Data security



19%

Cyber crime



19%

Legal and regulatory compliance



18%

CEO succession

A Blueprint for Growth

Last year, 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. One year on, the case for action is only stronger.

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 the [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 those 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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