

Australian Institute of
Company Directors



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Director Sentiment Index
Second Half 2021
INSIGHTS REPORT

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What is the DSI?

Quantifying experience and opinion

The Director Sentiment Index (DSI) represents the breadth of Australian Institute of Company Director (AICD) member opinions on a range of issues covering the Australian and global economies, government policy and governance regulations.

The DSI has tracked business and economic attitudes for the past 10 years, indicating shifts in business sentiment, and delivering robust and context-driven insights and trends.

DSI Survey Reports

This Insights Report includes a summary of analysis of key questions from the survey. A detailed report and database with full survey results is also available.

Update to Second Half 2021 DSI

The DSI was updated in the Second Half 2021 wave to better reflect current issues and to provide more precise and targeted insights.

The updated DSI provides greater focus on director perceptions of the health of local and international economies, the impact of government policy and support, and current business conditions. Less weight is now placed on business investment, labour demand, exports, wage growth, unemployment, outsourcing, profit, changes in ASX, the exchange rate, and inflation.

Despite all efforts having been made to ensure that results in the updated DSI are broadly comparable with previous waves, the changes in questions and the Index calculation methodology mean that the updated DSI is not directly comparable with previous waves.

Who took part?

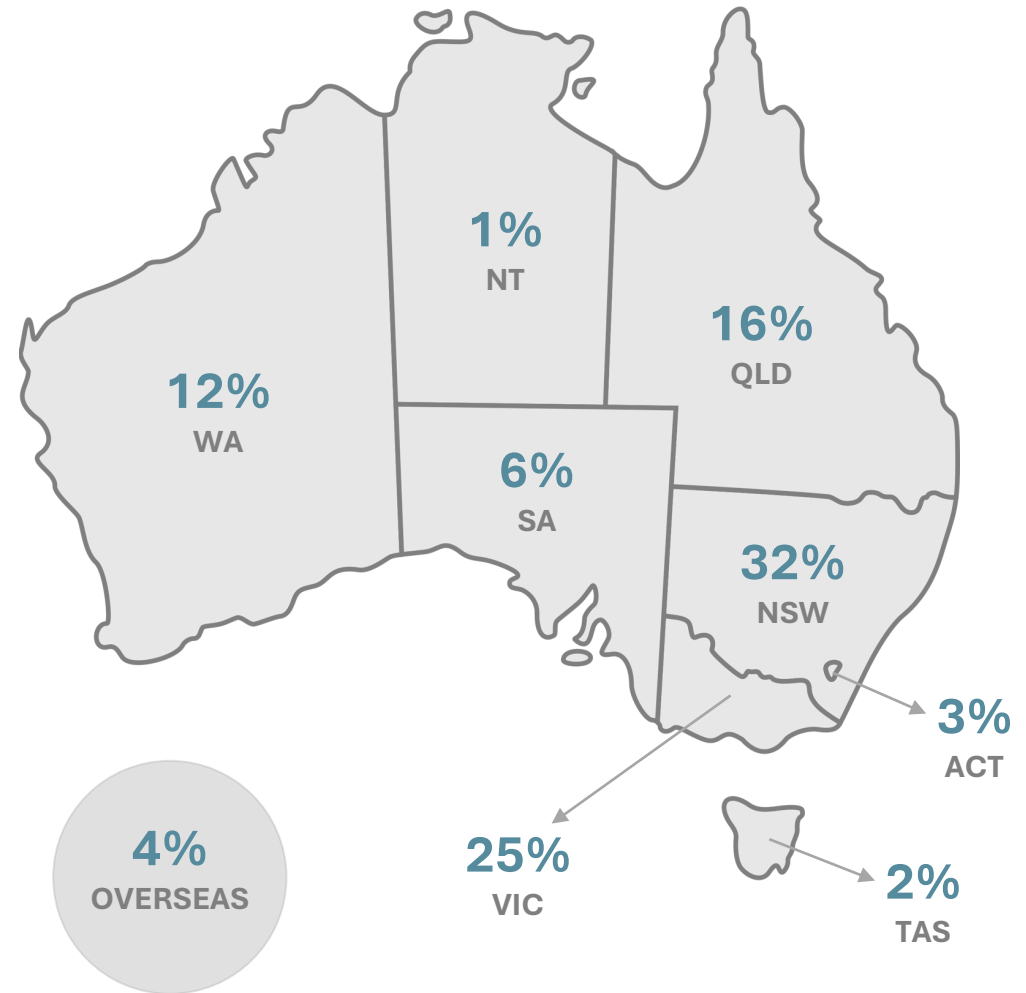
- The DSI survey was conducted online with a representative sample of 1645 respondents across Australia between 28 October - 8 November, 2021¹
- Respondents were AICD members with current directorships
- Sample profile information follows. Survey responses were weighted by gender to reflect the AICD member profile when analysing results.

71% **28%**
MALE FEMALE



1% OTHER / PREFER NOT TO SAY

PRIMARY DIRECTORSHIP BASED



¹ See accompanying Appendix Report for full breakdown of respondents

Survey topics

Directors shared opinions on a broad range of topics¹

DSI TOPICS

Economic outlook

- Australia now and in the next 12 months
- Major global economies today and in 12 months

Business conditions

- What it's like doing business in Australia, the states, and across sectors
- What top issues do businesses face?

Structural policy settings

- Do state and Federal Government understand business needs?

Macro policy settings

- Do the budget deficit, fiscal policies and monetary policy impact business?

Directorship issues

- The state of corporate governance, priorities, management, liability and risk

OTHER TOPICS

Covering topical issues and deep-dives

- How diverse are Australia's boardrooms?
- What should be the Federal Government's top short- and long-term priorities?
- What issues keep directors awake at night?
- What are national tax reform priorities?
- What infrastructure investments does the country need?
- How does flexible working impact business?
- What risks and opportunities are present in climate governance?
- How much support does an emissions trading scheme have among directors?

¹ See Appendix Report for analysis of results for all DSI survey questions

Executive summary

Australia sees robust growth expectations as lockdowns abate and businesses get back to work

Confidence in the Australian economy is relatively high as 2021 winds up, with 58% of AICD directors believing the country is in a strong position—notably higher for the Australian economy than for overseas economies. Director perceptions of the strength of the economy of each Australian state varied considerably.

High vaccination rates and better-than-expected national finances in the aftermath of rolling lockdowns suggest the Australian economy is returning to healthy growth.

The perspective on next year is more bullish, with two-thirds (67%) of directors confident the country's 12-month economic outlook is strong, again notably higher than overseas economies.

Business sentiment optimistic for 2022

Hand-in-hand with the economy, business is recovering. Half of all directors (52%) see strong Australian business conditions currently. In 12-months time 64% believe business will be on sure footing, with positive indicators like investment, turnover and profits expected to grow.

Overall, directors more optimistic than pessimistic

The AICD Index is in positive territory with more director optimism than pessimism at a score of +17.9.

Finding and keeping good staff is a problem

Over half (55%) of directors face labour shortages and 63% were impacted by a difficult labour market. The trend looks to continue into the next 12 months—69% expect labour demands to increase and 41% think the skills shortage should be a government priority in the near term. Though lockdowns and closed borders are gone, the hangover is likely to last well into 2022.

Climate change should be the Federal Government's top priority

Responding to climate change should be Canberra's most important priority over the next three years, according to almost half (48%) of all directors. This rises to 59% when considered over the next 10 to 20 years. Furthermore, 60% of directors support an emissions trading scheme for the Australian economy.

The Federal Government is expected to lead. Half of all directors (50%) believe climate change is a material risk to their organisation, but at the same time 49% see the uncertainty around climate change policy settings as a barrier to achieving climate governance at an organisational level.

Executive summary

Infrastructure investment should focus on renewables

Tying closely in with concerns over climate change, the top priority for public infrastructure investment should be in renewable energy sources, think 70% of directors—an overwhelming majority.

Interestingly, 28% believe infrastructure investment focus should be in nuclear energy, showing a broad desire for development of a diverse and low-carbon energy matrix in Australia.

In addition, over a third of directors (36%) think the government should invest in telecommunication networks, including internet infrastructure, indicating dissatisfaction in current connectivity capacity in Australia.

The post-pandemic office

It seems you can't put the genie back in the bottle and flexible working arrangements will become a permanent fixture. While directors found this to have positive effects on staff retention (57%), wellbeing (53%), productivity (45%) and even attracting new talent (53%), there are concerns.

Over half (52%) believe having employees working from home leads to more complicated cyber security for their organisation.

Workplace vaccine mandates supported by three out of four directors

Sitting squarely within considerations around how and what the future of on-site work will look like, community health remains top of mind for a majority of directors (76%) who believe COVID-19 vaccines should be obligatory for all staff in their sector.

Skill sets need diversifying, with an eye on digital abilities

When it comes to diversity, the top concern for directors is skills. Almost three-quarters (73%) agree that their board needs to have more diverse skill sets. Within that, there's a specific focus (59%) on digital capabilities.

Generally, 57% thought the current level of diversity on Australian boards is unsatisfactory, and half (51%) are seeking a greater balance of gender.

What keeps you up at night?

The big issue keeping executives from getting a good night's rest is cyber security. Clearly a global issue of concern across the public and private sectors, 41% of directors said cyber crime and data security are front of mind in the small hours of the morning. At the same time, 86% are confident they understand the risks and opportunities presented by technology and 53% believe their board has enough oversight over cyber threats.

Overall Director Sentiment Index 10Y to 2nd Half 2021



Base: All respondents N= 1645

Note: Revised index from 2nd half 2021 is not comparable with previous index scores.

Australia, Asia, US on the mend; EU remains unsteady

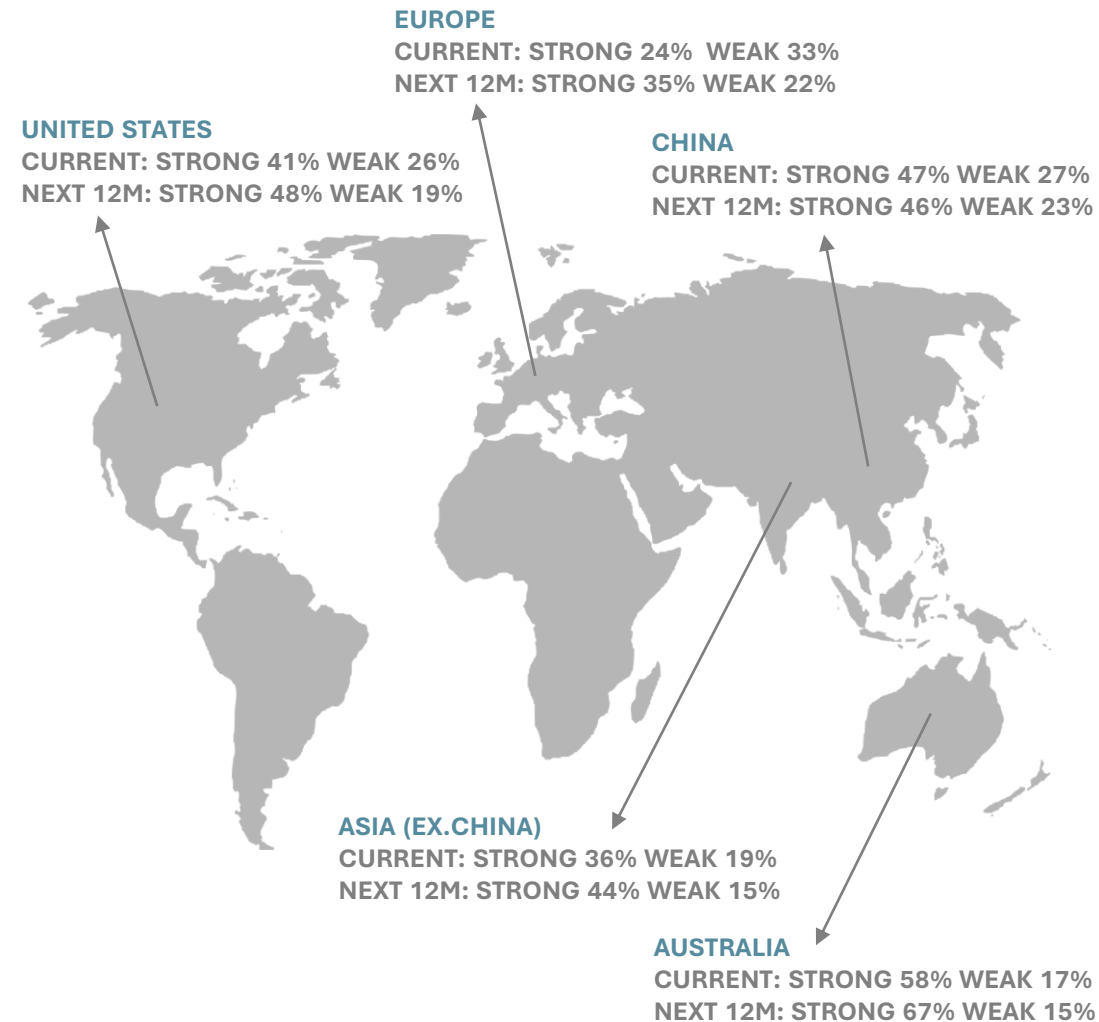
Australia

- Though pandemic uncertainty persists, a majority view the current Australian economy as buoyant, with 58% believing it's in a strong position as 2021 wraps up.
- The 12-month outlook is even more confident, with two-thirds of directors (67%) seeing Australia return to robust economic health in 2022.

Internationally

- Perspectives on global economies are more circumspect. China and the United States are both seen as tentatively sound, while perspectives on Asia (excluding China) are ambivalent.
- However, only a quarter believe Europe is on solid ground, while a third think it's in a weak economic position.
- Sentiment towards the United States and Asia (excluding China) is more positive for the next 12 months, but only 35% believe Europe will be in a strong economic position. Interestingly, China's economy is not expected to change in the next 12 months, with outlook sentiment shifting only one point from its current rating, down to 46%.

ASSESSMENT OF THE HEALTH OF GLOBAL ECONOMIES

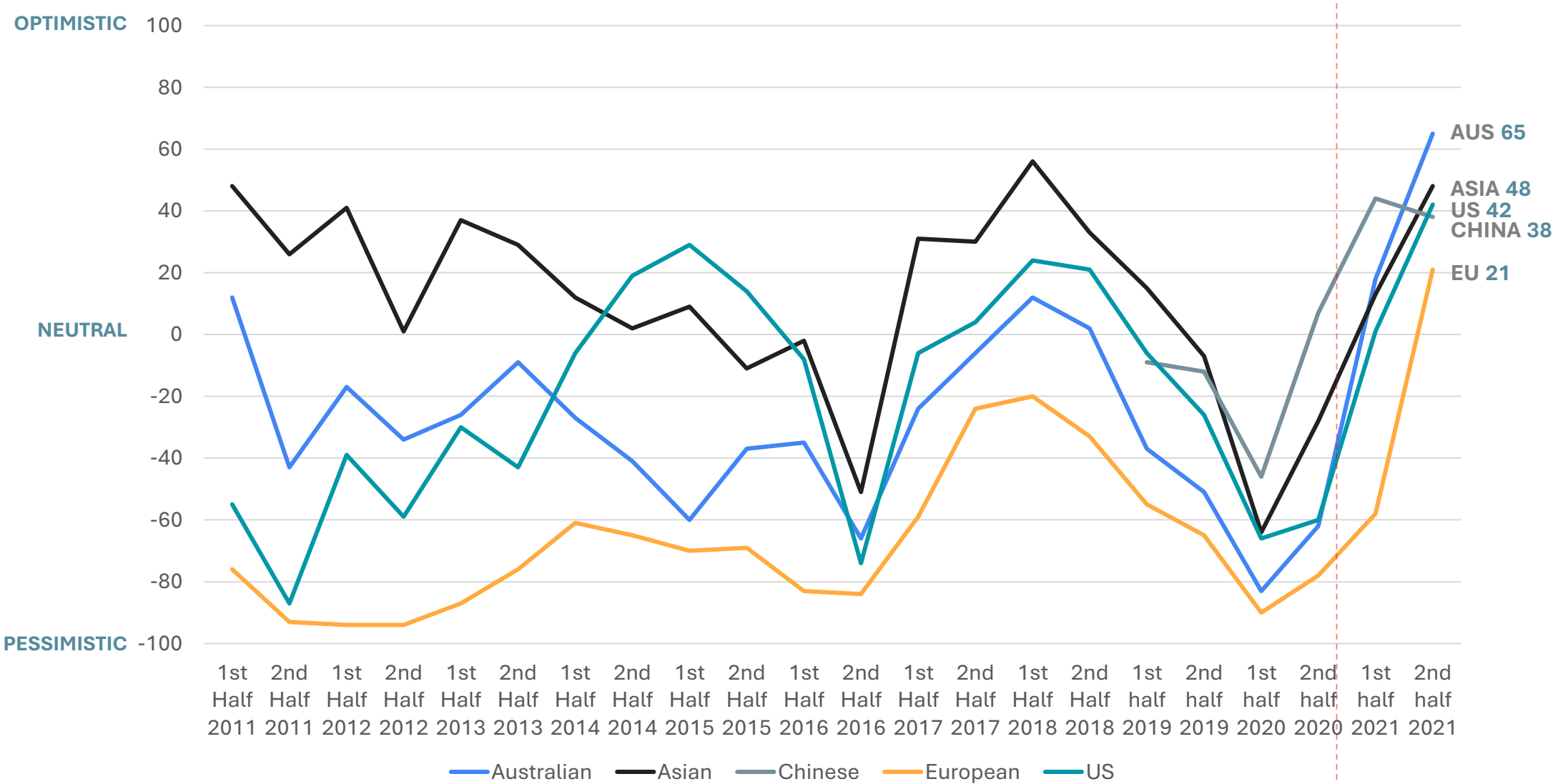


E8. What is your assessment of the current health of the following economies...?

E9. Over the next 12 months, what would be your assessment of the health of the following economies...?

Base: All respondents N= 1645

Major economies expected to rebound strongly, with EU lagging



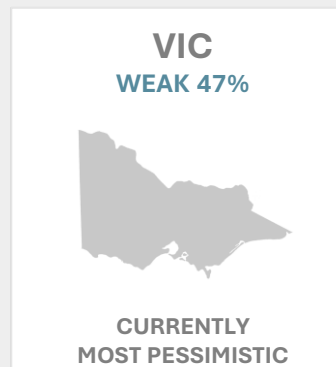
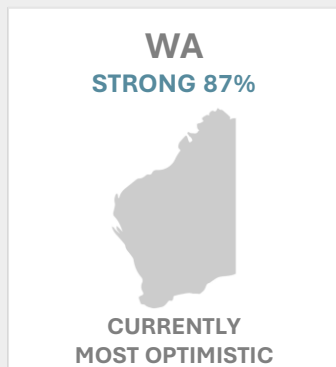
Note: Changes to question or response options in second half 2021 may impact comparability with previous results
 E9. Over the next 12 months, what would be your assessment of the health of the following economies...?
 From 2021 2nd half Asia excludes China. Base: All respondents N= 1645

Updated
DSI

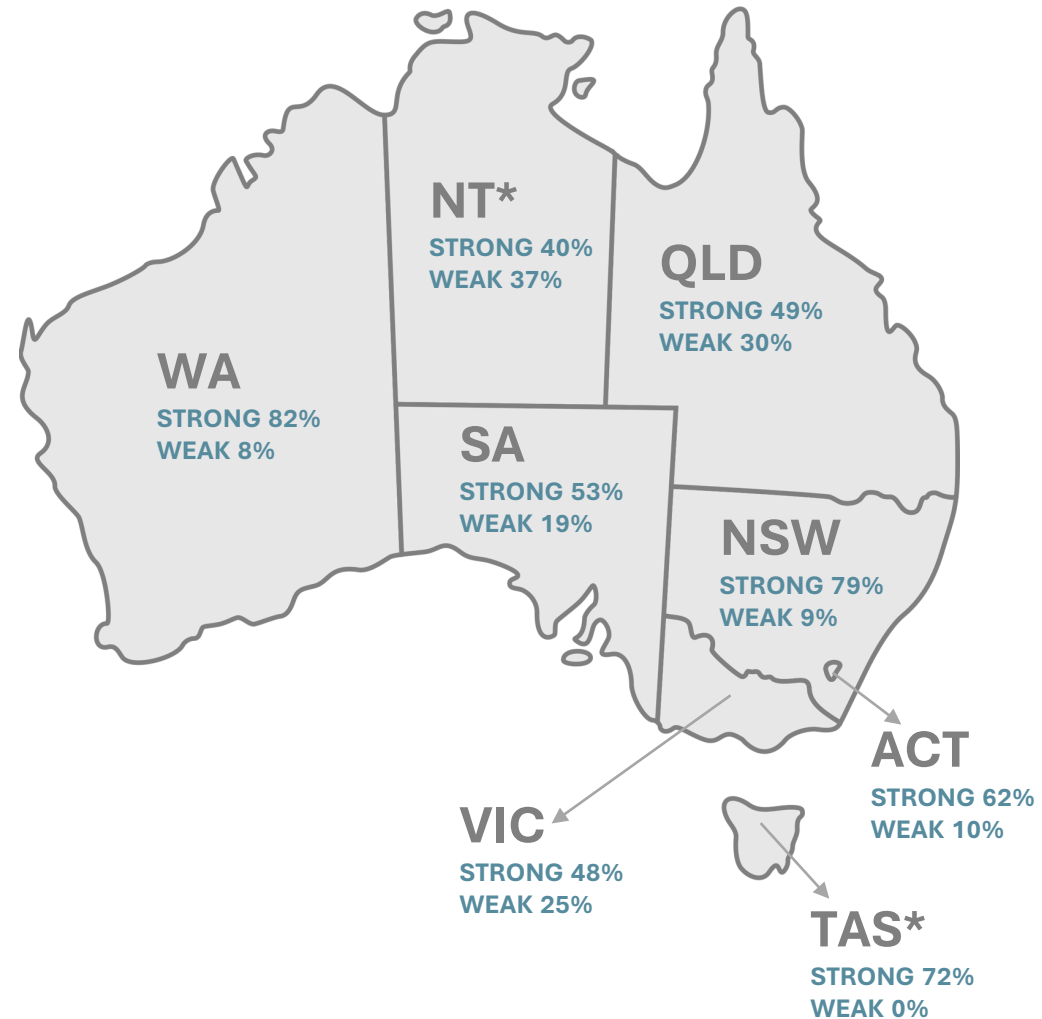
State by state, directors take contrasting perspectives

Key insights

- Across Australia, directors have quite different perspectives on their state’s current and future economic health, with WA strongest and Victoria weakest currently. Though the impact of COVID-19 without doubt impacts sentiment, outlook diversity across states with similar pandemic experiences suggests more is at play.
- Western Australians are the most optimistic, with eight out of 10 directors confident their state will do well economically in 2022.
- This correlates with the fact 87% of directors in the mining industry and 83% of those in agriculture expect strong business conditions in the coming year*. Nonetheless, 30% of Queenslanders have a gloomy outlook for their state economy—the highest proportion in the country.



ASSESSMENT OF THE HEALTH OF YOUR STATE ECONOMY IN NEXT 12 MONTHS



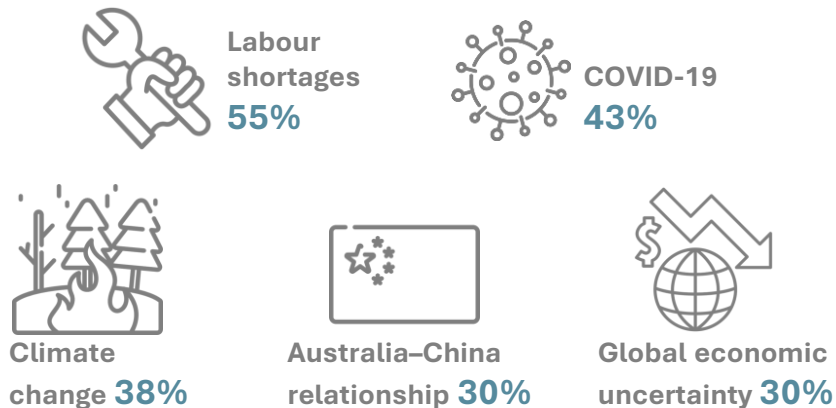
E9.2. Over the next 12 months, what would be your assessment of the health of the economy in the state where your primary directorship is based?
 Base: All respondents N=1645, NSW n=521, VIC n=411, QLD n=260, WA n=197, SA n=92, ACT n=54, TAS n=33, NT n=11
 * Indicates low base <50
 Please refer to accompanying Appendix Report for full results of business conditions by industry in next 12 months.

Business is expected to grow, but so are liabilities

Finding and keeping good employees is a key priority

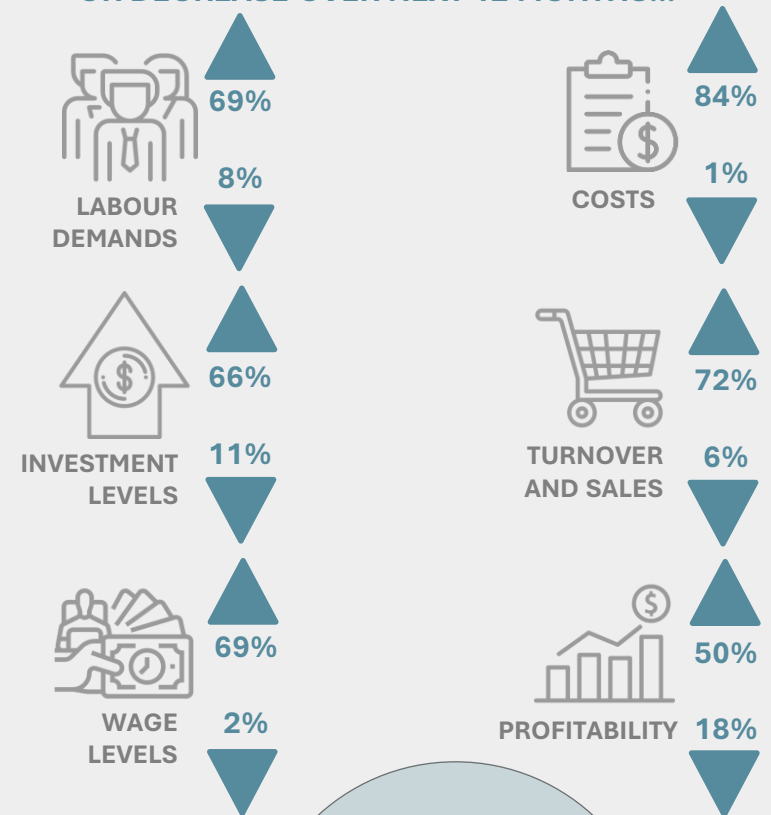
- Most directors expect positive indicators like investment, turnover and profits to grow in 2022 as the Australian economy gets back to speed.
- At the same time, staff shortages, wage inflation and rising costs will likely be challenges in the coming year. These relate directly to the pandemic, which continues to affect skilled migration and global supply chains.
- The other business bugbear is Sino-Australian relations, which are not expected to improve in the near future.

TOP ECONOMIC CHALLENGES FACING AUSSIE BUSINESSES



E6. What are the top 3 economic challenges currently facing Australian businesses? Base: All respondents N=1645

BUSINESS CONDITIONS EXPECTED TO INCREASE OR DECREASE OVER NEXT 12 MONTHS...



MY ORGANISATION HAS BEEN AFFECTED BY LABOUR MARKET ISSUES

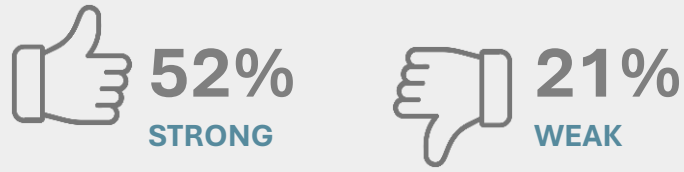
AGREE 63%
DISAGREE 18%

TQ3. To what extent do you agree or disagree with the following statements...?

B4. To what extent, if any, do you expect the following conditions to change over the next 12 months within your business? Base: All respondents N=1645

Current business conditions mixed across states but generally expected to improve

CURRENT AUSTRALIAN BUSINESS CONDITIONS



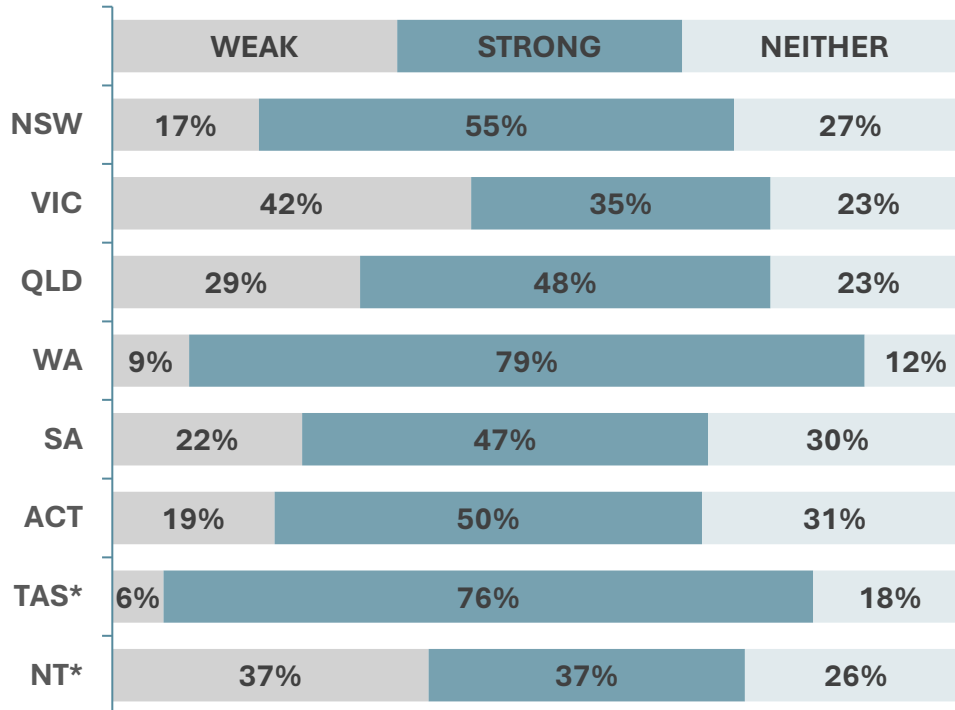
B10.1. What is your assessment of current business conditions in Australia?

AUSTRALIAN BUSINESS CONDITIONS IN 12 MONTHS



B11.1 What is your assessment of business conditions over the next 12 months Australia?

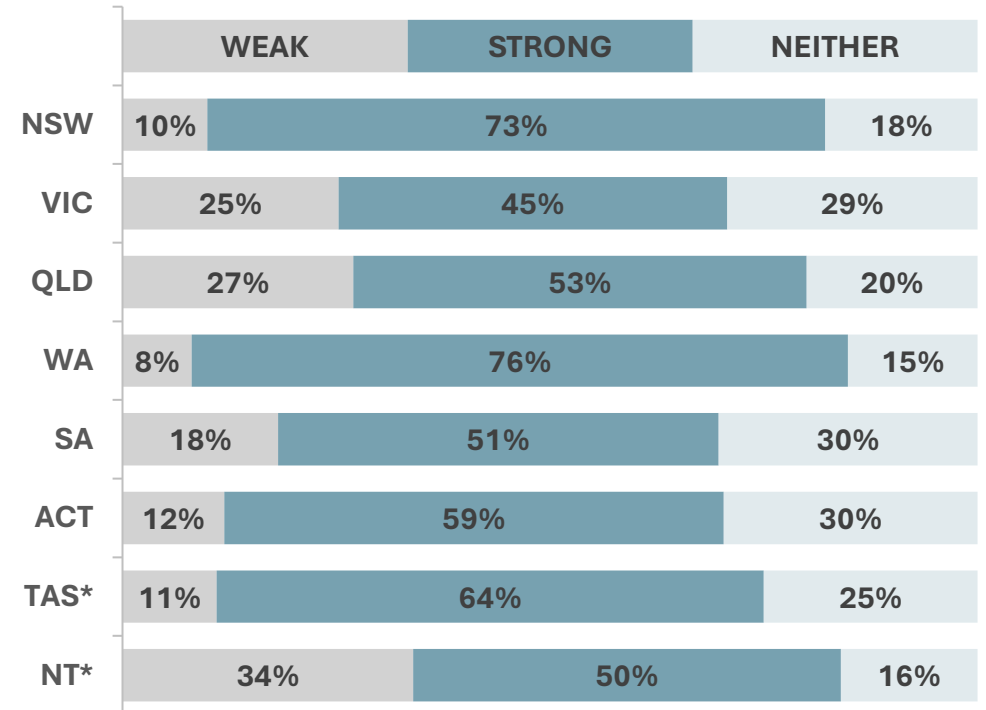
CURRENT STATE BUSINESS CONDITIONS



B10.2. What is your assessment of current business conditions in the state where your primary directorship is based? Base: All respondents N=1645, NSW n=521, VIC n=411, QLD n=260, SA n=92, WA n=197, TAS n=33, ACT n=54, NT n=11 (Note: small base)

* Indicates low base <50

STATE BUSINESS CONDITIONS IN 12 MONTHS

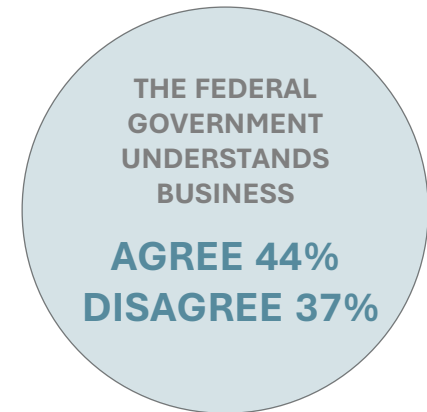
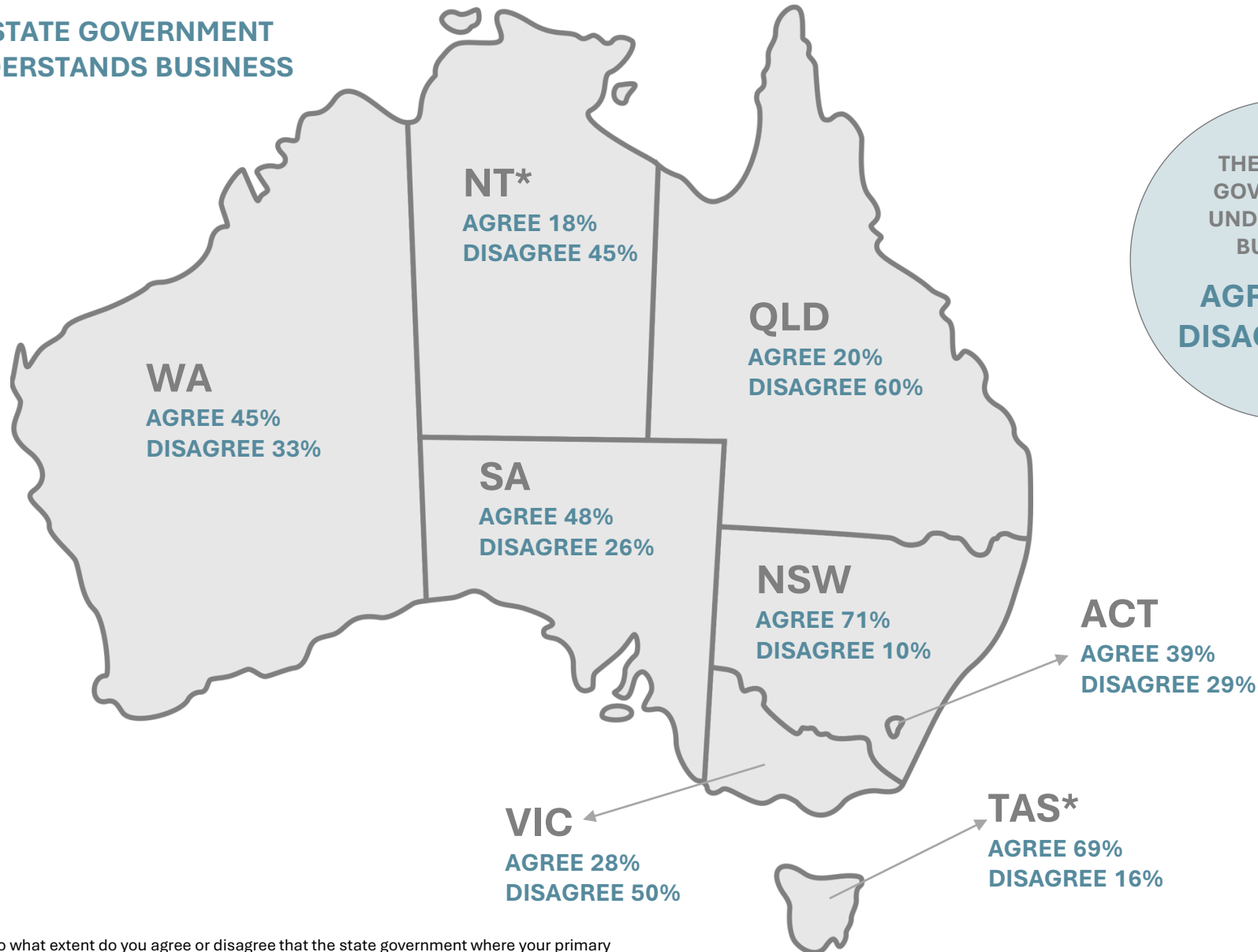


B11.2 What is your assessment of business conditions over the next 12 months in the state where your primary directorship is based? Base: All respondents N=1645, NSW n=521, VIC n=411, QLD n=260, SA n=92, WA n=197, TAS n=33, ACT n=54, NT n=11 (Note: small base)

* Indicates low base <50

Do state and Federal governments understand business?

MY STATE GOVERNMENT UNDERSTANDS BUSINESS

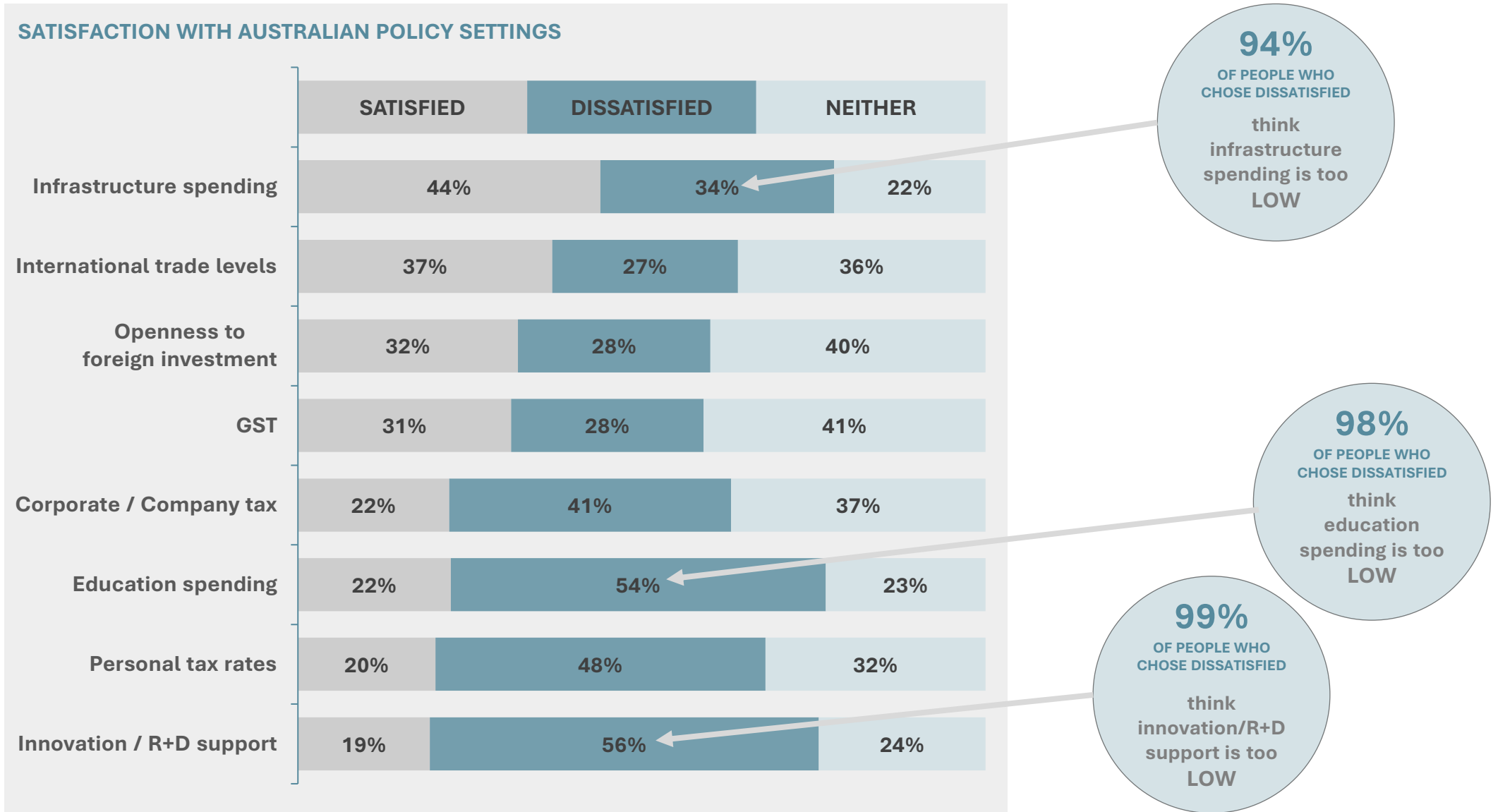


RE3.3. To what extent do you agree or disagree that the state government where your primary directorship is based understands business? Base: All respondents N=1645, NSW n=521, VIC n=411, QLD n=260, WA n=197, SA n=92,, ACT n=54, TAS n=33, NT n=11

* Indicates low base <50

RE3.1. To what extent do you agree or disagree that the Federal Government understands business? Base: All respondents N=1645

Satisfaction with Australian policies



T1. What is your level of satisfaction with the current state of the following Australian policy settings...?
Base: All respondents N=1645

T1a. You said that you were dissatisfied with the following policy settings. In your view, were they too high or too low?
Base: Total dissatisfied with Innovation / R+D support n=929, Total dissatisfied with education spending n=878, Total dissatisfied with spending on infrastructure n= 561

Do directors trust government?

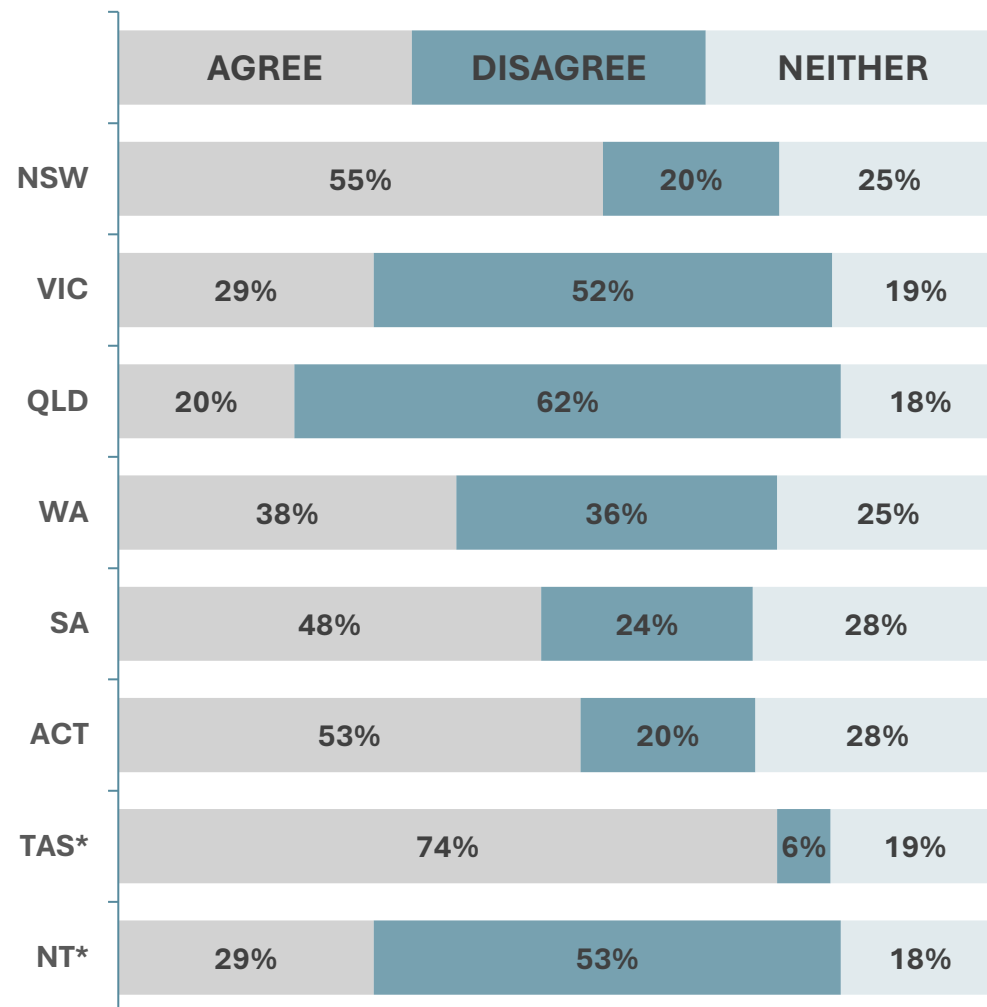
Key insights on trust

- Almost half of all directors (49%) do not trust the Federal Government.
- Across the major states, trust is highest in NSW and SA.
- The major state governments with lowest levels of trust among directors are VIC and QLD.



I TRUST THE
FEDERAL GOVERNMENT
AGREE **32%**
DISAGREE **49%**
NEITHER **19%**

I TRUST MY STATE GOVERNMENT

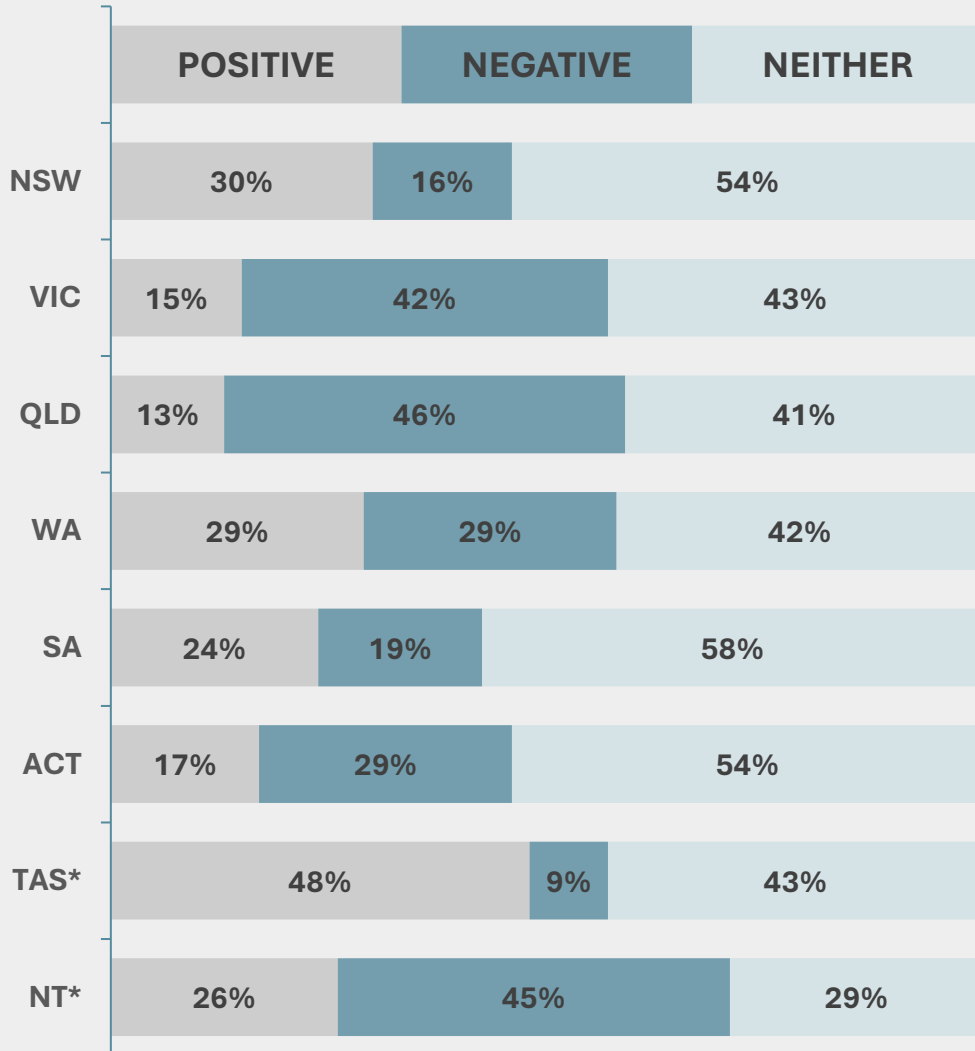


RE3.4. To what extent do you agree or disagree that you trust the State Government where your primary directorship is based?
 Base: All respondents N=1645, NSW n=521, VIC n=411, QLD n=260, WA n=197, SA n=92,, ACT n=54, TAS n=33, NT n=11
 * Indicates low base <50

RE3.2. To what extent do you agree or disagree that you trust the Federal Government? Base: All respondents N=1645

How do fiscal and monetary policies affect business?

Are your state's fiscal policy settings positive or negative for your business?

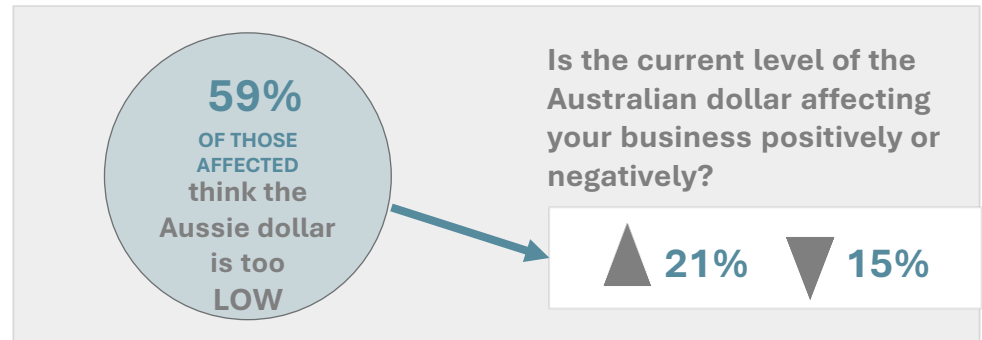


MA1. How positively or negatively do the following affect your business?
 Base: All respondents N=1645, NSW n=521, VIC n=411, QLD n=260, WA n=197, SA n=92,, ACT n=54, TAS n=33, NT n=11
 * Indicates low base <50

Are Federal fiscal policy settings positive or negative for your business?



Is current RBA monetary policy affecting your business positively or negatively?



Is the current availability of business credit positive or negative for your business?



MA1c. Which of the following two options would best describe the reason for your answer? Base: Total positively or negatively affected by RBA policy n=887
 MA1d. Which of the following two options would best describe the reason for your answer? Base: Total positively or negatively affected by AUD level n=590

Majority of boards focus on strategy and growth over risk

DO YOU BELIEVE THE
MAIN FOCUS OF
YOUR BOARD IS ON...?



OR



73%
STRATEGY
AND GROWTH

27%
RISK AND
COMPLIANCE

Current director liability provisions negatively impact my ability to make decisions.

34% **VS** **28%**
AGREE DISAGREE

The current level of corporate reporting requirements is satisfactory.

54% **VS** **22%**
AGREE DISAGREE

How confident are you carrying out oversight of risk for the organisation?

95% **VS** **2%**
CONFIDENT NOT CONFIDENT

Current governance regulations strike the appropriate balance between oversight and maintaining a competitive environment.

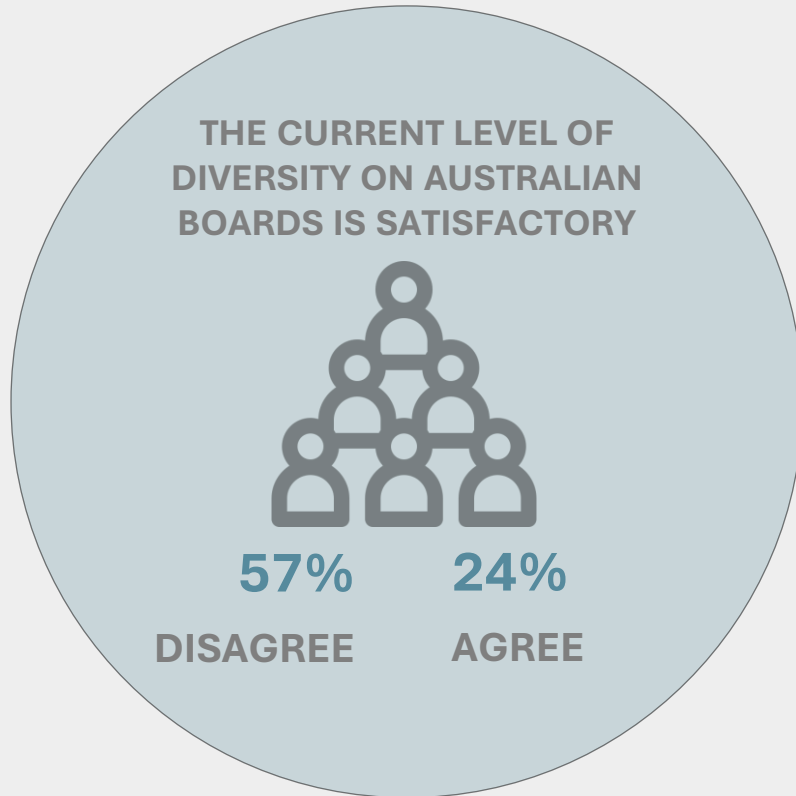
44% **VS** **29%**
AGREE DISAGREE

G3. Below are two opposing views about the main focus of Boards. Please select the statement that comes closest to the situation within your primary directorship.

G2. In your role as a Director, how confident are you in carrying out the following duties...? Base: All respondents N=1645

G1. Based on your personal Board experience, please indicate the extent to which you agree or disagree with the following statements. Base: All respondents N=1645

Diversity is a key point of focus, with skills a priority



Is your board seeking to increase diversity in...

SKILLS?

73% AGREE vs 7% DISAGREE

DIGITAL CAPABILITY?

59% AGREE vs 14% DISAGREE

GENDER?

51% AGREE vs 13% DISAGREE

AGE?

38% AGREE vs 20% DISAGREE

ETHNICITY?

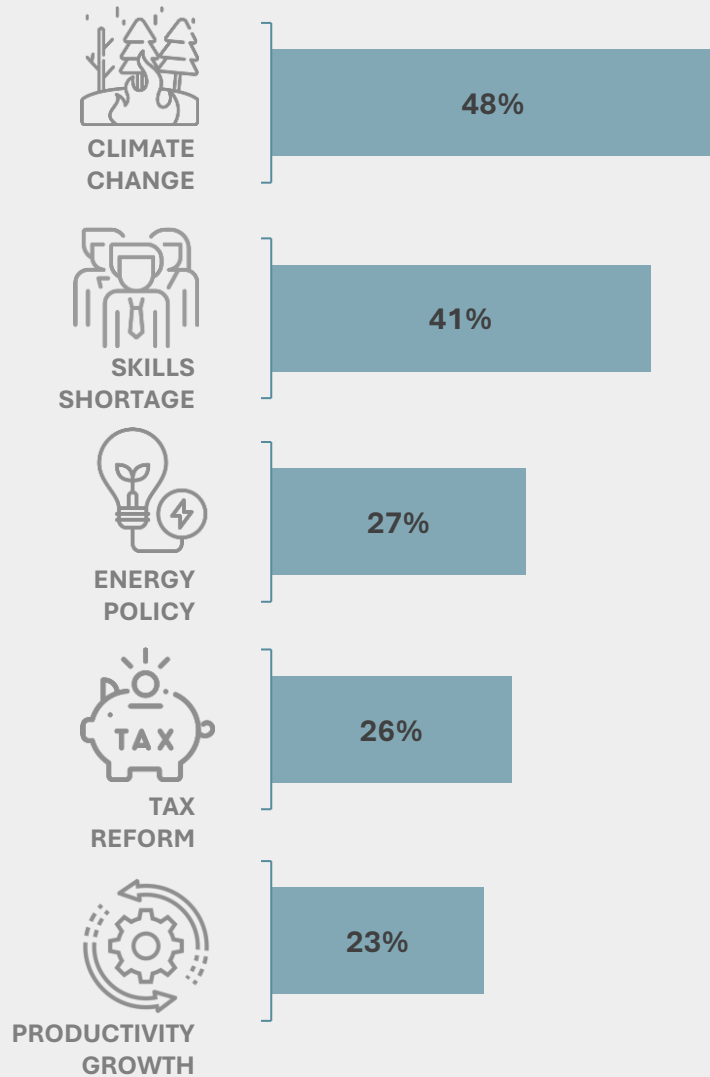
36% AGREE vs 21% DISAGREE

G1.3. Based on your personal board experience, please indicate the extent to which you agree or disagree that the current level of diversity on Australian Boards is satisfactory. Base: All respondents N=1645

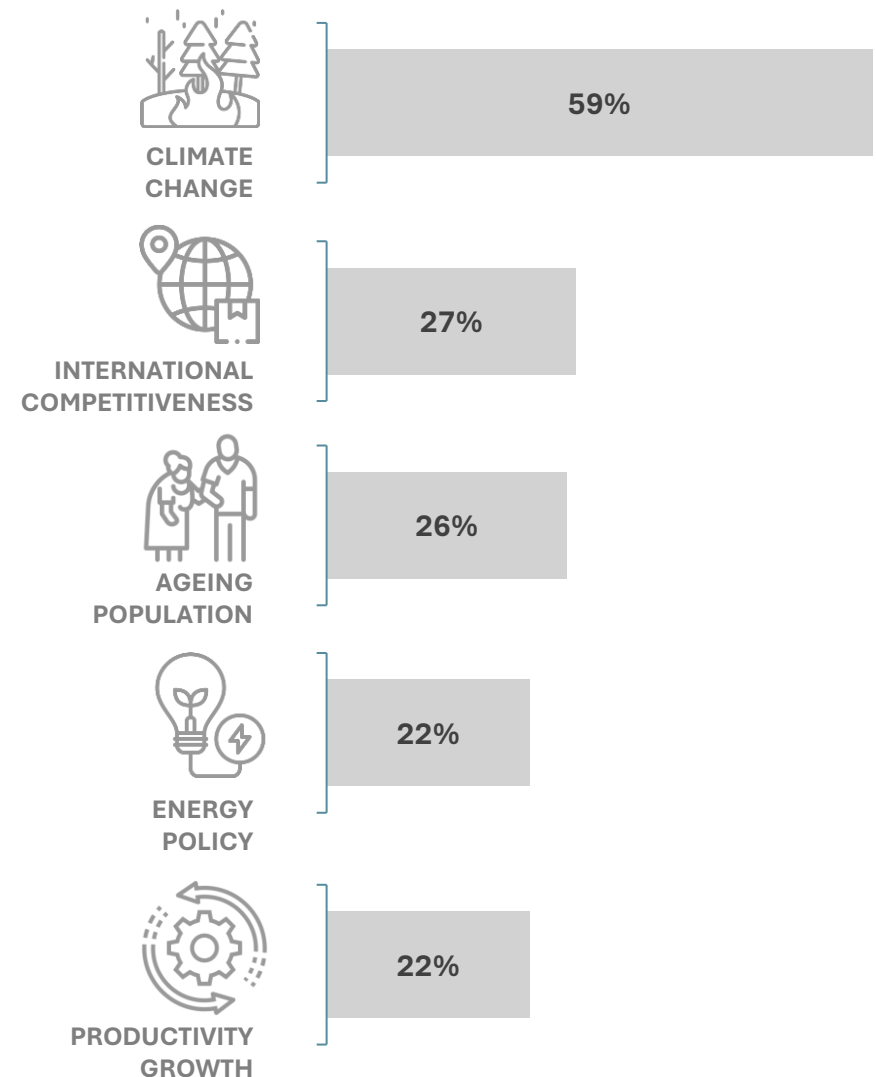
BD2a. How much do you agree or disagree that your Board is currently seeking to increase diversity in the following areas? Base: All respondents N=1645

Climate top short- and long-term government priority

What are the top issues the Federal Government should address in the next 3 years?



What are the top issues the Federal Government should address in the next 10-20 years?

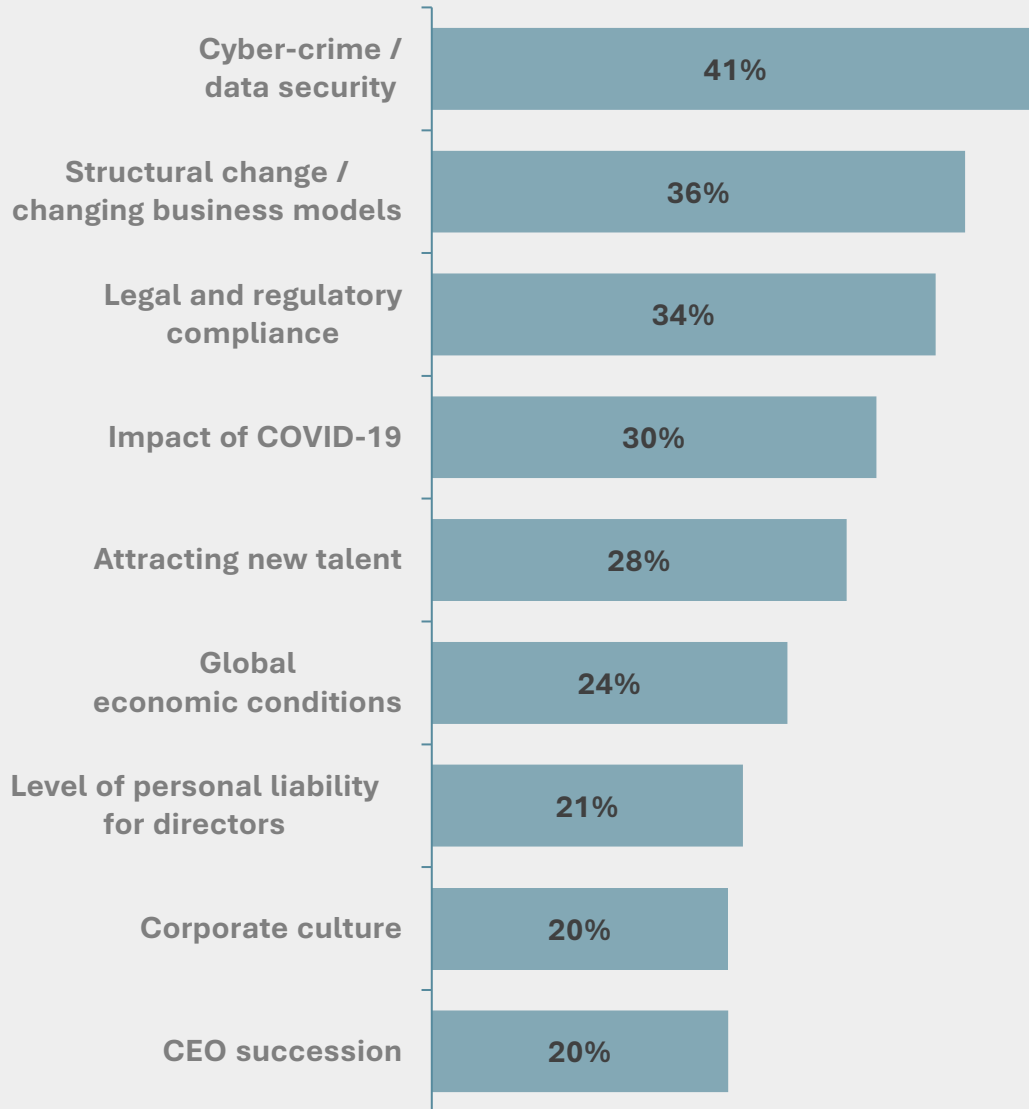


RE4. In your opinion, what are the top 3 issues the Federal Government should address in the short term (next 3 years)? Base: All respondents N=1645

RE4a. Now thinking about the longer term (next 10-20 years), what are the top 3 issues the Federal Government should address? Base: All respondents N=1645

Cyber-crime and data security keep directors awake

What are the top issues that keep you awake?



TQ1. Which of the following issues are most likely to “keep you awake at night” as a Director on your board?
Base: All respondents N=1645

Why do these issues keep you awake?

“[We] need more leadership from the Federal Government on climate change and energy policy. They are backwards looking and influenced by major political donors that seek to benefit from coal and gas developments. Business needs a plan they can trust - at the moment they are going it alone or with guidance from some states (NSW and VIC).”

“Directors liability is onerous in ASX companies”

“COVID-19 has had impacts that are yet to flow through to our economies. The cost...of many of these will have inflationary impacts that will challenge our economies.”

“The transition from a period of record low interest rates, should it occur, will be very challenging for the Australian (and Global) economy and the industries in which we participate.”

“Increasing liability for directors means we become more risk averse and less likely to stretch.”

“An increase in focus on non-business outcomes by shareholders can impact the operations of the business severely.”

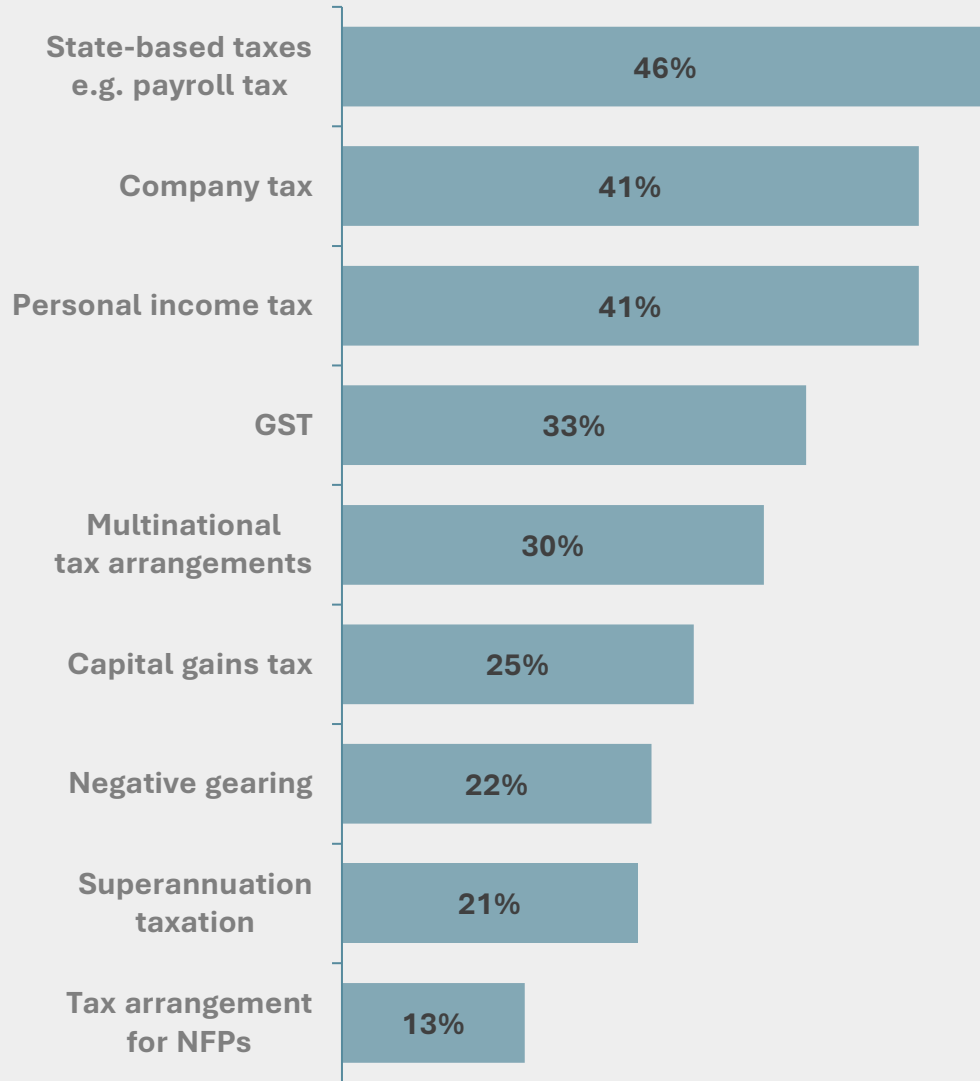
“Significant change and uncertainty in technology adaptation and people skills required, as well as evolving the business model correctly and timeously, while economic conditions worsen.”

“Financial services is overregulated in Australia. It is constantly changing and requirements are impractical and place a huge burden on boards and management that adds little value.”

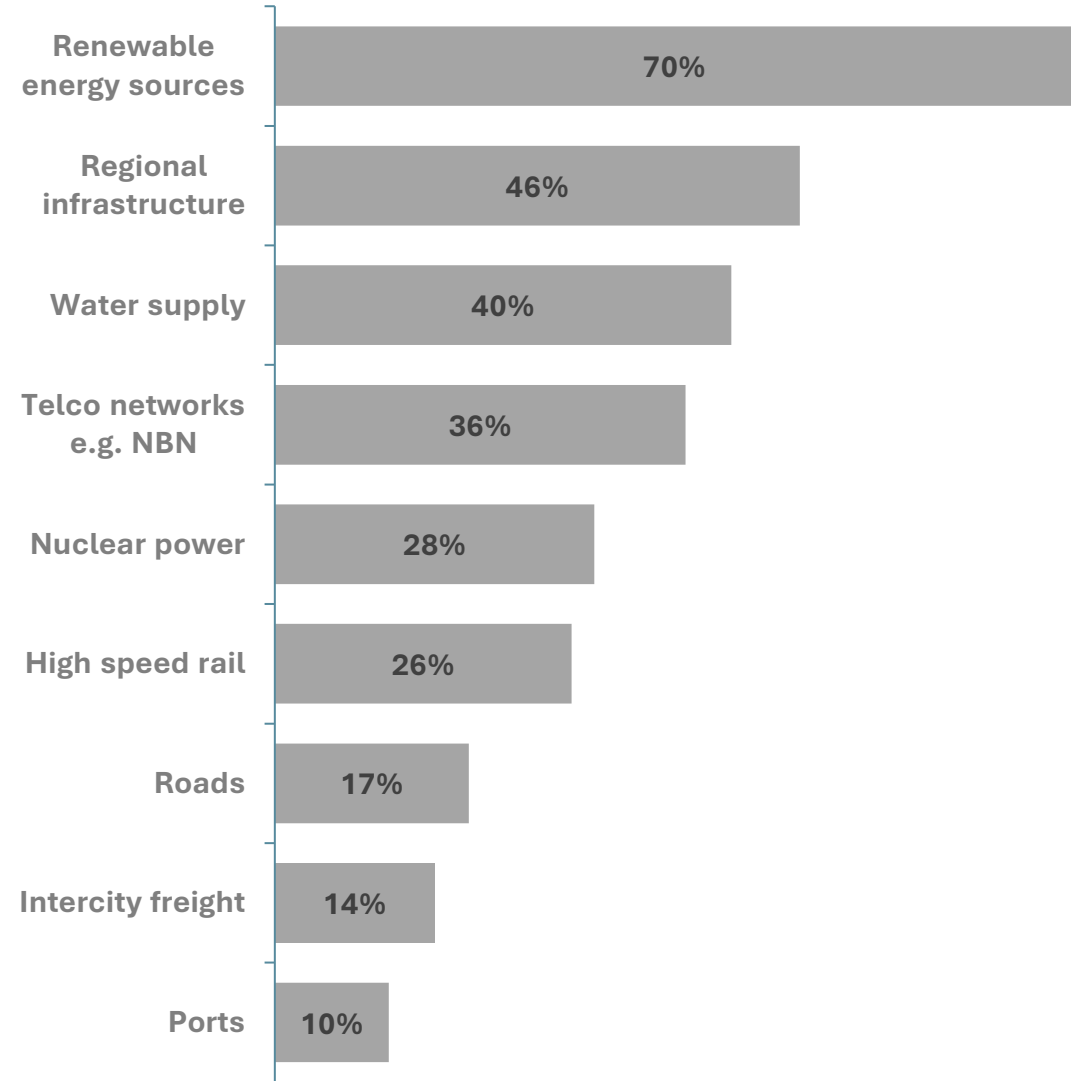
TQ1a. Why do these issues keep you awake at night? Base: All respondents N=1645

What are your top tax reform and infrastructure investment priorities?

What are your top priorities for tax reform?



What are the top priorities for infrastructure investment?

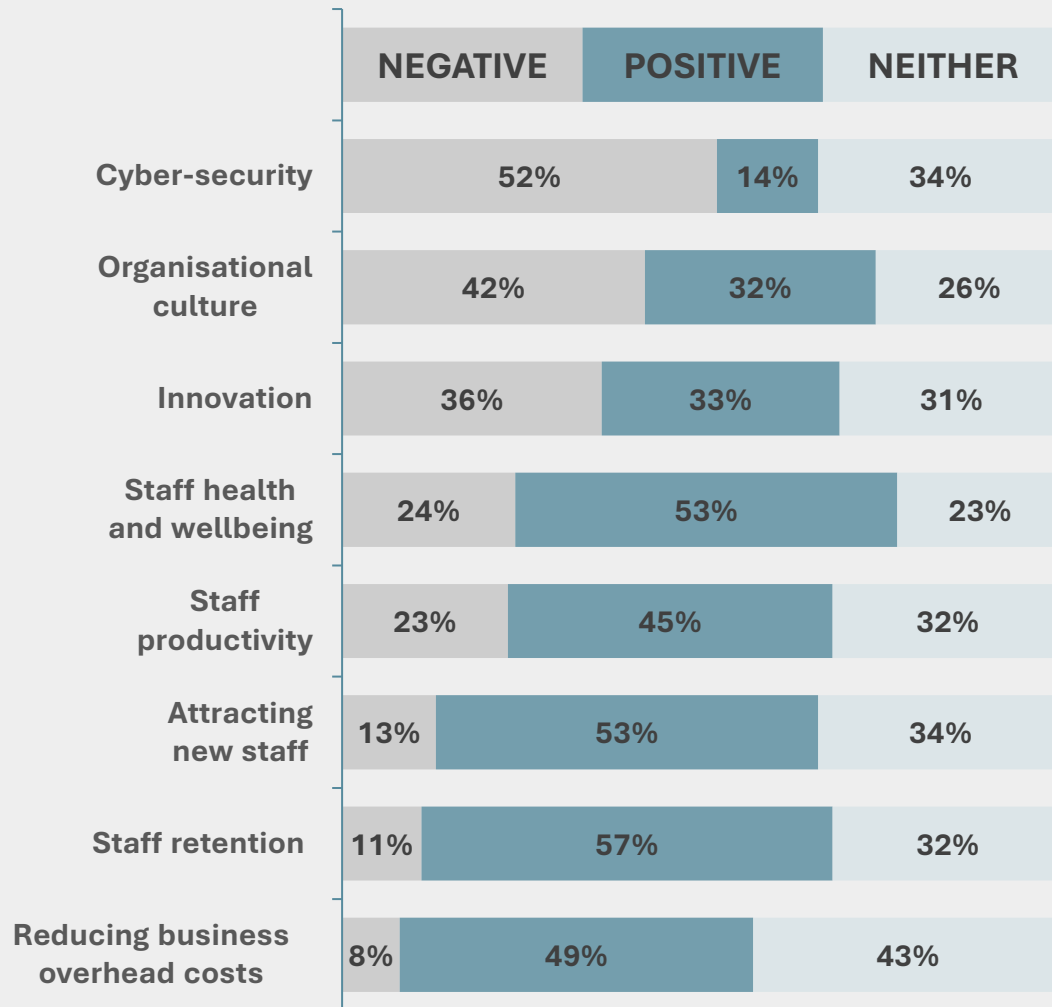


RE6d. Now thinking about a possible review of the current taxation system, please nominate your top 3 priorities for tax reform. Base: All respondents N=1645

I2. Now thinking about infrastructure, what are the top 3 priorities for investment in your opinion? Base: All respondents N=1645

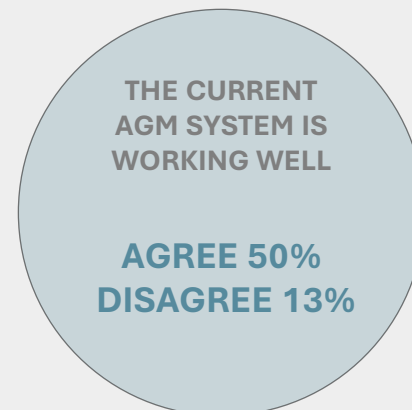
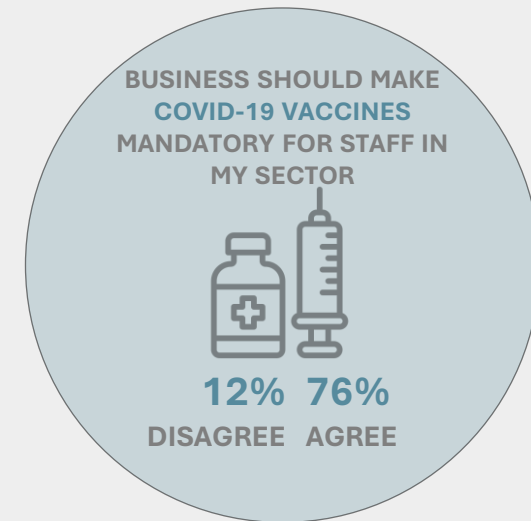
Flexible working keeps staff happy and productive, but increases cyber-security risks

How would you rate the impact of flexible working arrangements in terms of...?



DD1. How would you rate the impact of flexible working arrangements such as working remotely / from home in your organisation, in terms of...? Base: All respondents N=1645

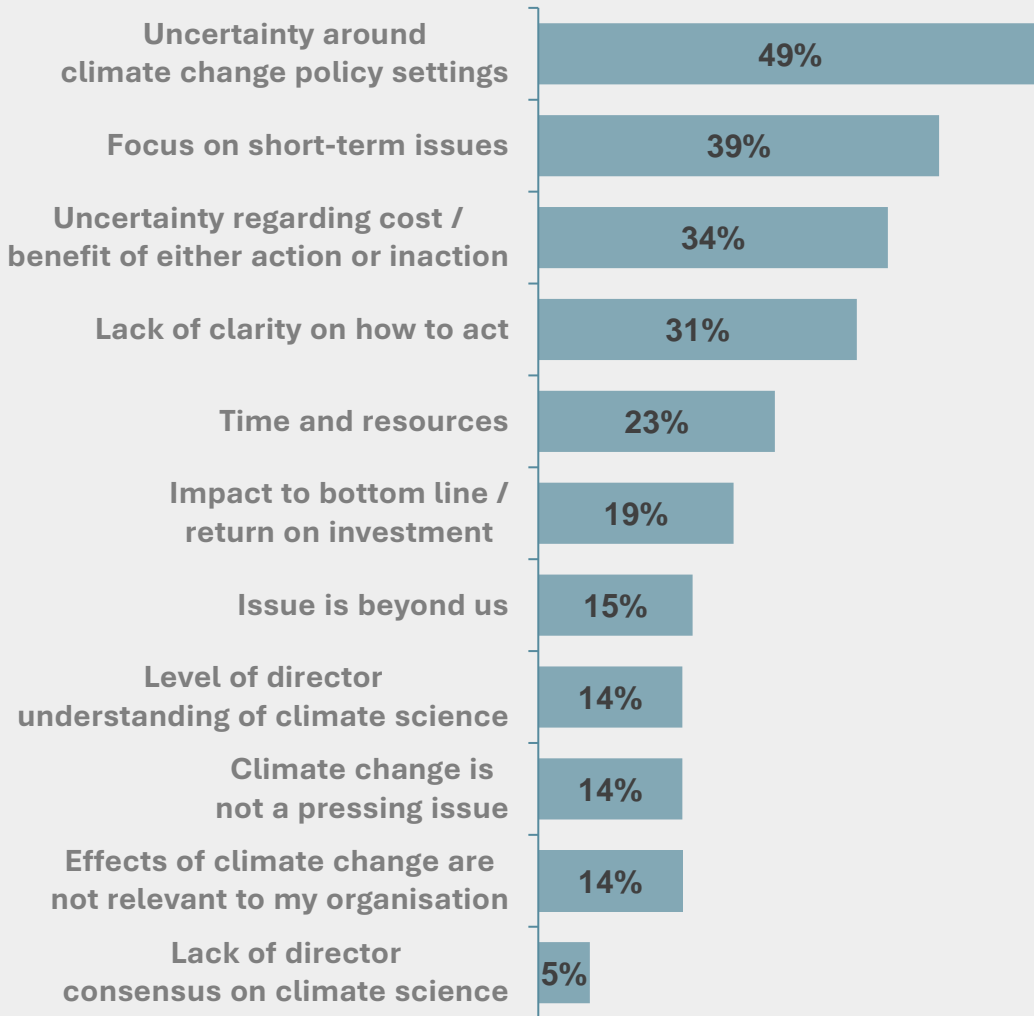
Three-quarters of all directors support workplace vaccine mandates



TQ3. To what extent do you agree or disagree with the following statements...? Base: All respondents N=1645

Climate risk and climate governance

What are the barriers for your organisation relating to climate governance?



DD2. What are the 3 biggest barriers for your organisation relating to climate governance, both in terms of risk and opportunity? Base: All respondents N=1645

“Climate change is profound and underestimated.”

“Energy security is a key to economic stability and we face significant headwinds (linked to climate change).”

“Climate change is the most pressing issue of our times and the Federal Government refuse to address it despite the population pressing for action and global pressure to act.”



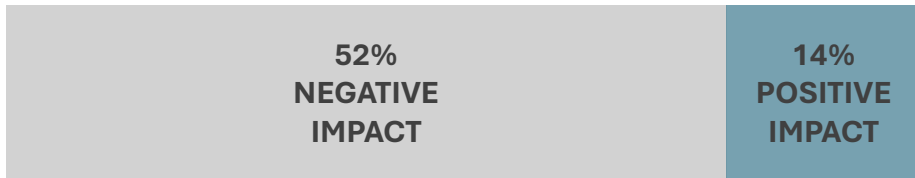
TQ3.2. To what extent do you agree or disagree that climate change is a material risk for your organisation?
 DD3. To what extent are you satisfied or dissatisfied with your organisation's / Board's response to climate governance, in terms of both risk and opportunity?

DD4. To what extent do you support or oppose an emissions trading scheme for the Australian economy?
 Base: All respondents N=1645

Cyber security and technology risk



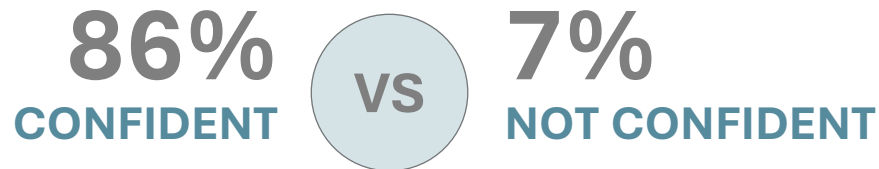
How would you rate the impact of flexible working arrangements in terms of cyber security?



59% OF DIRECTORS AGREE THEIR BOARD IS SEEKING TO INCREASE DIVERSITY IN DIGITAL CAPABILITY AND TECHNOLOGY



How confident are you understanding the risks and opportunities presented by technology?



"Technology is rapidly changing the way business is done; Cyber crime can wipe out a business overnight."

"Cyber security in particular is of concern. Whilst many layers of defence can be implemented, including education, control of employee actions at every level remains difficult and the ever increasing frequency of attacks at all levels of business leave us open to [further] attack."

"It is impossible to keep totally up to date on cyber security."

"Cyber crime can be an existential threat to the organisation."

"Cybercrime is on the increase, is difficult to control for, and high impact. Combine that with mooted personal liability provisions for directors with regard to data and financial loss from cybercrime makes for a an unpleasant scenario."

DD1.8 How would you rate the impact of flexible working arrangements such as working remotely / from home in your organisation, in terms of cyber security?

G2.2 In your role as a director, how confident are you in understanding the risks and opportunities presented by technology?

BD2a.5 How much do you agree or disagree that your board is currently seeking to increase diversity in digital capability / technology?

Base: All respondents N=1645

TQ3.1 To what extent do you agree or disagree that our board has sufficient oversight of cyber security threats to our organisation? Base: All respondents N=1645

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