



2013

DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS FIRST HALF 2013

Delivered by Ipsos MediaCT – April 2013

Director Sentiment Index:

Table of Contents

03–82

03	Sample profile
04	Director Sentiment Index
07	Summary of key indicators and headlines
12	Executive summary
14	Research findings
20	<i>Detailed results</i>
22	<i>Economic outlook</i>
43	<i>Lifeblood of the economy: Credit availability</i>
48	<i>Infrastructure</i>
52	<i>Regulatory environment</i>
64	<i>Governance: Key issues for directors and boards</i>
72	<i>Shareholder relations</i>
75	<i>Environmental, Social and Governance issues</i>
80	<i>Directorships and diversity</i>

First half 2013 sample profile

A random sample was sourced from the Australian Institute of Company Directors' member database.

Fieldwork period: 5th – 18th March 2013

Total respondents 504

	%
No. of current directorships	
1	29 (38)
2	31 (26)
3 or more	40 (35)
Prefer not to say	- (1)
Positions held on board(s)	
Executive Director	41 (48)
Non-Executive Director	63 (60)
Chairman	34 (26)
Other	7 (6)
Prefer not to say	2 (1)
Primary directorship company	
Publicly listed Australian entity	14 (12)
Private/non-listed Australian entity	53 (53)
Not-for profit entity	31 (33)
Prefer not to say	2 (2)

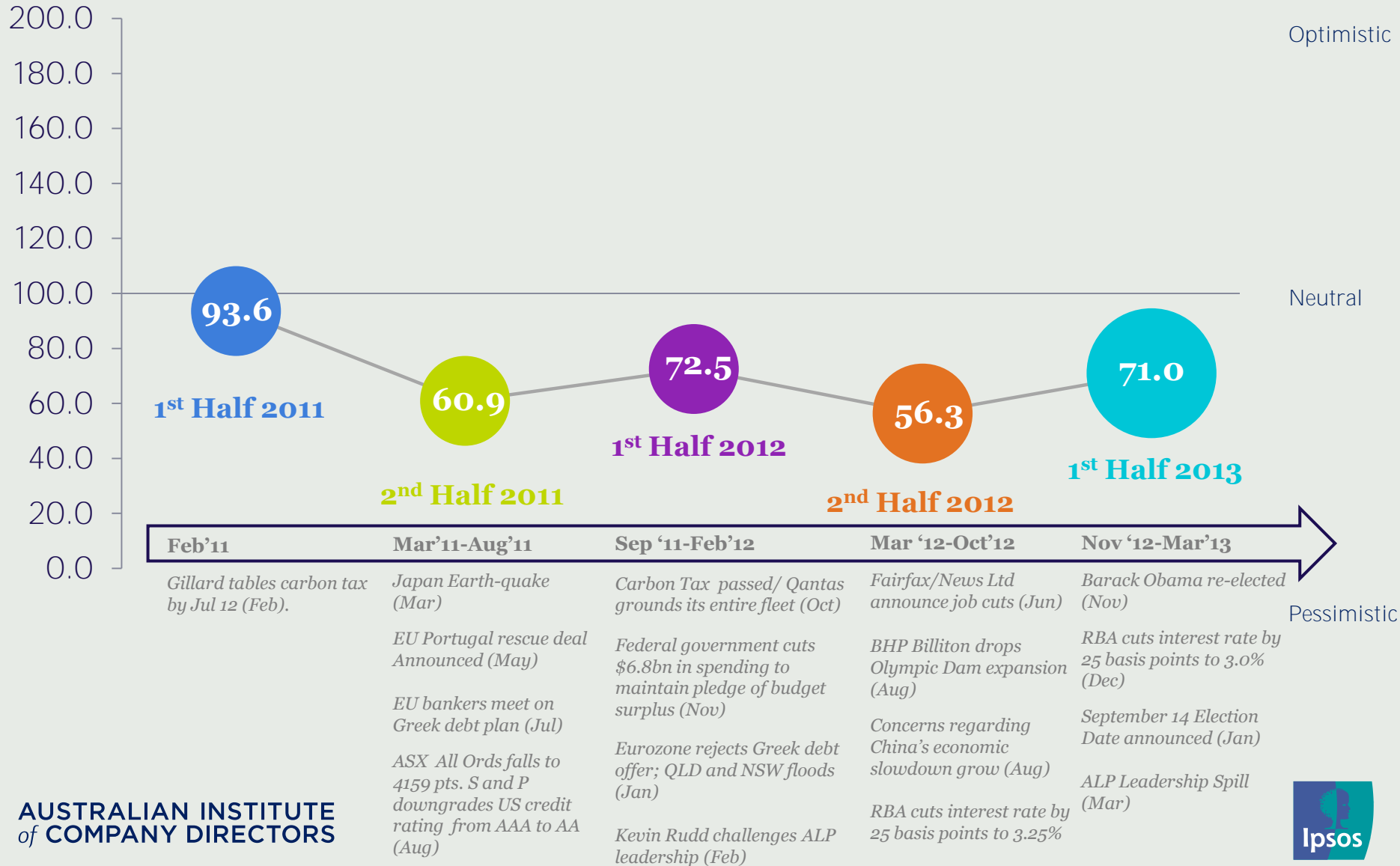
	%
Primary directorship business sector(s)	
Health and Community Services	22 (21)
Finance and Insurance	18 (15)
Property and Business Services	12 (12)
Manufacturing	9 (10)
Education	9 (9)
Mining	8 (11)
Personal and Other Services	8 (5)
Agriculture, Forestry and Fishing	8 (6)
Communication Services	6 (4)
Construction	6 (6)
Government Administration and Defence	5 (6)
Transport and Storage	5 (3)
Energy	4 (6)
Retail Trade	4 (5)
Cultural and Entertainment industry	2 (3)
Wholesale Trade	2 (2)
Accommodation, Cafes and Restaurants	1 (2)
Other	- (-)
Gender	
Male	84 (76)
Female	16 (24)

Director Sentiment Index

Overall Director Sentiment Index

5

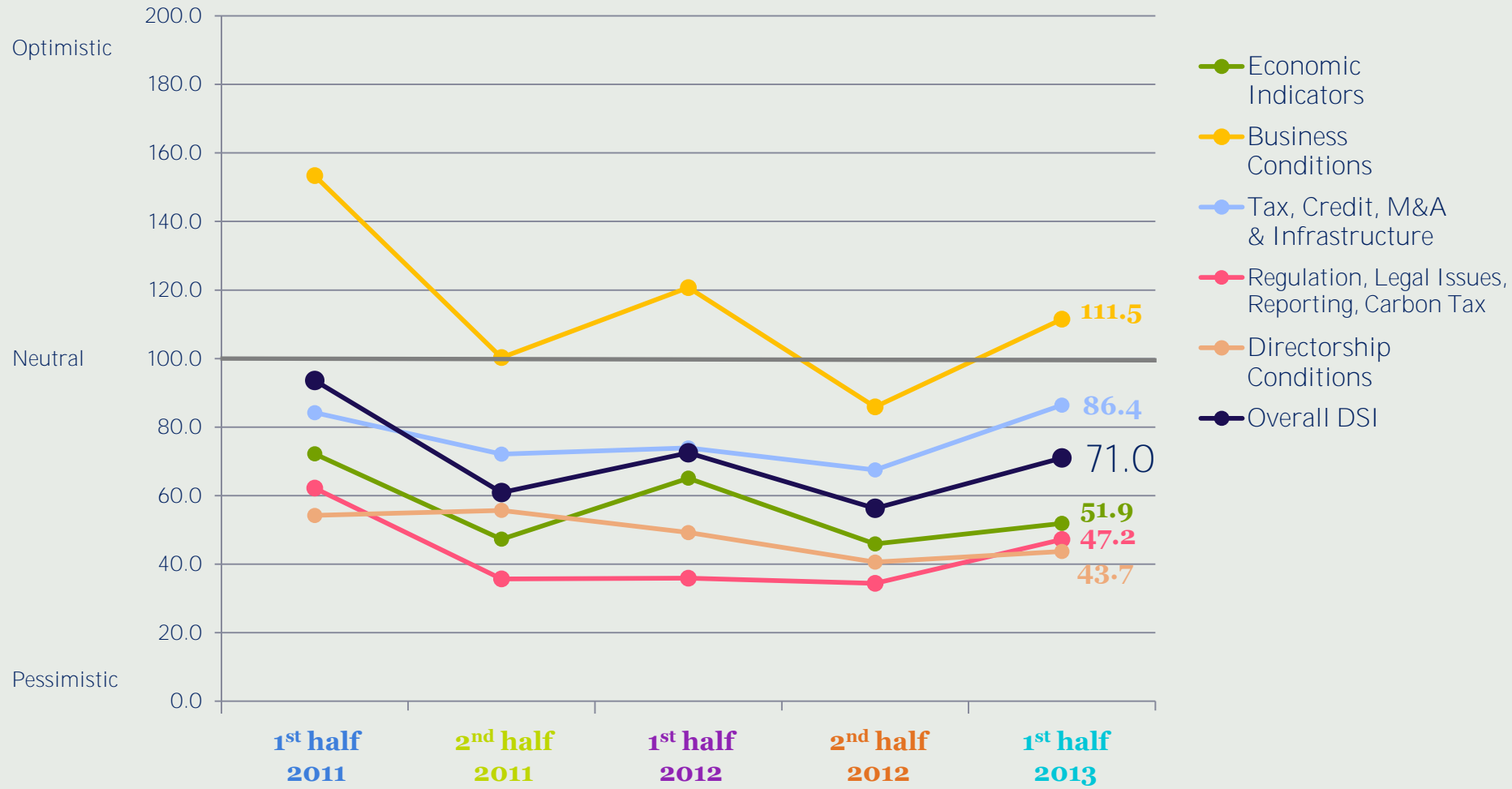
The overall sentiment in the 1st half of 2013 is up 15 points on the last survey but remains pessimistic.



Overall Director Sentiment Index by segment

6

This survey finds that all Index segments have improved since the previous survey and notably sentiment towards business conditions has moved from pessimistic to optimistic.











Summary of key indicators and headlines


Summary of key indicators

(1 of 4)

8

Indicator (expected change in coming 12 months)	Scale	1 st Half 2013 net balance	2 nd Half 2012 net balance
<i>Economic conditions</i>			
Health of the Australian economy	Weak/strong	-26 	-42
Health of the Asian economy	Weak/strong	37 	2
Health of the European economy	Weak/strong	-87 	-93
Health of the US economy	Weak/strong	-30 	-56
Inflation rate (Australia)	Lower/higher	21 	13
Exchange rate (value of AUD versus USD)	Lower/higher	-40	-42
RBA cash rate	Lower/higher	-18 	-58
Level of wages growth	Lower/higher	25 	7
Unemployment rate	Lower/higher	35 	47

 Significantly higher vs. 2nd half 2012 @ 95% confidence level

 Significantly lower vs. 2nd half 2012 @ 95% confidence level

Summary of key indicators

(2 of 4)

9

Indicator (expected change in coming 12 months, with the exception of *)	Scale	1 st Half 2013 net balance	2 nd Half 2012 net balance
<i>Business conditions</i>			
Growth of primary directorship business	Weak/strong	24 ↑	2
Change in business investment levels	Decrease/increase	13 ↑	-2
Change in business staffing levels/labour demand	Decrease/increase	7 ↑	-7
Change in level of business exports	Decrease/increase	3 ↑	-12
Change in level of outsourcing	Decrease/increase	13	10
Expectations of profits for Jan-Jun 2013 actual versus forecast*	Below/up	6 ↑	-6
Confidence in general business outlook*	Pessimistic/opt	-1 ↑	-20
Confidence in business outlook for primary directorship sector*	Pessimistic/opt	0 ↑	-9
<i>Directorship conditions</i>			
Impact of directors' liability on willingness to serve on a board*	Negatively/positively	-53 ↑	-62
Impact of compliance requirements on willingness to serve on a board*	Negatively/positively	-47	-50
Impact of remuneration on willingness to serve on a board*	Negatively/positively	-1 ↓	8
Impact of contribution to economy/society on willingness to serve on a board*	Negatively/positively	84 ↑	79









↑ Significantly higher vs. 2nd half 2012 @ 95% confidence level

↓ Significantly lower vs. 2nd half 2012 @ 95% confidence level

Summary of key indicators

(3 of 4)

10

Indicator (expected change in coming 12 months, with the exception of *)	Scale	1 st Half 2013 net balance	2 nd Half 2012 net balance
<i>Tax, credit, M&A</i>			
Credit availability for investment purposes	Low/high	2 	-19
Credit availability for asset purchases	Low/high	9 	-10
Credit availability for working capital	Low/high	2 	-14
Expected change in ASX All Ordinaries index	Fall/rise	50 	8
Expected change in level of mergers and acquisitions	Fall/rise	59 	42
Perception of current level of corporate taxation*	High/low	-43 	-52
Perception of current level of personal taxation*	High/low	-65	-64
<i>Infrastructure</i>			
Perception of level of government spending on infrastructure*	Low/high	-89 	-82
Agreement with building of NBN being a positive thing for Aust*	Disagree/agree	12 	-1
<i>Regulation, legal issues, reporting, Carbon Tax</i>			
Agreement with 'Federal Government understands business'*	Disagree/agree	-76 	-66
Agreement with 'Federal Opposition understands business'**#	Disagree/agree	18	N/A
Expected change in level of 'red tape' in coming 12 months	Increase/decrease	-54	-54

Summary of key indicators

(4 of 4)

11

Indicator	Scale	1 st Half 2013 net balance	2 nd Half 2012 net balance
Regulation, legal issues			
How is the current Federal Government's performance affecting your business decision making?	Negatively/Positively	-67	-63
How is the current Federal Government's performance affecting consumer confidence?	Negatively/Positively	-86 ↓	-78
Perception of governance regulations	Onerous/weak	-53	-54
How is legislation affecting your business decision-making?	Negatively/positively	-38	-41
How is legislation affecting your willingness to serve on a board?	Negatively/positively	-46	-42
How is legislation affecting your willingness to accept new board appointments?	Negatively/positively	-58	-53
Extent legal judgements affect your business decision-making	Negatively/positively	-35	-31
Extent legal judgements affect your willingness to serve on a board	Negatively/positively	-44	-39
Extent legal judgements affect your willingness to accept new board appointments	Negatively/positively	-54	-51
Adequacy of business directorships and officers' insurance	Inadequate/adequate	-3	-1
Adequacy of public company remuneration reports	Inadequate/adequate	-19 ↑	-24
Priority of the reform of laws and regulations governing public company remuneration*	Low priority/high priority	35 ↑	27
Functionality of International Financial Reporting Standards (IFRS)	Dysfunctional/ functional	-5	-8
How do you expect the Carbon Tax to affect your business?	Negatively/positively	-44	-48

Executive summary

Executive Summary 1st Half 2013

13

- Director sentiment has increased 15 points since the last survey when the index was at its lowest since inception.
- While directors continue to be pessimistic about the health of the Australian and US economies at present, there is less pessimism about the future health of those economies, and growing optimism regarding the current and future health of the Asian economy.
- There is renewed optimism about business growth over the coming year and sentiment of each of the economic indicators has improved since the previous survey.
- The high value of the Australian dollar continues to be a pressing concern, with directors ranking this as the top economic challenge facing Australia, followed by global economic uncertainty.
- **Perception of the current Federal Government's understanding of business has further declined. The Federal Opposition is perceived as having a significantly greater understanding of business.**
- Economic policy and management is seen as the most important factor that will influence directors' **votes at the federal election.**
- Directors believe that the level of red-tape and board commitment spent on regulatory compliance have increased over the last 12 months. Regulation surrounding workplace health and safety and employing workers are rated as having the highest impact on productivity.
- Red tape/regulation was also seen as the second biggest impediment to productivity growth, after general economic conditions .
- For the fifth survey in a row, infrastructure is rated as the top priority for the Federal Government.
- For the first time since the commencement of this survey, more directors consider the building of the NBN to be a positive thing compared to those that consider it to be a negative thing.

Research findings

Research Findings

15

The Economic Environment

Health of economies

- The outlook for world economies, except Asia, has remained pessimistic. Most directors still perceive the current and future state of the Australian, US and European economies as weak, although there is greater optimism about the current and future health of the Asian economy.

Economic challenges

- Directors rank the high value of the Australian dollar as the biggest current economic challenge, followed by global economic uncertainty and the amount of regulation or 'red tape'.

Economic indicators

- The exchange rate and RBA official cash rate are expected to decline in the coming 12 months. Directors expect the unemployment rate to rise in the coming 12 months.

Research Findings

16

The Business Environment

Business Growth

- Business growth declined for many in July-December 2012, with more than 40 per cent of directors claiming the growth of their business had weakened in the last six months. Expectations for growth in the future have become more optimistic.

Profits

- Over 40 per cent of directors expect an increase in profits for the second half of this year, compared to profits for the same period last year.

Business Outlook

- Business outlook has improved from pessimistic to neutral. Directors are equally optimistic and pessimistic (about 30 per cent respectively) about the general business outlook, and the outlook for their own sector.

Credit availability

- In the last six months, credit availability for investment, asset purchases and working capital purposes has remained constrained. Predictions regarding credit availability over the coming year have become slightly optimistic, with credit for investment purposes, asset purchases and working capital purposes expected to be more available.

Research Findings

17

Regulation, productivity, perception of Federal Government and infrastructure

Regulation

- More than 70 per cent of directors believe that the level of 'red-tape' has increased in the last 12 months. Akin to the previous survey's results, directors remain pessimistic regarding the level of red-tape in future, with more than 60 per cent expecting an increase in the coming year.
- More than 70 per cent of directors identify employing workers and workplace health and safety as aspects of their business most affected by 'red-tape'.
- Directors estimate 'red-tape' compliance consumes an average of 26 per cent of their total board commitment, with more than half believing that this level of commitment has increased in the last 12 months.

Infrastructure

- For the fifth survey in a row, infrastructure is rated the number one priority for the federal government to address in the short and long term. More than 90 per cent of directors believe that the current level of government spending on infrastructure is too low.
- Sentiment about the building of the National Broadband Network is now more positive than negative, for the first time since the question has been asked as part of the Director Sentiment Index survey.

Productivity

- Productivity follows infrastructure as the second most urgent issue for the Federal Government to address.
- General economic conditions were identified as the top impediment to productivity growth (73 per cent) followed by red-tape/regulation (50 per cent), and workplace relations laws and regulations (42 per cent).

Perception of the Federal Government and Opposition in the lead-up to the election

- There is increased pessimism with the Federal Government's performance compared to the results from the last survey and more than 80 per cent of directors maintain the belief that the Federal Government lacks understanding of business. Conversely, 50 per cent of directors believe the Federal Opposition understands business.

Research Findings

18

Legal and reporting issues

Director liability

- More than 40 per cent of directors believe that legislation on director liability has a negative impact on their business decision making and willingness to continue on a board, and more than 60 per cent believe it has a negative impact on their willingness to accept new board appointments.
- Pessimism remains regarding the effect of legal judgements on director liability, with more than 40 per cent of directors maintaining that legal judgements negatively impact their business decision making and their willingness to continue on a board.

Research Findings

19

Ethical Considerations, shareholder relations and ESG

Ethics of company directors

- Most directors perceive that Australian listed public companies are generally ethical and more so than overseas listed companies, although they believe that the public perception regarding the ethics of Australian company directors has declined.

Board diversity

- Nearly two-thirds of directors are actively seeking to increase board diversity in terms of skills, and more than 40 per cent in the area of gender.

Carbon tax

- Pessimism regarding the Carbon Tax legislation remains, with almost half of directors perceiving it to have a negative impact on their business. Most directors maintain the perception that energy costs, domestic prices, and non-energy costs are negatively impacted by the Carbon Tax, but to a lesser extent compared to the results of the previous survey*.
- Nevertheless, more than 50 per cent of directors continue to believe that abolishing the Carbon Tax would have a positive effect on their business.