

Climate the burning issue for company directors



The Loy Yang power station in West Gippsland in Victoria.

Sarah-Jane Tasker, Reporter, 11:00PM October 24, 2018

Climate change has emerged as the top concern inside the boardrooms of corporate Australia, new data shows, as directors also warn that the Morrison government's performance is hurting consumer confidence.

The Director Sentiment Index for the second half of 2018, conducted by the Australian Institute of Company Directors, revealed that for the first time directors nominated climate change as the top issue they wanted the federal government to address in the long term.

AICD chief executive Angus Armour said the change in priorities was "quite stark". "Directors have said repeatedly energy policy matters and now not just energy policy but climate change has come to the top," he said. "They (directors) are the community, they reflect the community they are living in, and this is a concern of the Australian community generally."

The warning from directors is likely to put further pressure on the Morrison government as it comes on the heels of the Wentworth by-election in Sydney, where the Liberal Party is on track to lose the seat to independent Kerryn Phelps, who campaigned strongly on climate change.

It also follows comments from BHP chief Andrew Mackenzie, who last week declared water sustainability and carbon emissions were “the biggest challenges humankind now faces”.

Speaking at the mining giant’s annual general meeting in London, he said BHP “stands ready to show leadership on both fronts”.

Business leaders have expressed concern over a vacuum in energy policy, including the collapse of the Coalition government’s proposed National Energy Guarantee in recent months.

This policy uncertainty “has paralysed investment in dispatchable generation for a decade,” the Business Council of Australia’s Jennifer Westacott said.

Meanwhile, directors of listed companies have been feeling pressure from big investors, including super funds to lower carbon emissions across their own businesses.

The AICD’s Mr Armour said while politicians heard the message that energy policy was a priority for Australians, the latest index was an opportunity to emphasise that bipartisan support for sound energy policy was wanted. “We have had good bipartisan platforms on energy and infrastructure and trade in the past and for long periods that allowed people to invest and hire people with confidence,” he said. “The business community we polled are a little dismayed that we are not in that frame of mind for some very important and fundamental building blocks in the economy.”

Key findings from the Director Sentiment Index showed that 50 per cent of directors rated renewable energy sources as the top area of importance for infrastructure investment, followed by regional infrastructure and roads.

The index also revealed that 84 per cent of directors rated the current quality of public policy debate in Australia as poor.

The latest Director Sentiment Index, which is the only indicator measuring the opinions and future intentions of directors, was conducted just under a month after the Liberal Party rolled Malcolm Turnbull and appointed Scott Morrison leader. Mr Armour said directors were concerned with the policy apparatus in Australia.

He said there was increasing pessimism about Canberra’s impact on business, with 54 per cent saying the federal government’s performance had a negative

effect on their business decision-making and 79 per cent perceiving a negative effect on consumer confidence.

Both of those figures were significant higher than in the previous index. “It is not about party politics, it is about bipartisan, sensible policy frameworks that we know will survive in some of the key areas that need long-term investment, like infrastructure and energy policy,” Mr Armour said. “These are two important components to the economy, particularly energy policy, that have been dragging for too long.”

Directors also nominated less short-termism and fostering innovation as measures to boost productivity. Their desire for more innovation had increased substantially in the latest index.

Directors were generally confident about the Australian and global economies for the second half of 2018, according to the index, but they were much less optimistic about the outlook over the year ahead.

The index revealed directors’ optimism regarding future business growth, although still positive, had the first downward movement since the second half of 2014. “Directors are concerned with the global environment, with rising global protectionism and global economic uncertainty rated as the top two economic challenges facing Australian business,” Mr Armour said.

The Director Sentiment Index also showed that directors were focused on the need to regain trust in institutions, with 80 per cent of directors supporting stronger penalties. “The positive aspect is that they are looking at the challenges and saying they need to face into it,” Mr Armour said. “I’m encouraged when 80 per cent support stronger penalties for misconduct.

“They are saying we are happy to get called out if we get it wrong. I take heart from that.”

Mr Armour added that in an uncertain environment, directors were conscious they needed to drive change to enhance public trust in institutions. “Trust is a building block to getting things done,” he said.

“A level of distrust in the community across all our major institutional groups is a significant concern and directors living in the community have picked up on that and are reacting to that.” He also highlighted that there was a big focus on corporate culture among directors.

“Almost 90 per cent of directors are working on cultural change within their organisation,” Mr Armour said.