MALLESONS

Directions 2026

Disciplined continuity: the forces driving Australian business

September 2026

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Introduction

Australia has been a miraculously lucky country, endowed with extensive natural resources, high living standards, and a stable democracy with robust institutions and limited civil unrest.

However, Australia is at an inflection point, facing a profound range of strategic, economic and social challenges, shaped by:

- the rapid emergence and adoption of AI and other new technologies that are changing how people live and work;
- ongoing cost-of-living pressures and housing shortages which are challenging social cohesion;
- environmental and climate pressures, and the slow transition to renewable energy; and
- the impact of ongoing geopolitical tensions and threats to traditional alliances and the liberal rules-based international order that was established after World War II.

The tension between our national security and our national prosperity is more acute than it has been in generations, and government, businesses and communities must actively navigate and manage a variety of increasingly complex and intersecting risks.

In that context, this year's *Directions Report* focuses on how organisations are responding to external pressures, whether the government is listening to business, and how AI is influencing strategic decision-making and organisational design.

And the current sentiment of Australian business is clear: we cannot control the world around us, but we can control how we respond to it, and action needs to be taken now!

> *'Australians want to get ahead... And above all, they want their children to have even greater opportunities than they did. But right now, for too many Australians, getting ahead is becoming harder....ultimately, our living standards depend on our ability to grow the economy and create more prosperity. And the simple point is that Australia cannot tax, regulate or redistribute its way to higher living standards. We have to grow and we have to become more productive. And, to do this, we have to create the conditions for businesses to invest, innovate, expand and employ more Australians.'* - Bran Black, Chief Executive of the Business Council of Australia.[1]

Reflecting the results from our annual Directions Survey of directors and senior business leaders conducted in June-July 2026, the key themes in this year's *Directions Report* are:

Businesses getting on with it – Australian business has determined that it needs to 'get on with it' as best it can, in the face of sustained inflationary and cost pressures, rapid technological change and the volatile geopolitical environment.

Improving productivity is critical – The clear focus is on improving productivity, with initiatives such as extracting value from AI and developing new business models increasingly in focus, and heightened frustrations with excess regulation and red tape.

Relations between business and government have become more strained – A reset is needed to demonstrate that government is listening to the business community to facilitate policy settings that will support productivity growth.

No AI 'sugar hit' – While productivity gains remain the key strategic driver for implementing AI, there is still a gap between the ambition and its realisation, and the broader implications for businesses and the workforce remain to be seen.

Business as a diplomatic bridge – Australian business can leverage its position in a more fractured world to become commercially grounded diplomats.

In this environment, Australia has the clear opportunity to improve its international competitiveness. Australian businesses have a critical role to play in helping to build understanding and strengthen trust between institutions and nations, and to inform and shape policy settings and investments into new technologies, capabilities and industries. The hope is that this will enable Australia to leverage a period of significant disruption into opportunities for greater resilience, and improved productivity growth and prosperity.

1 Address at the Annual Dinner of the Business Council of Australia. 25 August 2026.

Australian business sentiment, investment intentions and the productivity challenge

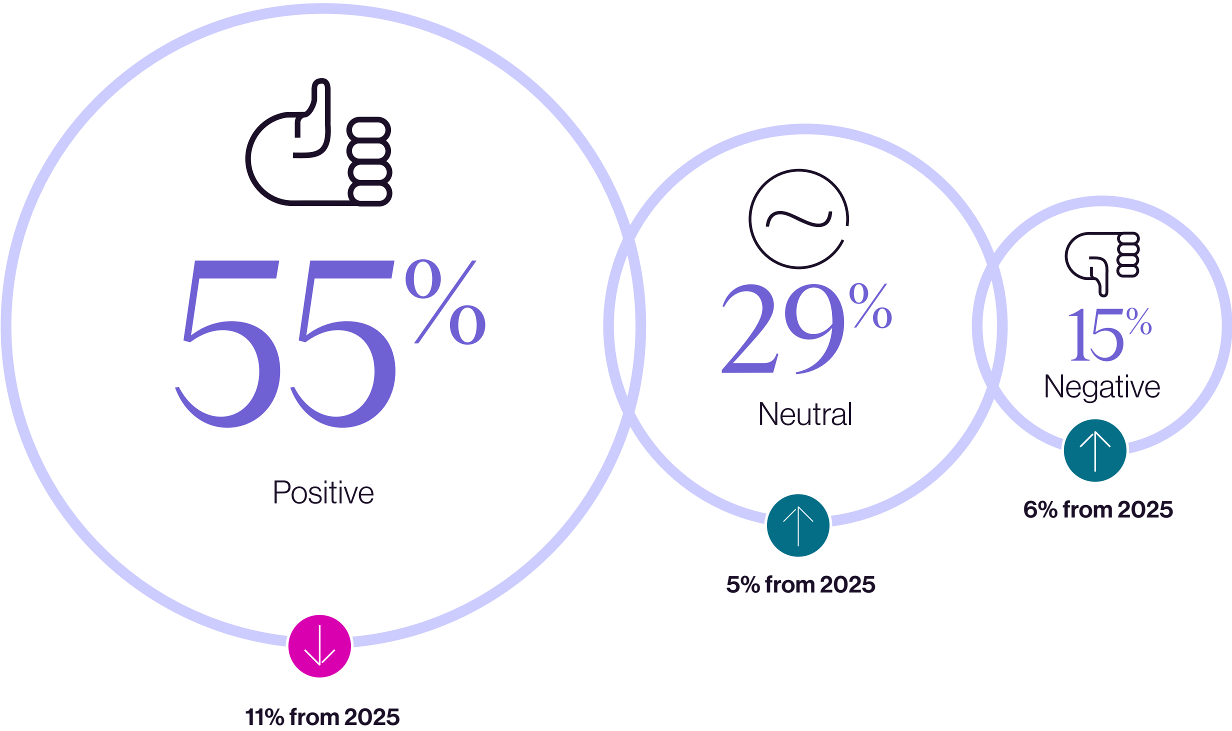
This year, the overriding mood from Australian business is one of gritty and disciplined continuity. Australian business has determined that it needs to 'get on with it' as best it can in the face of sustained inflationary and cost pressures, rapid technological change and the volatile geopolitical environment.

However, there are concerns that Australia's policy settings and regulation are inhibiting the investment and efficiency improvements that are needed to support Australia's international competitiveness, living standards and social cohesion. This is driving increasingly urgent calls for Australia - government, business, unions and regulators - to collectively step up to the productivity challenge.

> *'We need to build a more complex, innovative and productive economy, share the benefits and renew some form of business social contract.'* - Survey respondent.

This mood is reflected in our *2026 Directions Survey* results, which indicate that, relative to 12 months ago, the attitude of Australian organisations remains broadly positive towards pursuing growth opportunities and risk-taking over the next 6-12 months (with 55% positive or very positive), but optimism has softened (by 11.4%) compared to the results from our *2025 Directions Survey*.

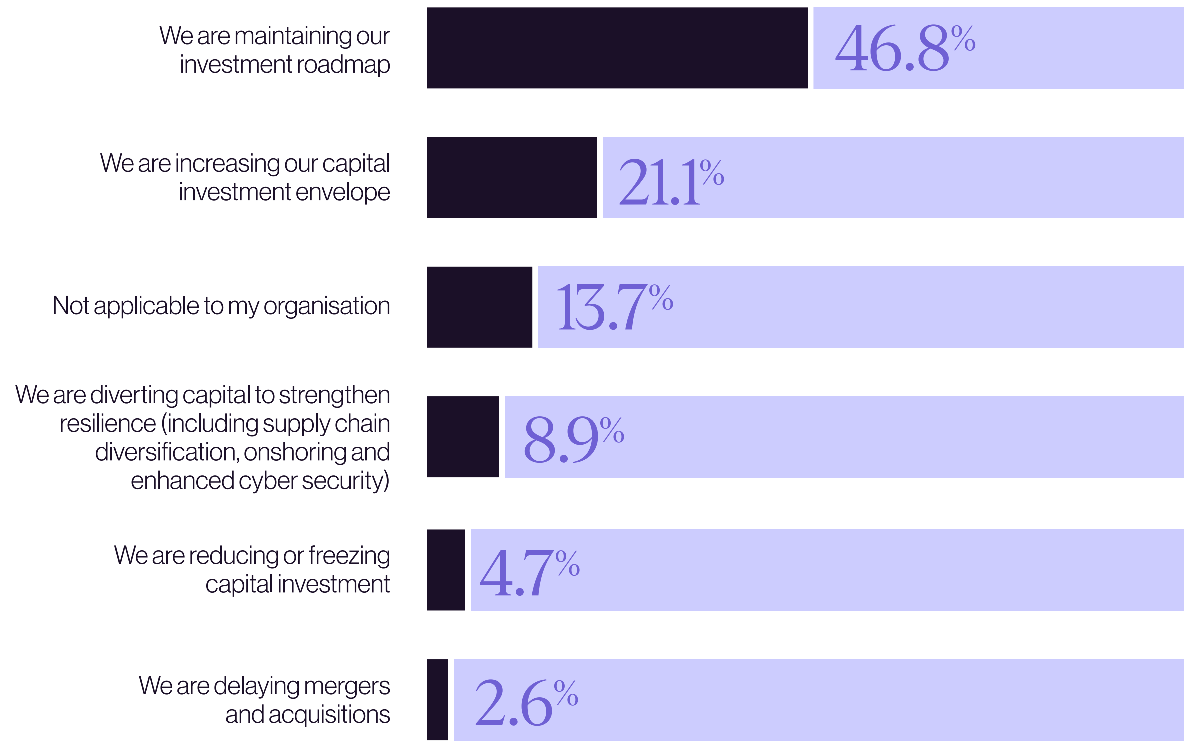
Compared to 12 months ago, what is your organisation's attitude towards pursuing growth opportunities and risk-taking over the next 6-12 months?



Similarly, despite ongoing economic and geopolitical challenges, the majority of survey respondents indicated that their organisations are either maintaining their investment roadmap (46.8%) or increasing their capital investment envelope (21.1%) over the next 12 months. This is in contrast to the survey respondents who indicated that their organisations are either diverting capital to strengthen resilience (8.9%) or reducing or freezing capital investment (4.7%).

> *'We are focused on resilience in capital allocation, but any capital investment needs to have a more robust business plan.'* - Survey respondent.

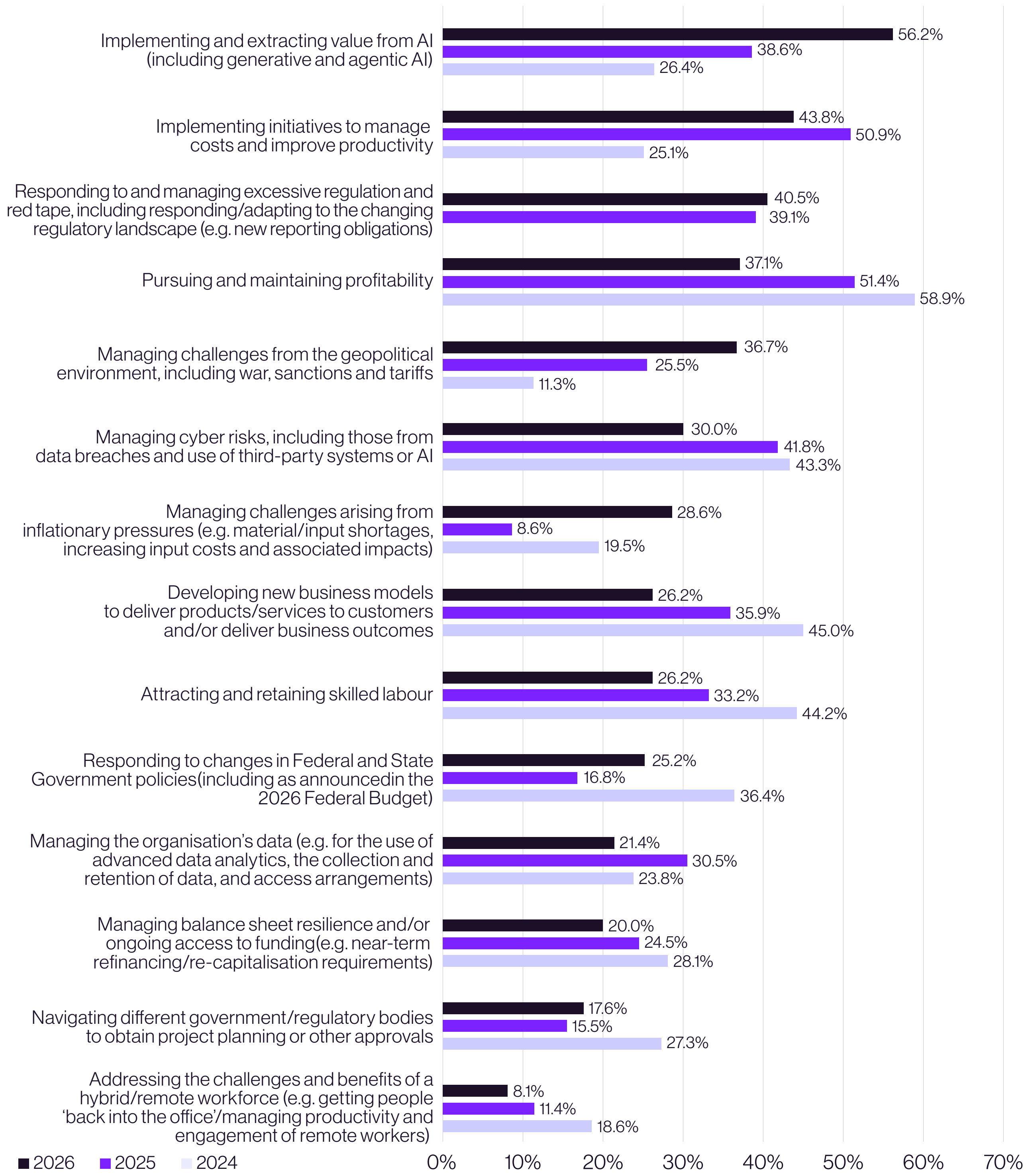
Which of the following best describes your organisation's investment strategy over the next 12 months?



The results from our annual 'pulse check' as to the areas of greatest opportunity or concern for organisations over the short- and medium-term provide a useful reference point to examine the drivers for this cautious optimism.

Short-term priorities (next 6 months)

Of the issues listed below, which do you currently consider represent the area(s) of greatest opportunity or concern for your organisation in the short term (next 6 months)?



Compared to prior years, there is a sharpened focus in the short term (next 6 months) on factors directly linked to addressing the productivity challenge. In 2026, the pursuit and maintenance of profitability (the top-ranking issue in 2025) has been deprioritised, in favour of:

- Implementing and extracting value from AI, the clear top-ranking issue (56.2% in 2026, up from 38.6% in 2025).
- Implementing initiatives to manage costs and improve productivity, which remains the 2nd top ranking issue (43.8% in 2026, down from 50.9% in 2025).
- Responding to and managing excessive regulation and red tape, which remains the 3rd top ranking issue (40.5% in 2026, up from 39.1% in 2025).

This highlights the overriding preoccupation of Australian business to try to reap productivity growth improvements within their organisations, against the backdrop of ongoing cost increases and inflationary pressures that are constraining the ability to deliver wage increases and profits.

'If Australia does not address productivity, it is just managing decline.' - Survey respondent.

As reflected in our survey results relating to AI adoption, Australian business is impatient to demonstrate that it is moving beyond AI deployment and experimentation, to the design and implementation of specific workflows that streamline and enhance business processes in an efficient and safe manner that are also cost effective. We expect that this will become a more accentuated focus as Australian organisations increasingly need to demonstrate a tangible pay-off from their significant investments in AI.

The 3rd top ranking concern - responding to and managing excessive regulation and red tape - reflects the compliance burdens and associated costs of complex, duplicated and/or outdated regulation. Excessive regulation and red tape has long been identified as a leading inhibitor to improving productivity growth. Research prepared by Mandala Partners for the Australian Institute of Company Directors (AICD) identified that:

- the total cost of meeting Commonwealth regulation has grown from $65 billion (4.2 per cent of GDP) in 2013 to $160 billion (5.8 per cent of GDP) in 2025
- when compared to G7 nations, Australia ranks second (behind Japan) for administrative and regulatory burdens
- board time on compliance has doubled from 24% to 55% in 10 years.[2]

'[The Federal Government] states it wishes to increase productivity but is introducing more regulation and compliance obligations on business than can only have the effect of decreasing productivity and raising the costs of doing business.'
- Survey respondent.

2 *$160 billion and counting: The cost of Commonwealth regulatory complexity.* Australian Institute of Company Directors. 24 November 2025.

'Regulation must be proportionate. Australia doesn't just have more regulation – it has denser, more complex laws that drive up costs. Businesses are increasingly focused on compliance-related work, redirecting resources away from growth and innovation[3] - AICD.

In terms of other short-term areas of focus, it is hardly surprising that:

- Managing challenges from the geopolitical environment is the 5th ranking concern (36.7% in 2026, up from 25.5% in 2025). Compared to 2024, that issue has overtaken managing cyber risks, which is now ranked 6th (30% in 2026, down from 41.8% in 2025), despite its clear linkage to the deployment of AI
- Managing challenges arising from inflationary pressures is the 7th ranking concern (28.6% in 2026, up from 8.6% in 2025), with the comparatively big increase in focus underscoring the pressure to deliver productivity improvements and manage costs.

This reordering of short-term priorities has come at the expense of developing new business models (which ranked as the 2nd top issue in 2024), and attracting and retaining skilled labour (which ranked as the 3rd top issue in 2024). Australian business is clearly focussed on harnessing technology to improve what it currently does.

Over the medium term (next 3-5 years), there is a similar focus on:

- Implementing and extracting value from AI, the clear top-ranking issue (53.1% in 2026, up from 47.5% in 2025)
- Managing excessive regulation and red tape, the 3rd top ranking issue (30.1% in 2026, up from 27.6% in 2025).

Unlike the short term, there is an ongoing focus on developing new business models (46.9% in 2026, up from 44.7% in 2025), arguably reflecting the expected challenge to current business models (and associated revenue streams) arising from the implementation of AI.

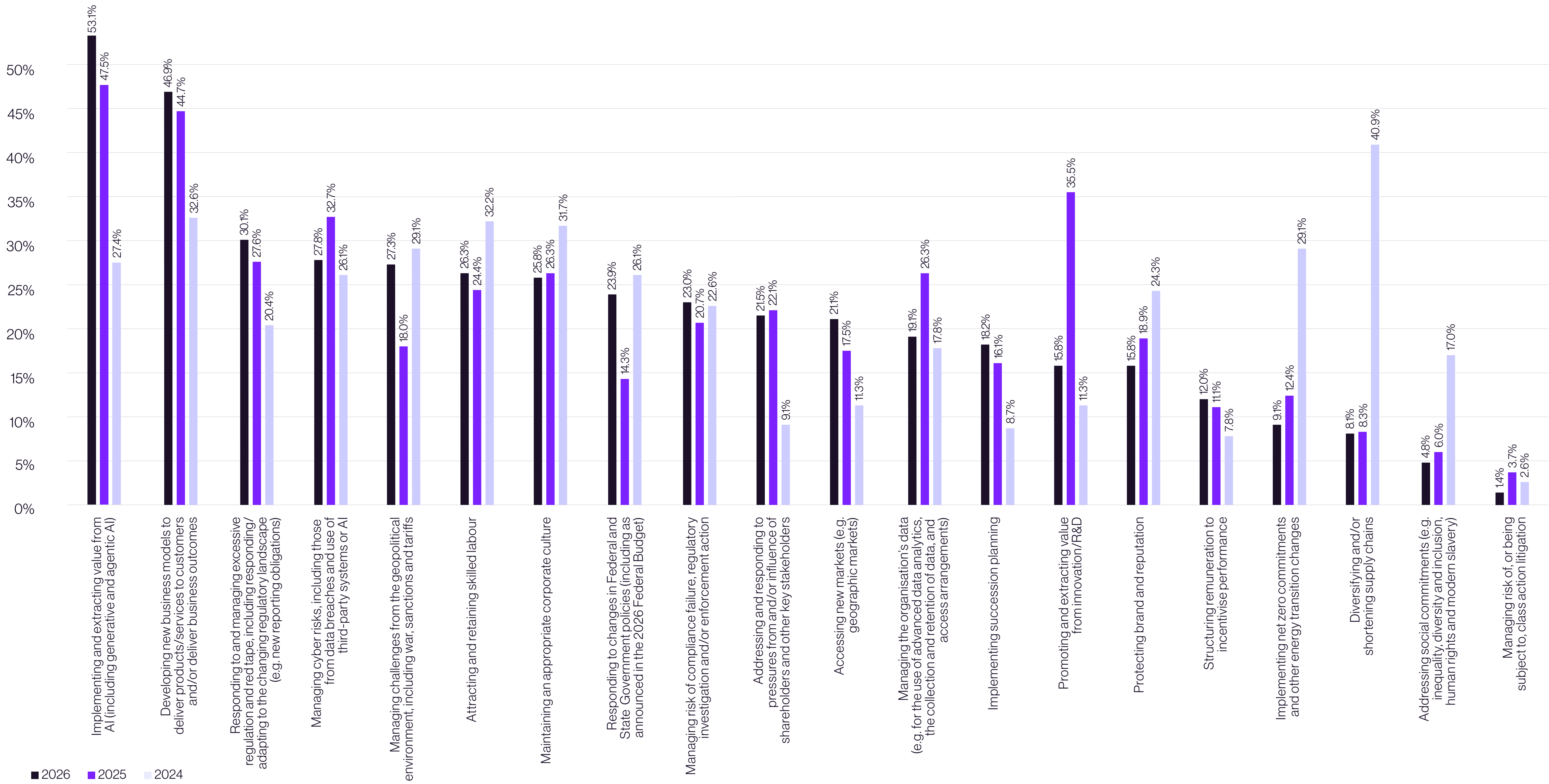
Concerningly, the focus on extracting value from innovation and R&D has declined from 35.5% in 2025 to 15.8% in 2026. This reprioritisation underscores that the disciplined allocation of available capital is of paramount concern.

'[We are] much more cautious in looking at investment opportunities.' - Survey respondent.

3 *$160 billion and counting: The cost of Commonwealth regulatory complexity.* Australian Institute of Company Directors. 24 November 2025.

Medium-term priorities (next 3–5 years)

Of the issues listed below, which do you consider currently represent the area(s) of greatest opportunity or concern for your organisation in the medium term (next 3-5 years)?



Business sentiment

> *'Productivity growth has been slowing across advanced economies since the mid-2000s – but Australia faces a unique mix of structural challenges that will make recovery harder unless we act.' Australian productivity growth is 0.4% a year, which is the weakest it has been in 60 years.'* - Dr Alex Robson , Deputy Chair of Productivity Commission.[4]

Australian productivity growth is 0.4% a year, which is the weakest it has been in 60 years.[5]

Against this backdrop, it is particularly concerning that many of our survey respondents believe that Australia is falling behind due to policy settings that do not support investment, innovation and long-term productivity growth (reflected in the prominence of managing excessive regulation and red tape in the above 'pulse check' results), and that the reform agenda is not addressing Australia's productivity challenge.

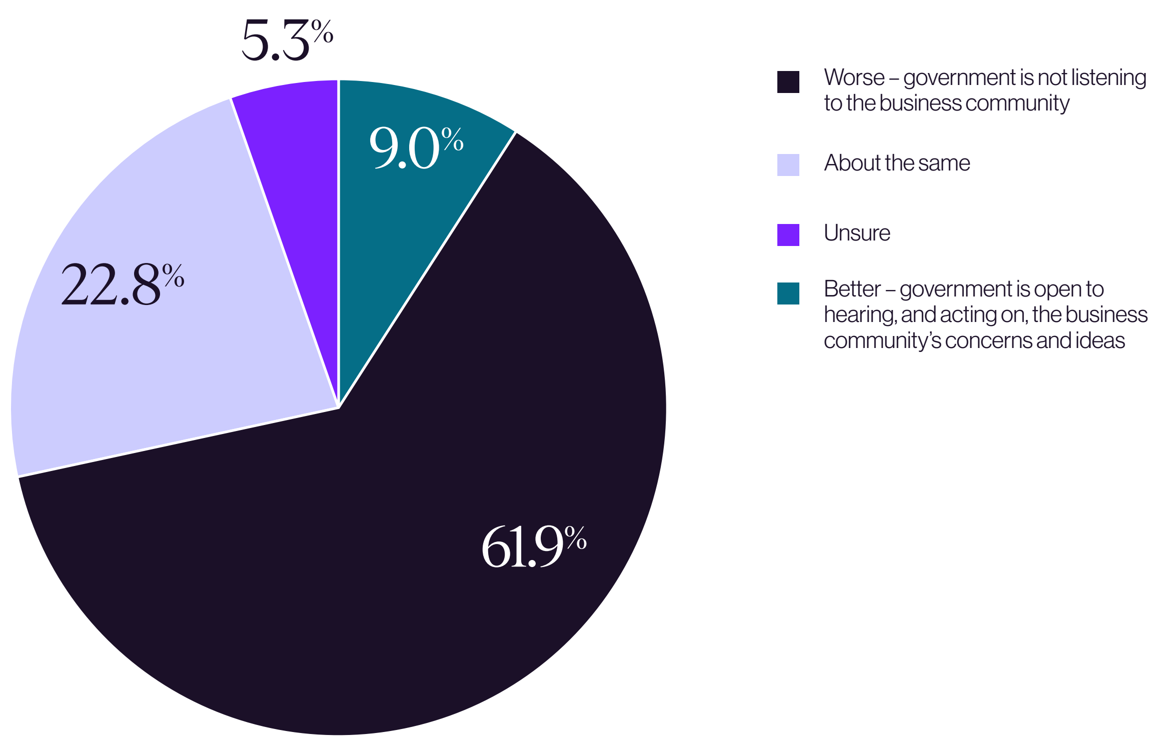
> *'Historically, Australia's strongest productivity periods followed major labour market and competition reforms. This Budget largely avoids those politically difficult areas.'* - Survey respondent.

Only 9% of our survey respondents indicated that, compared to 12 months ago, government is open to hearing and acting on business concerns and ideas.

Meanwhile nearly two-thirds (61.9%) of our survey respondents indicated that, compared to 12 months ago, government is not responding to concerns raised by business on issues such as improving productivity growth, tackling inflationary pressures and reducing red tape. Among this group of survey respondents, 85.3% cited the Federal Government as having the most materially adverse impact on their organisation.

4 *Deputy Chair Alex Robson. Keynote address to the CPA Week Conference 2026*. Productivity Commission. June 2026.
5 *Labour productivity growth, 2015-24*. Productivity Commission. February 2026.

Compared to 12 months ago, how well do you think the Government is responding to concerns raised by business on issues such as improving productivity growth, tackling inflationary pressures and reducing red tape?

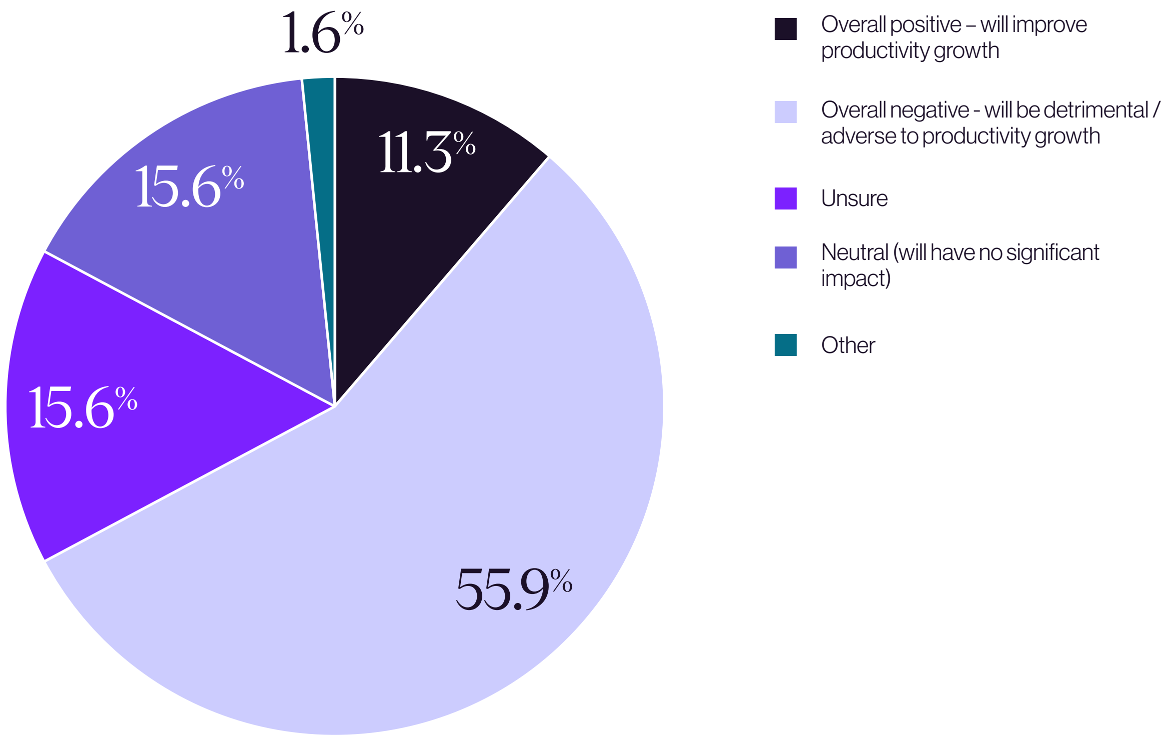


Which level of government is having the most material adverse impact on your organisation?

85.3% Federal	31.2% State
5.5% Local	0.9% Not applicable

Only 11.3% of our survey respondents believed that the measures announced by the Federal Government in the 2026 Budget would improve productivity growth, while more than half (55.9%) of our survey respondents believed that the measures announced by the Federal Government in the 2026 Budget would have an overall negative impact.

What overall impact do you think the measures announced by the Federal Government in the 2026 Budget will ultimately have on productivity growth in Australia (being a key objective of the Productivity Roundtable in 2025)?



> *'They have not included anything that will improve productivity, their spending programs have no requirement for increased productivity.'* - Survey respondent.

> *'Rather than introducing measures to grow the pie, the government is looking to squeeze as much as possible out of business/individuals and in doing so shrinking the pie.'* - Survey respondent.

Since our *2026 Directions Survey* was conducted, there have been growing calls from a range of business and policy stakeholders for the Federal Government to set a more ambitious productivity agenda, and an ongoing national debate on productivity, investment competitiveness and the relationship between business and government, partly in response to the Federal Government's originally announced CGT and negative gearing reforms and the targeted concessions to those reforms.

According to the Business Council of Australia's (BCA) Global Investment Competitiveness Index, which was released in February 2026, Australia ranked 21st among 42 countries in 2025 (down from 17th in 2019) for global investment competitiveness, due to the impact of regulation, investment restrictions, business taxation and labour market settings. The BCA has estimated that improving Australia's ranking into the top 10 globally *'could increase foreign direct investment by 39 to 55 per cent. That is equivalent to an uplift of $560 to $790 billion. Therefore, investment is the engine. Productivity is the pathway. Higher living standards are the prize'.*[6]

6 Business Council of Australia. *National Roadmap for Making Australia a Top 10 Investment Destination*, August 2026.

In August 2026, the BCA released its *National Roadmap for Making Australia a Top 10 Investment* Destination, which sets out KPIs for competitiveness and productivity as part of 'Big Six Questions' designed to boost productivity, attract capital and protect living standards.[7]

The *2026 Directions Survey* asked business leaders about levers to support productivity growth. Our survey respondents identified the following measures.

Thinking about the Federal Government's 2026 Budget, what actions or initiatives do you believe should have been included to better support productivity growth in Australia?

BROAD TAX REFORM

- Broaden or lift the GST base and consider a modest rate increase
- Reduce and flatten the company tax rate
- Enhance tax incentives for R&D and start-ups

REGULATORY AND RED TAPE REDUCTION

- Establish a roadmap towards reducing compliance burdens with measurable targets agreed upon by business and government
- Repeal or consolidate regulations that impose compliance costs without commensurate public benefit
- Establish an accelerated approvals pathway for nationally significant infrastructure

GOVERNMENT SPENDING

- Apply rigorous cost-benefit and productivity-impact tests to all new spending proposals
- Adopt a medium-term fiscal strategy with measurable debt-reduction targets

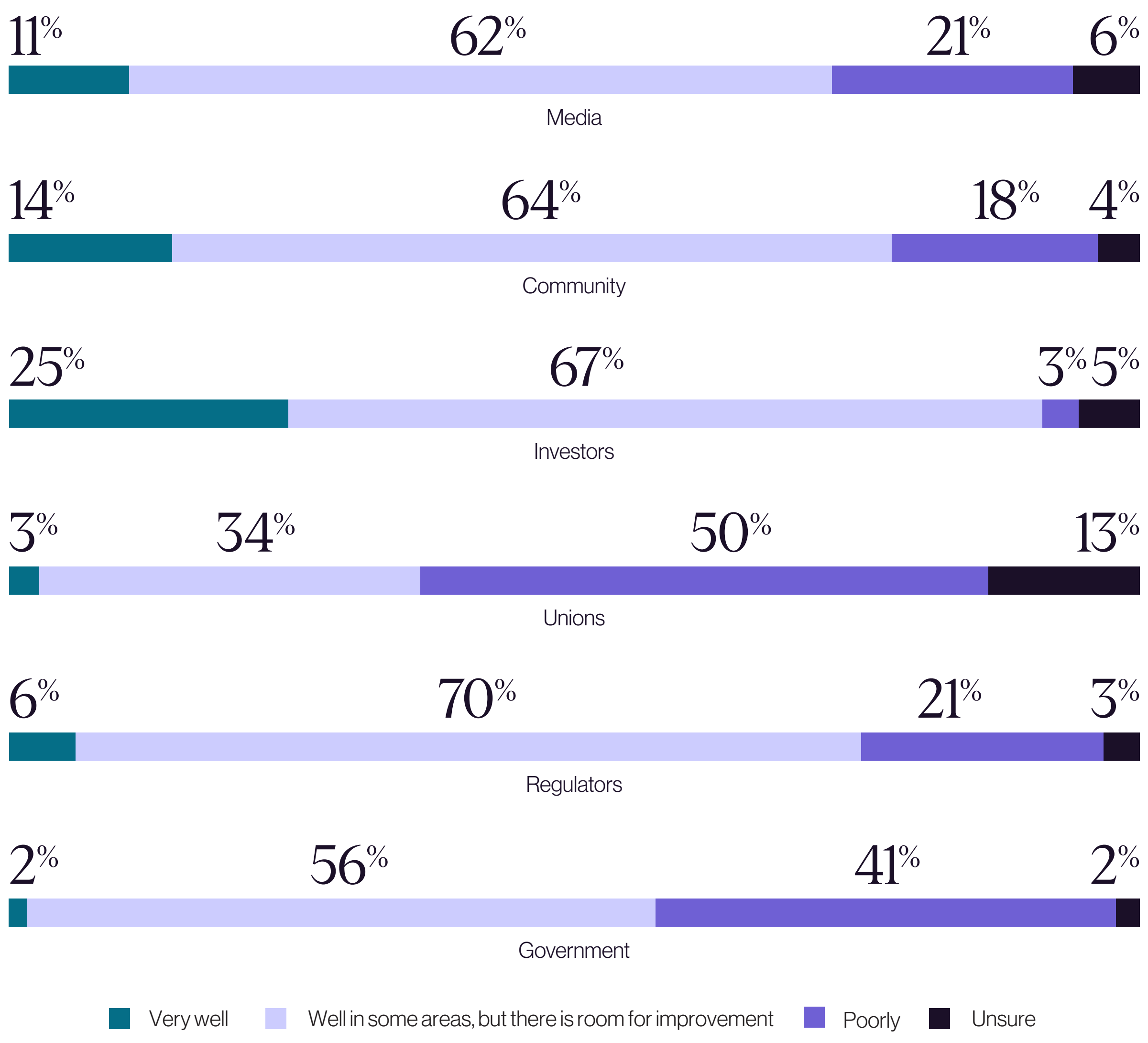
Unsurprisingly, these survey results share many commonalities with the BCA's *National Roadmap for Making Australia a Top 10 Investment Destination*, including in the areas of tax reform, reduction in regulatory costs and streamlining foreign investment rules.

They suggest that Australian business leaders are increasingly focused on the conditions needed to lift productivity growth, improve competitiveness and support living standards, and are looking for stronger policy responses from government to support that ambition.

However, there is some scepticism regarding how any of these measures can be successfully implemented in the current environment. While Australian business' relationships with a range of key stakeholders - investors, regulators, media and the community - remain relatively positive, relationships with government and unions appear to be more strained, compared to 12 months ago. Just 1.6% of survey respondents believe business is working 'very well' with government, while 40.7% believe the relationship is working 'poorly' (up from 23.6% in 2025).

7 Business Council of Australia. *National Roadmap for Making Australia a Top 10 Investment Destination*. August 2026.

How well do you think the Australian business community is working with the following stakeholders?



When we released our *2025 Directions Report* in October 2025, there was a strong sense of optimism that the 2025 Productivity Roundtable held in August 2025 would kickstart a national productivity agenda for reform that would be designed to improve Australia's international competitiveness. Concerningly, that has morphed into the current sense of disquiet about the nature and pace of reform.

A circuit-breaker is desperately needed to inspire leaders across Australian business, government and unions to join 'Team Australia', find some common ground and to work together to shape and implement policy and reform, and to make the necessary investments in human capital, technology and infrastructure so as to set Australia up for the coming decades.

AI: a top priority, but show me the money!

It is no surprise that, in 2026, AI adoption is the top-ranking short- and medium-term priority.

Australian business is seemingly searching for the promised pay-off from its significant investment in AI, as it is increasingly embedded in core business processes, decision-making and (where relevant) customer interaction.

Our *2025 Directions Report* described AI implementation as the 'centrepiece of the productivity playbook' and observed that AI had moved from the sidelines of corporate experimentation into the centre of strategic and operational planning.

The significance of the *2026 Directions Survey* findings is that this shift has accelerated. It appears to be both a near-term operational priority (with a view to finding incremental productivity gains) and a medium-term strategic priority, with over 70% of our survey respondents believing that AI will necessitate adaptation or fundamental change to their organisation's business model.

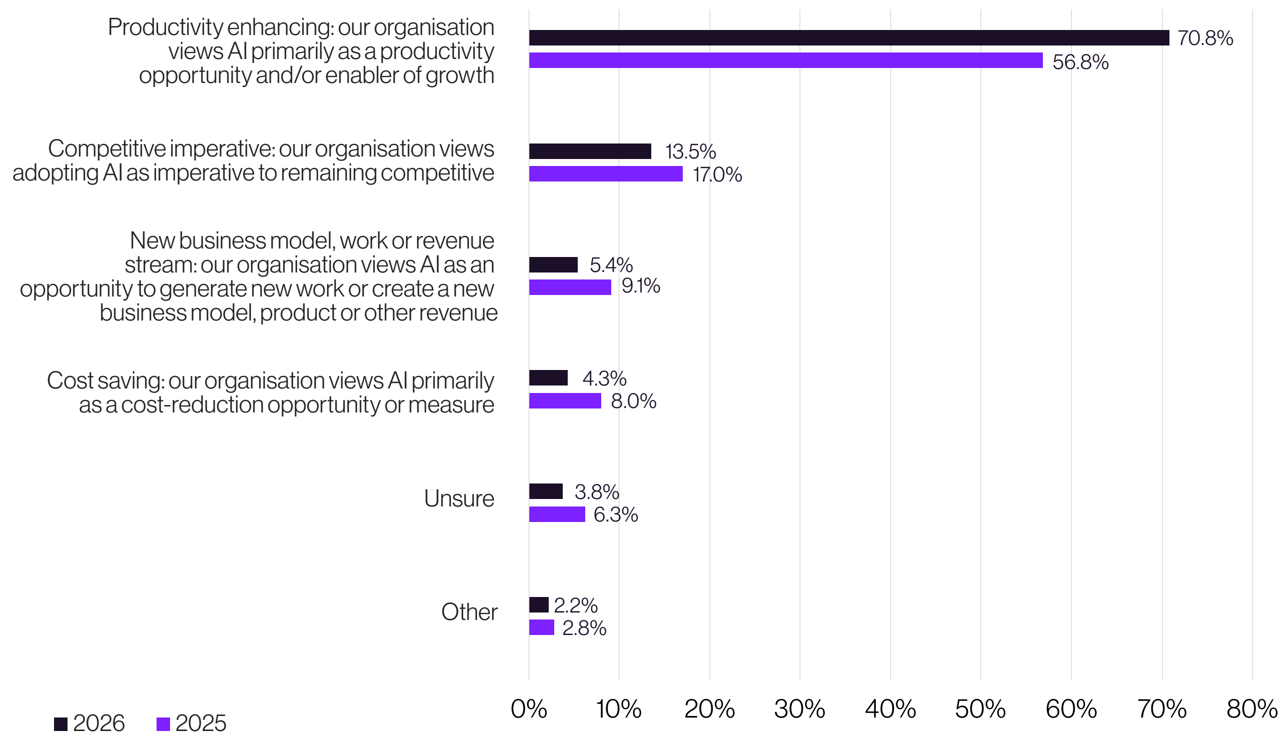
However, most organisations are still searching for tangible productivity gains, despite this being the dominant strategic ambition for their implementation of AI.

PRODUCTIVITY IS THE DOMINANT STRATEGIC RATIONALE

Our *2025 Directions Report* highlighted that AI was perceived primarily as a productivity catalyst, rather than a cost-cutting opportunity. The *2026 Directions Survey* findings reinforce that conclusion, with an overwhelming 70.8% of our survey respondents describing their organisation's strategic ambition for AI as being a productivity opportunity and/or enabler of growth (up from 56.8% in 2025).

This was substantially higher than the proportion who characterised AI as a competitive imperative (at 13.5% in 2026, down from 17% in 2025) or as an opportunity to develop a new business model, work or revenue stream (at 5.4% in 2026, down from 9.1% in 2025). At the same time, the proportion viewing AI primarily as a cost-reduction opportunity fell from 8.0% in 2025 to 4.3% in 2026, perhaps reflecting the fact that the impact of AI adoption on the jobs market is more nuanced (and will take longer) than first thought.

Which statement best describes your organisation's strategic ambition for AI?



Accordingly, senior business leaders appear to be viewing AI as a means to improve output and capacity, rather than simply as a way to cut costs. The BCA's 2026 workplace AI guide, *Adopting AI in the Workplace*, similarly described well-implemented AI as having the potential to unlock 'significant gains in productivity, innovation and service delivery', while emphasising that the realisation of those gains will require organisational transformation, workforce capability and trust.[8]

Our year-on-year survey data suggests that the strategic ambition for AI is becoming somewhat more pragmatic. Our *2025 Directions Report* posed the open question as to whether the AI boom would ultimately prove to be an organisational game changer or a period of 'irrational exuberance'? The *2026 Directions Survey* data is instructive: AI remains strategically important, but business leaders are increasingly measured, notwithstanding they must still 'ride the wave'. Many organisations are still assessing whether AI can tangibly improve productivity and customer outcomes within the existing business, before it becomes the basis for developing a new business model or as a generator of additional revenues.

From a defensive perspective, the rapid evolution of AI's sophistication, particularly frontier AI, is dramatically changing the technology and operational risk landscape and up-ending traditional cyber-resilience and vulnerability assessments – something we expect most Boards and executive teams will be actively focussing on in the year ahead. This is underscored by the urgings of the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) for financial market entities to take 'decisive action' in response to the 'urgent threat'.[9]

NO AI 'SUGAR HIT'

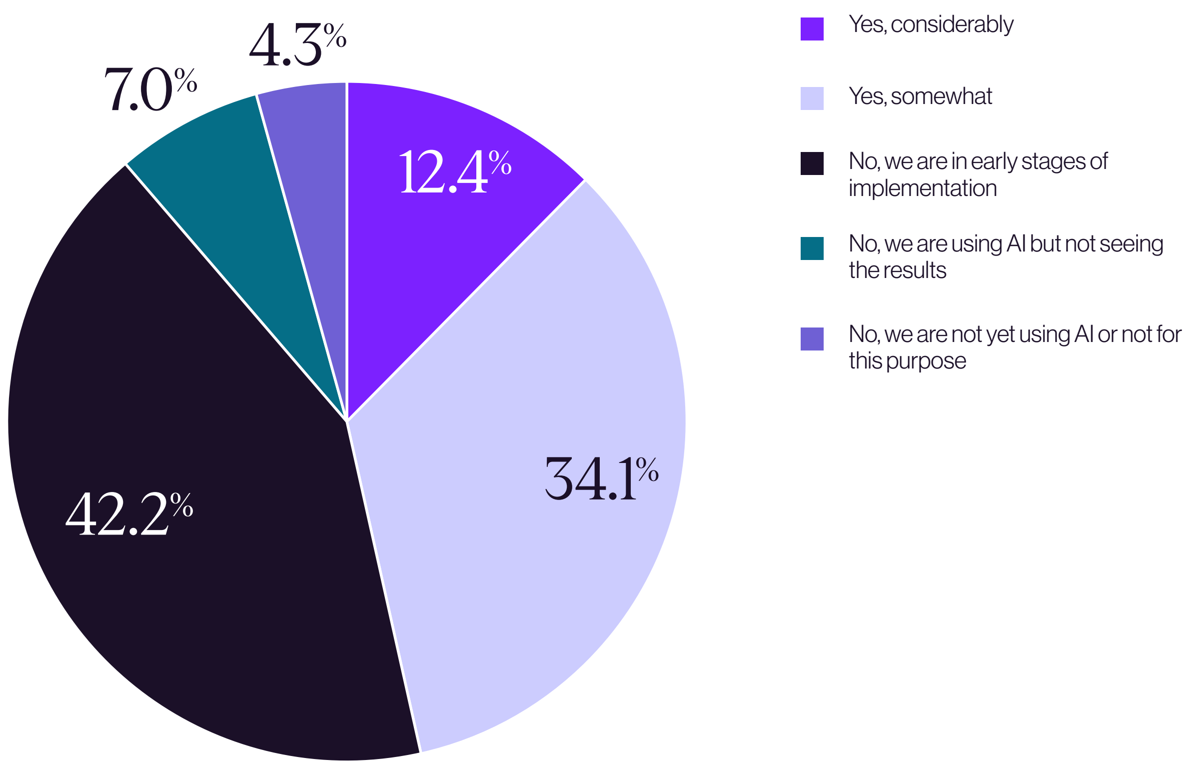
While productivity gains remain the key strategic driver for implementing AI, the 2026 Directions Survey findings reveal that there is still a gap between the ambition and its realisation.

Nearly half (46.5%) of our survey respondents reported that AI adoption had tangibly improved productivity within their organisations compared with 12 months prior (comprising 12.4% who said productivity had improved 'considerably' and 34.1% who said it had improved 'somewhat'). By contrast, 42.2% said they were still in the early stages of implementation and had not seen tangible productivity gains.

> *'The challenge CEOs face is that their competitors have access to the same technology and pursue the same productivity gains. As a result, there is very little general value that accrues to any specific company.'* - Tanguy Catlin, McKinsey Global Institute.[10]

8 Adopting AI in the Workplace – *Guide for Australian businesses committed to productivity, growth and responsible innovation.* Business Council of Australia. June 2026.
9 *ASIC and APRA warn frontier AI awareness must turn to action Media release 26-201MR.* 27 August 2026.
10 Tanguy Catlin. *The real AI advantage.* The McKinsey Podcast. 9 July 2026.

Has the adoption of AI tangibly improved productivity in your organisation as compared to 12 months ago?



This highlights a key tension that organisations are currently grappling with: implementing and extracting value from AI is the top-ranking short- and medium-term priority for business in 2026, with the vast majority (70.8%) viewing it primarily as a productivity enhancing opportunity, but a significant proportion have not yet achieved any tangible productivity gains.

The initial enthusiasm around AI is being moderated, as organisations look to measure the return on investment via specific, measurable use-cases and to embed greater accountability for the 'promised' benefits – something that is likely to be amplified as token-based charging frameworks linked to usage become more common.

IMPLEMENTATION BARRIERS ARE ORGANISATIONAL AS MUCH AS TECHNOLOGICAL

Our *2025 Directions Report* identified 'skills, systems and regulation' as the trifecta of AI implementation challenges, with capability and mindset gaps, integration complexity and regulatory uncertainty acting as practical constraints on organisational uptake. In light of these results, we hypothesised that AI implementation had the potential to emerge as the greatest organisational cultural challenge in a generation, highlighting that business would need to invest in people, as much as platforms.

Turning to the Board and C-suite, this year 55% of our survey respondents said that their organisations have refreshed their Board and/or senior leadership capability over the past 12 months, with 39% bolstering capability specifically in technology and AI.

Has your organisation made changes to its board and/or senior leadership team over the past 12 months to add capability in areas that were not previously as strongly represented in the board and/or senior leadership team?

40%
No

55%
Yes

5%
Unsure

In what area(s) was the new/stronger capability (skills, expertise, characteristics) sought?

52%
Industry/sectoral experience

25%
Financial/accounting

24%
Risk management

18%
Government/key stakeholder relations/corporate affairs

39%
Technology/AI

8%
Climate/ESG/sustainability

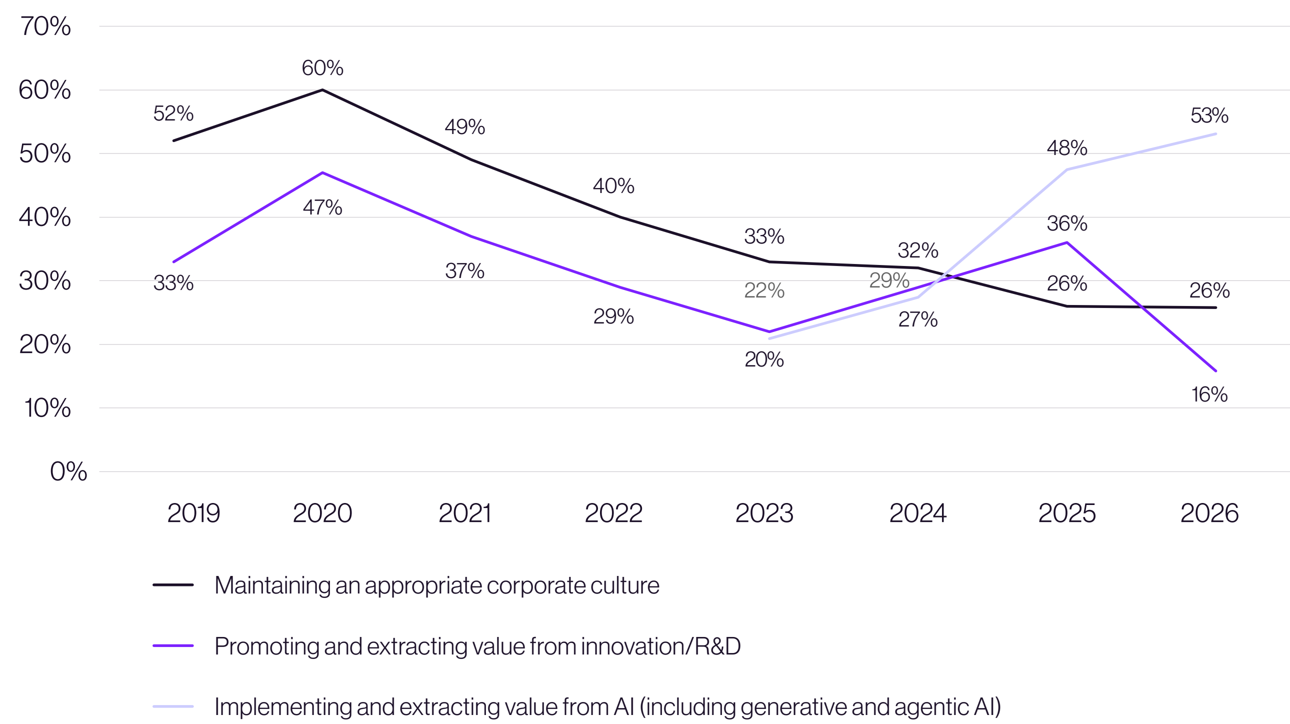
This year's survey results suggest that there is an awareness that there needs to be AI capability across every level of the organisation in order to enable the productivity ambition for AI to be realised, as things such as organisational design, remuneration structures, training and risk management, accountability and governance frameworks are all recalibrated.

The extent to which corporate culture will ultimately play a role in enabling that change remains to be seen. Once again, the *2026 Directions Survey* data reveals that the focus on AI has well and truly overtaken 'Maintaining an appropriate corporate culture' and 'Promoting and extracting value from innovation/RD' as organisational priorities.

> *'In this rapidly evolving environment, where technology shapes more of how decisions are made and work is done, organisational culture is increasingly seen as playing a critical role in achieving productivity gains, innovation and competitive advantage.' - AICD.*[11]

The extent to which corporate culture is actively promoted as an enabler for that change (and for optimising business performance and managing risk, more generally) remains to be seen. Once again, the *2026 Directions Survey* data reveals that the focus on AI implementation has well and truly overtaken 'Maintaining an appropriate corporate culture' and 'Promoting and extracting value from innovation/RD' as 'top of mind' organisational priorities. The big question is whether this is a 'blip', and there will be a return to previous prioritisations (as illustrated in the graph below) once AI is more truly embedded and part of 'business as usual', or whether it will take governance failures and threats to social licence to refocus this attention.

Tracking the prioritisation of culture, innovation and AI value over the years



11 *Organisational Culture in a complex world media release.* Australian Institute of Company Directors. 1 May 2026.

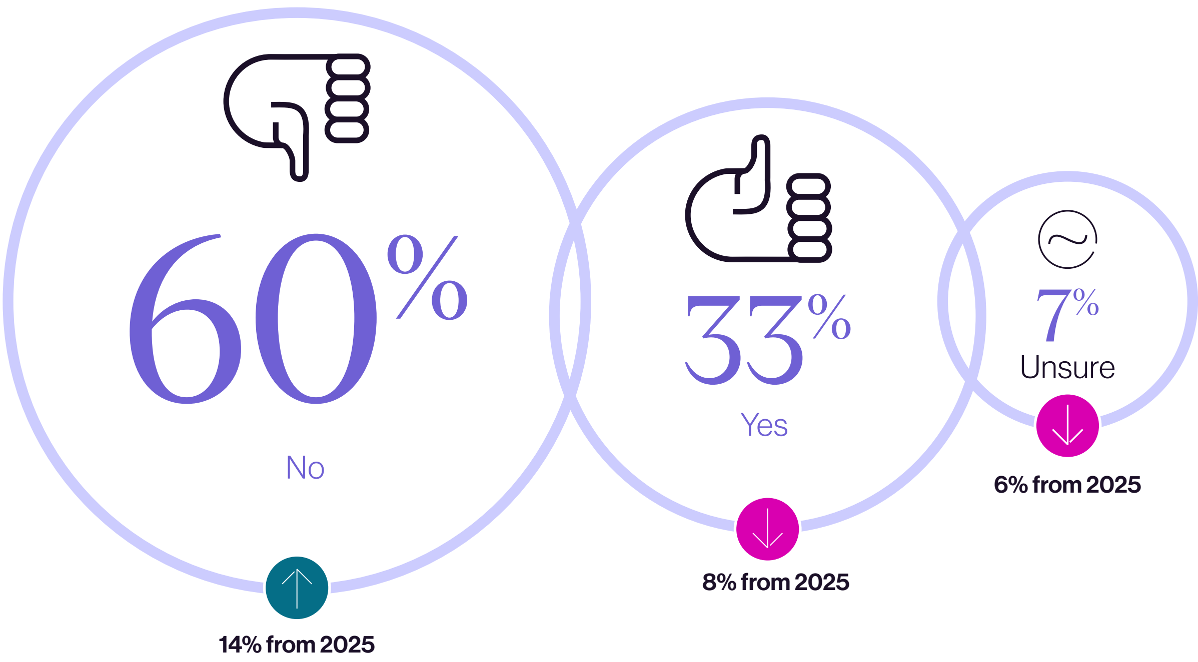
AI-DRIVEN WORKFORCE CHANGE IS NUANCED

The workforce implications of broad AI adoption are more complex and nuanced than perhaps first thought.

One-third of our survey respondents in 2026 said their organisation had implemented AI initiatives with a view to reducing workforce headcount, however this number was 8.4% down from 2025.

More striking was the fact that 60.2% of our survey respondents said their organisations are not pursuing AI as a headcount-reduction tool, which was up 14.6% from 2025.

Have you implemented AI initiatives with a view to reducing workforce headcount?



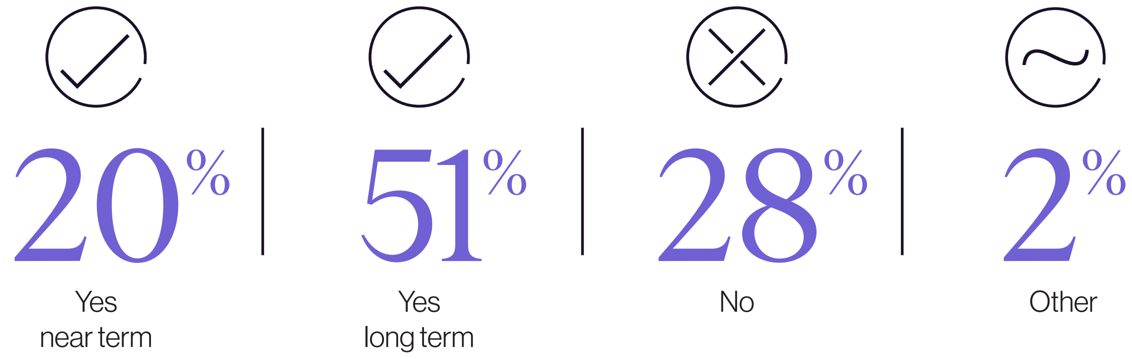
The *2026 Directions Survey* findings suggest that the 'augmentation first, attrition later' mindset has become more pronounced: organisations are becoming less likely to think of AI adoption as a headcount-reduction tool, even as they place greater strategic importance on AI overall, and are searching for measurable productivity gains. This suggests that while AI clearly can have an impact on aspects of work design and workforce capability, the impact of AI adoption on jobs is likely more of a slow burn – an observation shared in the AFR's Chanticleer column in August 2026.[12]

BUSINESS MODEL IMPLICATIONS AND WORKFORCE TRANSFORMATION

These shorter-term reactions in the *2026 Directions Survey* results stand in contrast to the sentiments around how AI may reshape fundamental business models. This year, 20% of our survey respondents said AI will require their organisation to adapt or fundamentally change its business model in the near term, and 51% said it will do so in the long term. Only 28% said AI will not require such adaptation or fundamental change.

12 *The AI job shock is still tiny. But the worst-hit group is now clear*. Australian Financial Review. August 2026

Do you believe that AI will require your organisation to adapt or fundamentally change its business model?



The write-in responses to that question underscored the complexity of this issue, with one survey respondent reflecting that AI may not fundamentally change the business model, but will fundamentally change how the workforce operates and interfaces with customers. Another called for a considered analysis of AI's impact on the Australian workforce and its social, political and economic consequences – which are all issues which are likely to be ventilated in the Royal Commission into AI initiated by the South Australian Government.[13]

The survey data highlights a distinction between headcount reduction and workforce transformation. While organisations may not be viewing AI as a redundancy strategy, they are not resiling from the expectation that AI will inevitably change work, roles, capabilities and customer interaction. That distinction is supported by the BCA's guide,[14] which cites Jobs and Skills Australia's 2025 analysis that around 4% of Australian employees face a high risk of displacement, while almost half are likely to experience significant changes to tasks, workflows and skill requirements as AI becomes more integrated into workplaces. It is also reflected in the Commonwealth Bank of Australia Chief Executive Officer Matt Comyn's formulation that there is *'a crucial distinction between building a stronger organisation and simply making it smaller'*.[15]

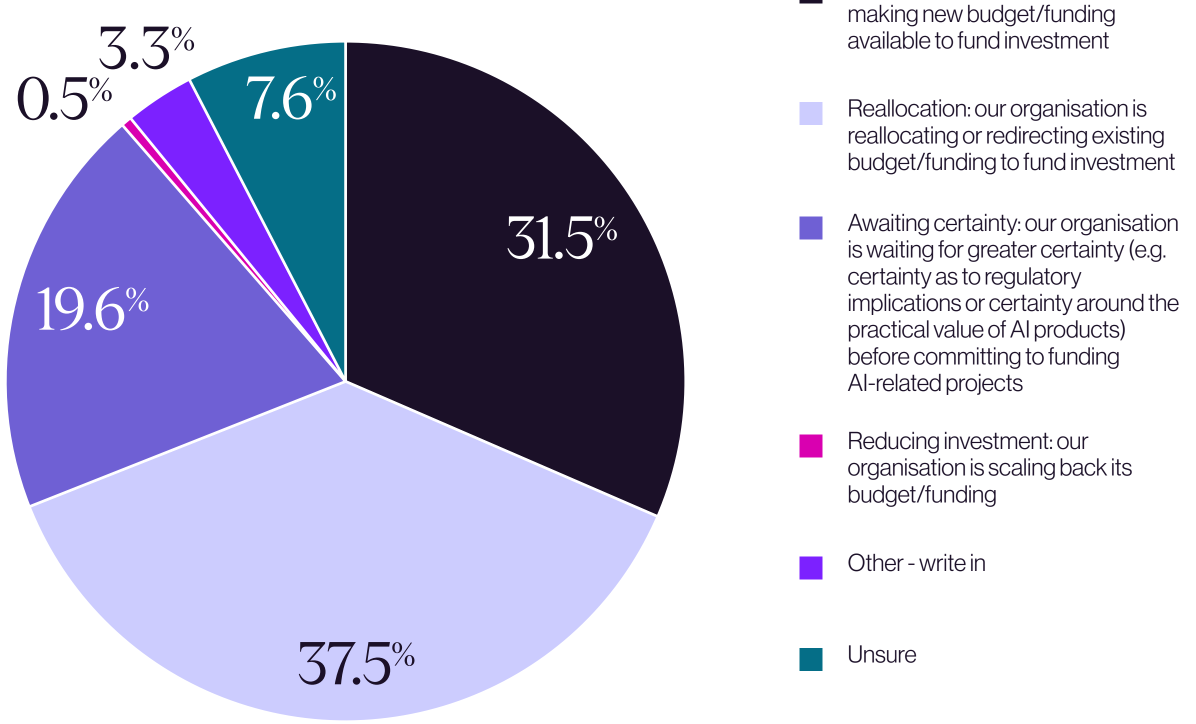
FUNDING STRATEGIES SHOW COMMITMENT, BUT WITH GREATER CAUTION

Building on the general sentiment towards investment, funding strategies towards AI also demonstrate a level of disciplined continuity.

This year, 37.5% of our survey respondents said their organisation is reallocating or redirecting existing budget or funding towards AI investment, while 31.5% said new budget or funding is being made available. Taken together, 69% of our survey respondents are in organisations actively funding AI through either new investment or internal reallocation. The survey findings suggest that AI is now a 'business-as-usual' expense, with organisations increasingly shifting capital and operating expenditure from existing budgets.

13 *Royal Commission into Artificial Intelligence announced*. Government of South Australia - Department of the Premier and Cabinet. 11 August 2026.
14 *Adopting AI in the Workplace – Guide for Australian businesses committed to productivity, growth and responsible innovation*. Business Council of Australia. June 2026.
15 *Pretending AI doesn't mean change won't protect workers*. Australian Financial Review. May 2026.

Which statement best describes your organisation's approach to funding investment in relation to AI platforms, technology and infrastructure?



Most organisations are proceeding with increasing caution in terms of their funding strategies. In 2026, 19.6% of our survey respondents said their organisation is awaiting greater certainty before committing to AI-related funding, compared with only 7.3% in 2025. However, there is no marked pull-back, with only 0.5% saying their organisation is scaling back its AI-related budget/funding.

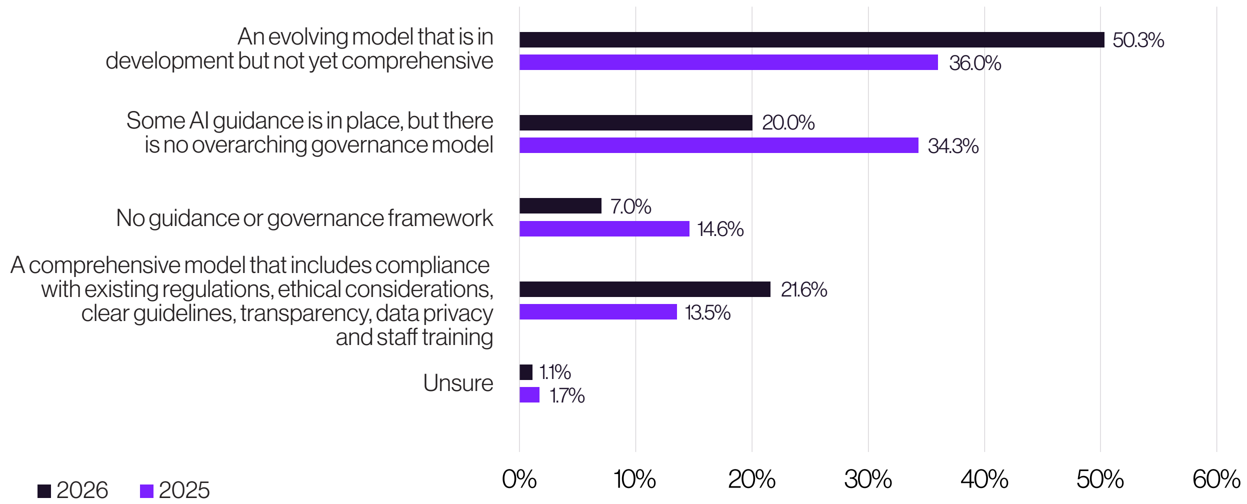
This trend is perhaps reflective of the recent discourse on 'tokenomics', given that token-based AI costs can easily escalate, with the associated return on investment and productivity gains difficult to quantify.

MOST ORGANISATIONS ARE STILL DEVELOPING THEIR AI GOVERNANCE MODEL

AI governance is maturing, although it remains incomplete for many organisations.

In 2026, 21.6% of our survey respondents (up from 13.5% in 2025) said their organisation has a comprehensive AI governance model covering matters such as compliance with existing regulations, ethical considerations, clear guidelines, transparency, data privacy and staff training. 50.3% said their governance model is evolving and in development (but not yet comprehensive), with another 20% saying some AI guidance is in place (but there is no overarching governance model), while only 7% reported no guidance or governance framework (down from 14.6% in 2025).

Which statement best describes your organisation's current AI governance model?



Our *2025 Directions Report* warned that governance maturity was still catching up with investment momentum, with fewer than 1 in 7 organisations reporting a comprehensive AI governance model – underscoring the risk that a lack of appropriate oversight and risk management could undermine the productivity and trust benefits that AI promises.

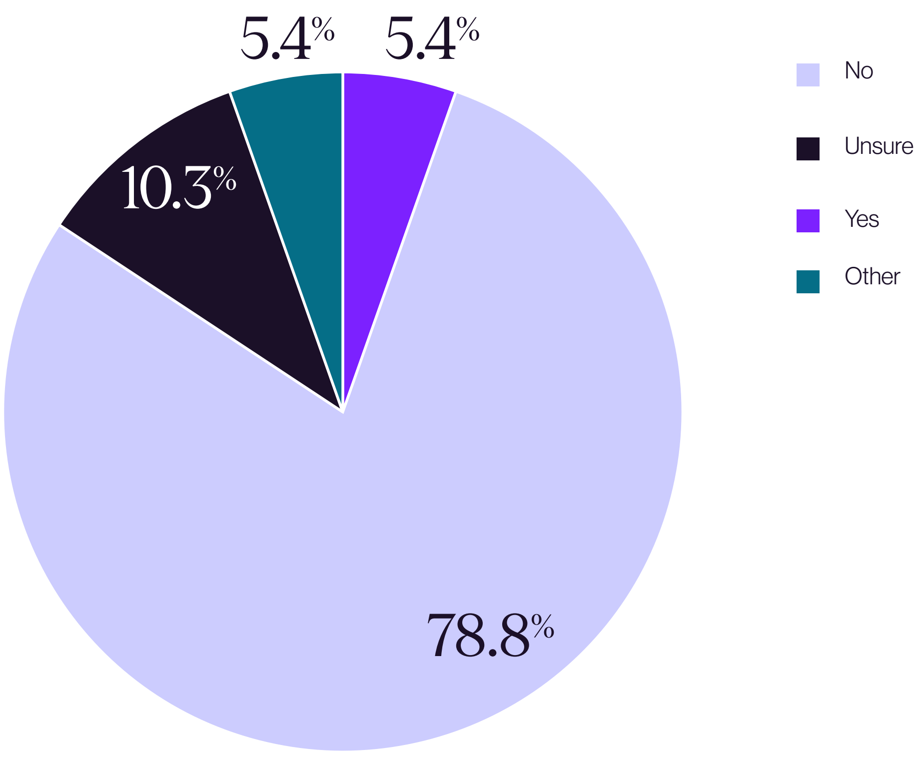
One year on, that risk persists - albeit the gap is closing. The majority of organisations are on the journey and designing governance controls responsive to key questions centred around responsible AI use, whether AI use cases are approved at the right level, whether risk assessments are proportionate, whether data governance and privacy controls are adequate, whether staff are trained and AI outputs are adequately supervised, and whether benefits are able to be adequately measured.

AI ENTHUSIASM IS BROADLY INTACT, BUT OPTIMISM HAS SOFTENED

Fundamental to effective AI governance is an organisational and cultural willingness to embrace both the technology and the controls around its use.

With the ever increasing chatter about *'AI brain-fry'* and prevalence of *'AI-slop'*, we were keen to test whether senior business leaders had observed an organisational shift in sentiment away from AI or an increasing employee resistance to AI because of some of these concerns.

Compared to 12 months ago, have you observed a shift in sentiment in your organisation 'away from AI' or an increasing employee resistance to AI (e.g. because of concerns around perceived negative impacts on critical thinking or 'AI brain-fry')?



Overall, there is little evidence in the survey data of a broad pull-back from AI (at least not yet). Only 5.4% of our survey respondents said they had observed a shift in sentiment away from AI or increasing employee resistance to AI compared with 12 months ago. By contrast, 78.8% said they had not observed such a shift.

The write-in responses were more qualified - referring to thematics such as a wariness around experimentation, a recognition that AI is not a perfect solution or replacement, the need for experienced oversight to reduce errors and verify data sources, rising AI costs, there being mixed perceptions across functions, and increasing concerns about *'AI slop'*.

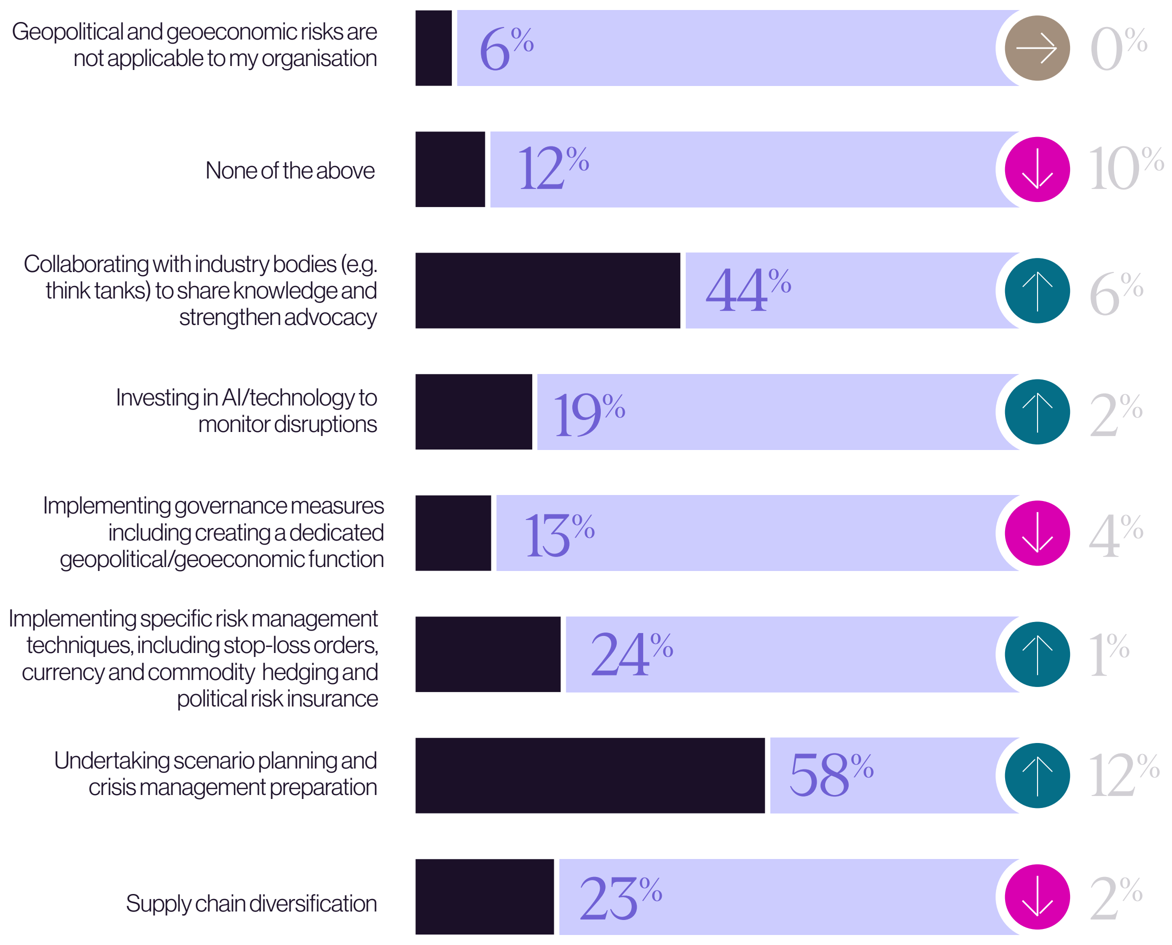
These results colour what we previously termed *'AI dissonance'* - where the organisational push for productivity and efficiency gains must coexist with workforce uncertainty, and the need to reimagine organisational design, remuneration structures, and risk management, accountability and governance frameworks.

These are not easy challenges, and the *2026 Directions Survey* results bear out that AI deployment at scale - and the realisation of the tangible productivity gains - is proving slower and more difficult than perhaps first thought.

Australian business: Institutions of trust and a diplomatic bridge

Unsurprisingly, the ongoing volatility in the geopolitical landscape has required Australian businesses to increase their scenario planning and crisis management preparation, with some 58% of our survey respondents identifying it as a key strategy for managing geopolitical and geoeconomic risks.

Select from the list below the strategies your organisation has implemented to manage geopolitical and geoeconomic risks, which includes military conflict, tariffs, import and export controls, sanctions and trade alliances



A significant minority (37%) of our survey respondents reported that their organisation have a wide range of capital sources suggesting that geopolitics is not complicating their access to capital, and 17% of our survey respondents indicated that their organisations are taking more defensive steps to increase capital reserves, inventory levels or lengthening credit lines.

Geopolitics is complicating access to capital. How is your organisation approaching capital management?

37%

The organisation has a wide range of capital sources and this is not a concern

28%

The organisation is undertaking increased scenario planning if access to current capital sources changes

21%

Not applicable to my organisation

20%

The organisation has increased the frequency it stress tests its capital sources and has developed a range of contingency options for capital

17%

The organisation is increasing capital reserves/inventory levels/lengthening lines of credit from reputable banks

'Efforts to enhance trade resilience should focus on maintaining open markets to reduce input cost volatility and support efficient resource allocation across the economy. Open trade allows firms to diversify suppliers, respond flexibly to shocks and access competitively priced inputs.' - Productivity Commission's Submission to the Senate Select Committee on Productivity in Australia.[15]

15 *Productivity in Australia: selected policy options for a more prosperous future.* Productivity Commission. February 2026.

As highlighted in our 'pulse check' results, geopolitics is no longer a background consideration for Australian business. It is now part of the operating system. The rupture of the rules-based international order, the weaponisation of interdependence across supply chains, and the intensifying competition between great powers have created a landscape in which the question is no longer whether geopolitical risks exist, but how it is priced, allocated and, critically, leveraged.

The lesson for Australian business is that these impacts are structural. In a world where countries can be unpredictably 'voted off the island', there is a real and unique opportunity for Australian business to adopt its own form of multilateralism, by building coalitions and strategic alliances through investment, partnering and relationships.

The opportunity this presents for Australian business is not simply one of risk management. It is one of agency - to become a crucial cog in the machinery of global statecraft, and trusted counterparties and instruments of a commercially grounded diplomacy in an increasingly fractured world.

In an era where the rules-based international norms and institutions established after World War II are being challenged and the trust in multilateral institutions has fundamentally diminished, Australian business occupies a distinctive position. The commitment of Australian business to embed geopolitics into its strategic decision-making and to build institutional muscle to navigate volatile conditions will earn a form of trust that transcends geopolitical straining.

'In the current geoeconomic climate, CEOs need to act as chief commercial diplomats.' - McKinsey.[16]

Australian businesses are unusually well-positioned for this role. Assets and companies located in middle powers, such as Australia, are increasingly viewed not merely as safe havens but as strategic links of influence, and conduits between competing blocs. The now long history of the commitment of Australian business to building and maintaining a genuine social licence to operate further supports the role of Australian business in the current environment.

The position of Australian business means its commercial activity can play parallel diplomacy, or what international relations scholars term 'Track II' diplomacy. Traditionally, diplomacy has operated government-to-government and as such has been constrained by electoral cycles, politics and zero-sum logic. Track II diplomacy creates the space for dialogue, relationship-building and problem-solving outside formal channels and was previously within the remit of civil society. What is emerging in 2026 is a commercially grounded Track II in which Australian business carries diplomatic weight. Senior business leaders can play the role of 'chief commercial diplomats' engaging in a form of shuttle diplomacy.[17]

'Collective investments in resilience are cheaper than everyone building their own fortresses.' - Special address by Mark Carney, Prime Minister of Canada, Davos 2026.[18]

16 *Upgrading corporate affairs for a new geopolitical era.* McKinsey & Company. October 2025.
17 *Upgrading corporate affairs for a new geopolitical era.* McKinsey & Company. October 2025.
18 Mark Carney. *Davos 2026: Special address by Mark Carney, Prime Minister of Canada.* World Economic Forum. 20 January 2026.

As Canada's Prime Minister articulated at Davos, Australian business represents 'values-based realism', principled and pragmatic.

The shift of Australian business to fill the void is not incremental, it is paradigmatic. Australian business has moved from treating geopolitics as a compliance exercise to embracing it as a source of real contribution to Australia and its global position. It has required three capabilities:

01	**First, geopolitical cartography.** Understanding that geography is as much about influence as distance.
02	**Second, narrative mastery.** Building a narrative of allied strategic objectives: supply chain resilience, critical infrastructure sovereignty and defence industrial capacity.
03	**Third, institutional patience.** Trust is built over decades and tested in moments. Australian companies have invested in long-term relationships — with allied governments, regulators and strategic partners — and possess an asset that no amount of capital can quickly replicate.

The world is fracturing. The distinction between commercial logic and strategic logic has collapsed. In this environment, Australian business is not merely exposed to geopolitical risk - it is uniquely positioned to convert that risk into institutional trust and diplomatic influence.

Australia's moment is not accidental. It is the product of geological endowment, institutional quality, alliance architecture and the strategic positioning that Australian businesses have built, deliberately and also as a byproduct of simply operating well in complex environments.

> *'We do not have the luxury of moving slowly... Government moves slowly when it moves at all, and polarization within and between countries makes it harder than ever to get things done.'* – Bill Gates.[19]

Australian businesses are no longer market participants but the architects of the emerging order and this will define the next chapter of Australian enterprise.

19 Bill Gates. *The turbulent AI era is here. The choices we make now are critical.* GatesNotes. 27 August 2026.

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About

Mallesons' *2026 Directions Report* is based on the results of our annual Directions survey. The report is now in its 16th consecutive year.

The summary results in this document reflect the responses of 214 directors, senior executives and business leaders to our Directions survey conducted in June and July 2026.

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