

# Reporting tips

## Key performance indicators (KPIs)

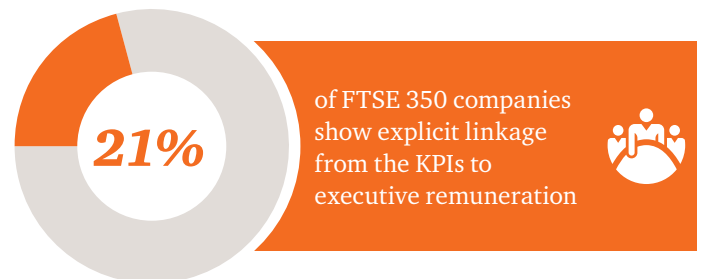
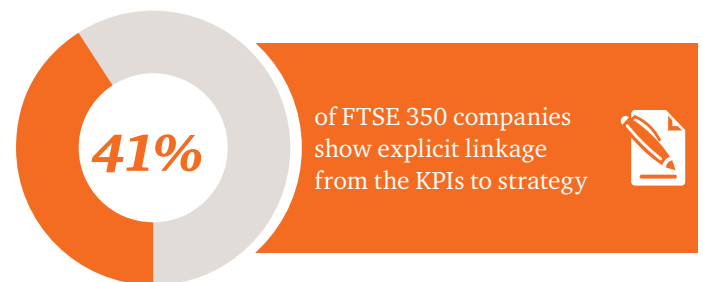


**Identify key financial and operational KPIs used to assess progress against strategic priorities. Explain clearly how management are incentivised, highlighting the link between strategy, KPIs and the remuneration package.**

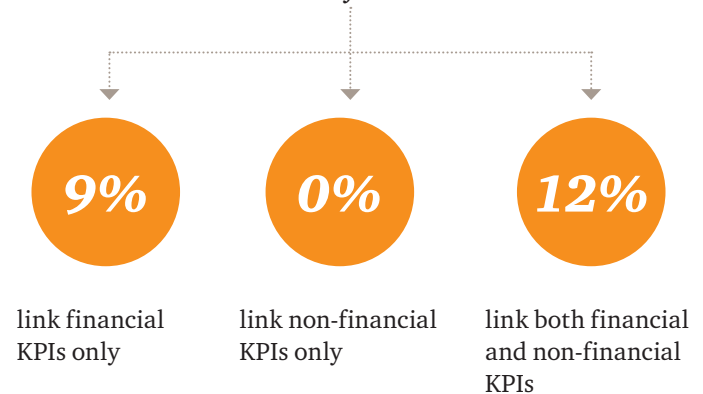
The extent of alignment between strategy, reported KPIs and remuneration policy is a good test of the quality of management's strategic thinking. When that alignment is lacking, it raises questions: how can management know the business is on track to deliver its strategic aims? How is management incentivised to deliver strategic success? Does the strategy presented reflect internal reality or is it merely cosmetic? Many companies state there is an alignment, but it is often difficult for the reader to confirm whether this is in fact the case. You can read more about this in our publication: *Measuring performance: KPIs and the link to strategic objectives*.

*We asked investors for their view in our 2017 Global investor survey, which identified that only 26% of UK investors agree that management are sufficiently transparent about the metrics they use internally to plan and manage their business.*

### What companies are doing today



#### And of these



(Source: PwC 2017 review of FTSE 350 narrative reporting)

# Good practice example

## United Utilities Group plc annual report 2017

### How we measure performance

#### Operational KPIs

These operational KPIs feed through from our three strategic themes to deliver the best service to customers, at the lowest sustainable cost, in a responsible manner.

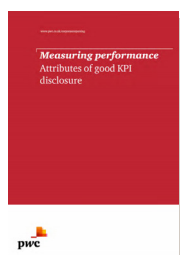
KPI	Target	Performance	Status	Linked to bonus/LTP
<b>The best service to customers</b>				
<b>Wholesale outcome delivery incentive (ODI) composite</b> Net reward/(penalty) accrued across United Utilities' 19 wholesale financial ODIs	Range of +£30 million to -£50 million over 2015-20	<b>2016/17: £6.7 million net reward</b> 2015/16: £2.5 million net reward	●	Bonus – direct LTP – indirect
<b>Service incentive mechanism – qualitative</b> Ofwat-derived index based on quarterly customer satisfaction surveys, measuring the absolute and relative performance of the 18 water companies. Each company receives a score in the range of zero to five, with five being the highest attainable score	To move towards the upper quartile in the medium-term		●	Bonus – direct LTP – direct
<b>Service incentive mechanism – quantitative</b> Ofwat-derived composite index based on the number of customer contacts, assessed by type, measuring the absolute and relative performance of the 18 water companies. Each company receives a SIM point total, where the lowest score represents the best performance	To move towards the upper quartile in the medium-term		●	Bonus – direct LTP – direct
<b>At the lowest sustainable cost</b>				
<b>Totex outperformance</b> Progress to date on delivering our promises to customers within the cumulative 2015-20 wholesale totex final determination allowance	To meet Ofwat's final determination totex allowance	<b>2015-20: On track to meet the final determination allowance</b> Totex new measure for 2015-20 period, hence no prior years' comparators	●	Bonus – indirect LTP – indirect

Linkage to executive remuneration

Alignment to the strategic priorities

Comprehensive discussion of performance with targets and status

### Further information



#### Measuring performance

Attributes of good KPI disclosure



#### Measuring performance

KPI and the link to strategic objectives

### Contact

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