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A CHOICE OF PERFORMANCE MEASUREMENT SYSTEM IN THE SHAREHOLDER VALUE ORIENTED COMPANY

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Abstract: Companies often define the general business objective as the shareholder value maximization. For such an objective appropriate measures are those that take in account the amount, dynamics and risk of expected cash flows of the company. The aim of this paper is to determine the place and role of performance measures in the efforts of managers to maximize shareholder value. The performance measures are, in that regard, understood not only as criteria for performance evaluation, but also as instruments to guide and motivate managers and employees in the company.

Key words: shareholder value, return on invested capital, growth rate, performance measures, performance measurement system.

Introduction

Companies are facing different and often conflicting demands of a number of stakeholders. This problem is particularly evident when defining the primary objective of company's business. Although objectives such as profit maximization, company's growth and development and market share increase are often stressed, none of these objectives is sufficiently comprehensive to ensure that the requirements of all stakeholders are met. Some authors (Lazonick and O'Sullivan 2000; Rappaport 2006; Stančić 2007; Todorović 2010) suggest that majority of modern companies as a general objective (mission) of their business identify maximization of shareholder value, usually defined as the present value of future free cash flows. Shareholder value maximization is considered to be objective sufficiently comprehensive to ensure the satisfaction of the requirements of most stakeholders (Jensen 2001; Bloxham 2003; Stančić 2006), and is a cornerstone of value-based management approach.

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