Application of the Key Person Value Within Company Valuation

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Company valuation influences billions in capital allocation across individual and institutional investors. While established methods like discounted cash flow and dividend discount models provide mathematical frameworks for valuation, they overlook the critical impact of leadership on market capitalization. This study addresses this gap by developing and testing new valuation approaches that incorporate key person value. The research examined four novel calculation methods for quantifying leadership impact. Two preliminary approaches focused on tangible metrics: CEO compensation multiples and replacement costs. The latter two methods introduced a CEO influence coefficient, which demonstrated an inverse relationship between company market capitalization and direct CEO impact. These advanced methods proved more precise by measuring actual performance outcomes: they applied the coefficient to either revenue growth during the CEO's tenure or the standard deviation between company stock performance and market averages - both direct results of leadership decisions. The methods were validated through comparative analysis of two prominent CEOs: Mark Zuckerberg of Meta and Bob Iger of Disney. All four calculation approaches yielded consistent results across both case studies, demonstrating the reliability and robustness of these valuation methods. These findings demonstrate that incorporating quantifiable leadership metrics into valuation models can significantly improve their precision and therefore influence the fate of billions of dollars. This enhanced framework offers investors a more comprehensive tool for capital allocation decisions, particularly in evaluating companies undergoing leadership changes.

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