

HUMAN RESOURCES

The Value of Sam Altman's Human Capital: An Event Study

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Assessing the value of human capital to modern corporations.

✔ **INSIGHT** | FRONTIER 06 Feb 2024

There is little doubt that intangible assets, such as human capital, customer relations, and brands, are the most valuable resources for modern corporation, replacing physical assets like land, building, mines, oilfields, and machines that powered the 20th century giants. Value of intangible assets are difficult to determine, however, even to an astute investor because they are **not presented on the balance sheets**. Nevertheless, firms attempt to value at least a **few classes of intangibles assets** when firms acquire those assets in an M&A transaction. Their separate values must be presented on the balance sheet after each M&A transaction. The value of human capital, however, typically never gets determined or revealed, because it is technically not an asset **“owned”** by the acquiring company.

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Recent happenings at OpenAI present a unique “event-study” design to determine the value of human capital of Sam Altman to Microsoft. Event study refers to a method in finance, in which changes in market value accompanying a company’s event can be used to determine the causal effect of that event. For example, any change in a firm’s market value when it obtains a patent approval indicates the patent’s value. We determine the value of Sam Altman’s human capital using changes in Microsoft’s stock valuation on three **crucial dates**: Nov 17, Nov 20, and Nov 22. Each of these dates involved changes in the formal role of Sam Altman at OpenAI, and also accompanied dramatic changes in the value of Microsoft’s stock.

On November 17, the board of directors of OpenAI **announced** the firing of Sam Altman as its CEO. On the surface, nothing else changed at OpenAI, particularly its legal relationship with Microsoft. Yet, Microsoft’s stock price fell **1.7%**, implying a value loss of **\$47 billion** dollars. This fall cannot be explained by the market movements because NASDAQ composite index increased that day. So, why would Microsoft’s value decline because of the

ouster of a CEO of an independent company? The reason is that OpenAI, despite being initially created as a non-profit artificial intelligence research company, later became an extended arm of Microsoft in disguise. Sam Altman was **openly supportive** of Microsoft's commercial interests, and his ouster would hurt Microsoft's cause.

Recall that OpenAI's **original aim** was a lofty one, to develop Artificial General Intelligence to benefit "humanity as a whole," unconstrained by a need to generate financial returns. Legendary investors such as Elon Musk, Reid Hoffman, Jessica Livingston, Peter Thiel, Amazon Web Services, and Infosys pledged a **donation of \$1 billion** to support OpenAI. Later however, OpenAI created partnership in a **new capped-profit arm**, in partnership with Microsoft. Microsoft would invest over **\$10 billion** in this for-profit arm, and would provide much of the technical infrastructure on which products like ChatGPT would be built on. In return, Microsoft would use OpenAI's innovations, which would be made **available through** Microsoft's Bing search engine, the Edge internet browser, the Windows operating system, and **365 document suite**, each of which attracts millions of users worldwide. Potential of enhanced fees, such as an additional \$30 fees on its 365 million users of its enterprise software system, would imply a profit potential of **billions of dollars** for Microsoft. Additional revenue would come from bundling of ChatGPT and Microsoft 365 Copilot for GitHub Copilot. So, despite being a non-profit created to benefit "humanity as a whole," OpenAI was slowly becoming an R&D center for Microsoft, and much more.

But Microsoft's interests would not be served without Sam Altman being at the helm of OpenAI. The activities of OpenAI's for-profit arm clearly contradicted with OpenAI's original non-profit and "humanity as a whole" mission. Yet, as its CEO, Sam Altman was **committed** to Microsoft's commercial causes, through the creation and promotion of OpenAI's for-profit arm. His actions contradicted OpenAI's board of directors who were pushing OpenAI to stick to its original mission. The two parties, CEO and the board of directors, also **differed** on the pace of for-profit arm's innovation process. Board favored a slow and cautious approach to ensure no harmful effects of generative AI while Altman favored faster pace, arguably, to ensure Microsoft's first-mover advantage. These **contradictions** came to a head when OpenAI's board fired Sam Altman. This shift in power balance at OpenAI threw a spanner on Microsoft's commercial plans, and fortunes. Such was the value of Sam Altman's human capital to Microsoft. Arguably, this caused a loss of **\$47 billion dollars in Microsoft's market cap**.

Several hectic events ensued during the weekend following November 17. On the following Monday, November 20, Microsoft CEO Satya Nadella **announced** that Sam Altman would join Microsoft to lead a new AI research team. Based on the idea that Sam Altman would be able to build the same innovation infrastructure at Microsoft, as existed at OpenAI, Microsoft's share price jumped up by **2.1%**, an improvement of **\$56 billion** in its market value. The market movements yet again demonstrated the value of Sam Altman's human capital.

Nevertheless, many of OpenAI key employees would also move with Sam Altman, had he joined with Microsoft. Such mass exodus, on the one hand, could lead to Microsoft's virtual control of a highly valuable technology, but, on the other hand, would eliminate the apparent competition to Microsoft because OpenAI would implode. This eventuality, while effectively bringing OpenAI to Microsoft's fold, could possibly open a host of antitrust issues for Microsoft.

Arguably, from Microsoft's perspective, it was best that OpenAI continued to work as an independent entity, while remaining devoted to Microsoft's commercial causes. Indeed, on November 22, Microsoft achieved this goal when OpenAI **announced** that Sam Altman would join back as the CEO of OpenAI, and its board (with the exception of one member) would be fired. Microsoft's share price jumped by 1.28% on Nov 22, increasing its market value by another **\$36 billion**.

These fluctuations of \$47 billion, \$56 billion, and \$36 billion pale in comparison to **\$13 billion** Microsoft invested in OpenAI. These value fluctuations relate to the nature of relationship of Sam Altman with OpenAI but, more importantly, affected the commercial interests of Microsoft. Even if only a part of our argument holds, these events indicate that the value of Sam Altman's human capital runs into tens of billions of dollars from the Microsoft's perspective. This saga thus demonstrates the value of human capital to modern technology corporations.



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