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English, Economics, Politics, and Philosophy

case study: study real life cases as if your a detective

Unit 3 Cases in Business

Lesson 3.1a: Samuel Altman and OpenAI
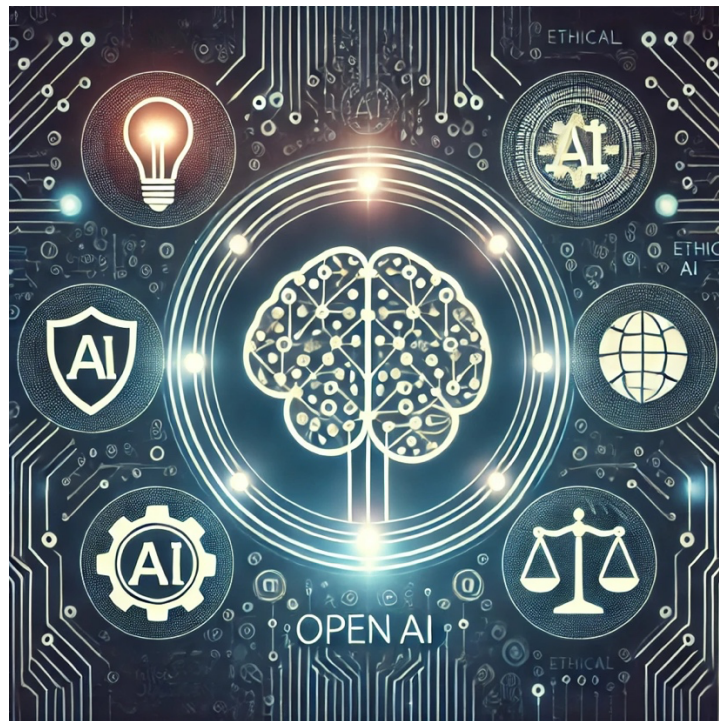
Pertinent Topics:

- Samuel Altman

  1. equity structure (financial distribution)

- OpenAI

  2. visions (visible) the goal that is seen

- Chat GPT, LLMs, API

- SWAT analysis/ management style

Success Criteria:

- I will learn Altman's personality & story

- I will learn the rationale of GPT

- I will understand the vision of OpenAI better

MINDS ON

Before we venture into the story behind the success of OpenAI,

particularly its product Chat GPT, what do you think the

objective of OpenAI is. That is, to your speculation, what is

goal/target

OpenAI's mission/goal(s)?

- make people happier/be inspired/ help the economy/ country/ individual/ crack codes/ make people smarter/ advise them/ help them with their future/ problems
- money (profit) (controversially)

I. Samuel Altman (1985 ~)

Altman was born in 1985 to a Jewish family in Chicago, Illinois. His mother is a dermatologist, while his father was a real estate broker. He began to play with his first computer at the age of 8 (back then computer was only available for

1993

coding and hardware engineering tasks; games are not available). He then attended Stanford University to study computer science and then resolved to drop out in his sophomore year. At the age of 19 (when he had dropped out) he

payoff

co-founded Loopt, a location-based social networking mobile application. As CEO, Altman raised more than $30 million in venture capital for the company, including an initial investment of $5 million from Patrick Chung of Xfund and his team at New Enterprise Associates, which was later followed by investments from Sequoia Capital and Y Combinator (a startup accelerator). This success is then followed by his founding of Hydrazine Capital (a venture capital firm), and his partnership with Y Combinator.

OpenAI was initially funded by Altman, Greg Brockman, **Elon Musk,** Jessica Livingston, Peter Thiel, **Microsoft,**

he had made his choice (maybe right)

Amazon Web Services, Infosys and YC Research. When OpenAI launched in 2015, it had raised $1 billion.

i. Scandal

On November 17, 2023, OpenAI's board, including key figures like Ilya Sutskever and Adam D'Angelo, removed Sam Altman as CEO, citing a lack of consistent communication. This decision led to the resignation of Greg Brockman, OpenAI's president. Amid backlash, including an employee-led ultimatum demanding Altman's reinstatement, Microsoft offered Altman a position to lead a new AI research team. However, after intense negotiations and public pressure, OpenAI reached an agreement to reinstate Altman as CEO and Brockman as president, with most board members stepping down, except for D'Angelo.
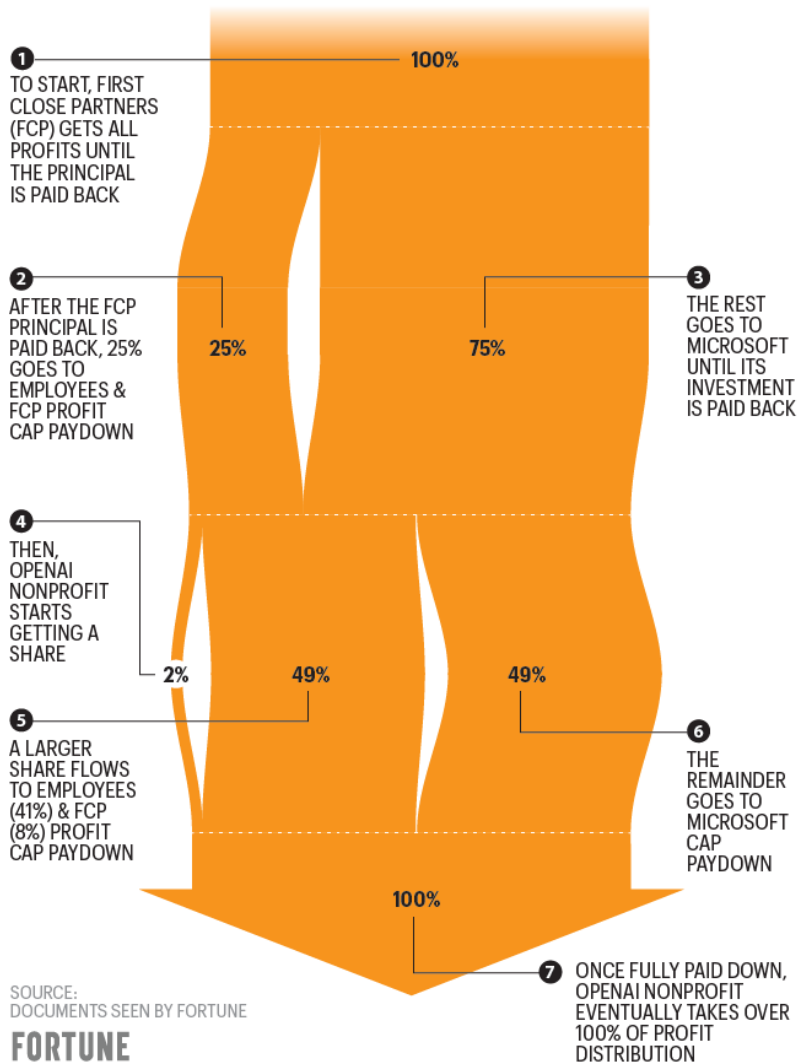
II. Open AI

i. Profit distribution and equity share of the company

Now, as mentioned earlier we can see the intervention of Microsoft into the managerial decision in OpenAI. But why

exactly was that the case? To answer this question we would have to delve into the equity[1] structure of OpenAI.

Economics of the OpenAI deal
FLOW OF PROFIT DISTRIBUTION THROUGH THE INVESTMENTS REPAYMENT PHASES

1 TO START, FIRST CLOSE PARTNERS (FCP) GETS ALL PROFITS UNTIL THE PRINCIPAL IS PAID BACK

100%

2 AFTER THE FCP PRINCIPAL IS PAID BACK, 25% GOES TO EMPLOYEES & FCP PROFIT CAP PAYDOWN

25%

75%

3 THE REST GOES TO MICROSOFT UNTIL ITS INVESTMENT IS PAID BACK

4 THEN, OPENAI NONPROFIT STARTS GETTING A SHARE

2%

49%

49%

5 A LARGER SHARE FLOWS TO EMPLOYEES (41%) & FCP (8%) PROFIT CAP PAYDOWN

6 THE REMAINDER GOES TO MICROSOFT CAP PAYDOWN

100%

7 ONCE FULLY PAID DOWN, OPENAI NONPROFIT EVENTUALLY TAKES OVER 100% OF PROFIT DISTRIBUTION

SOURCE: DOCUMENTS SEEN BY FORTUNE

FORTUNE

Initially, Microsoft, as a major investor, receives a substantial portion of the profits after Close Partners (FCP) are repaid,
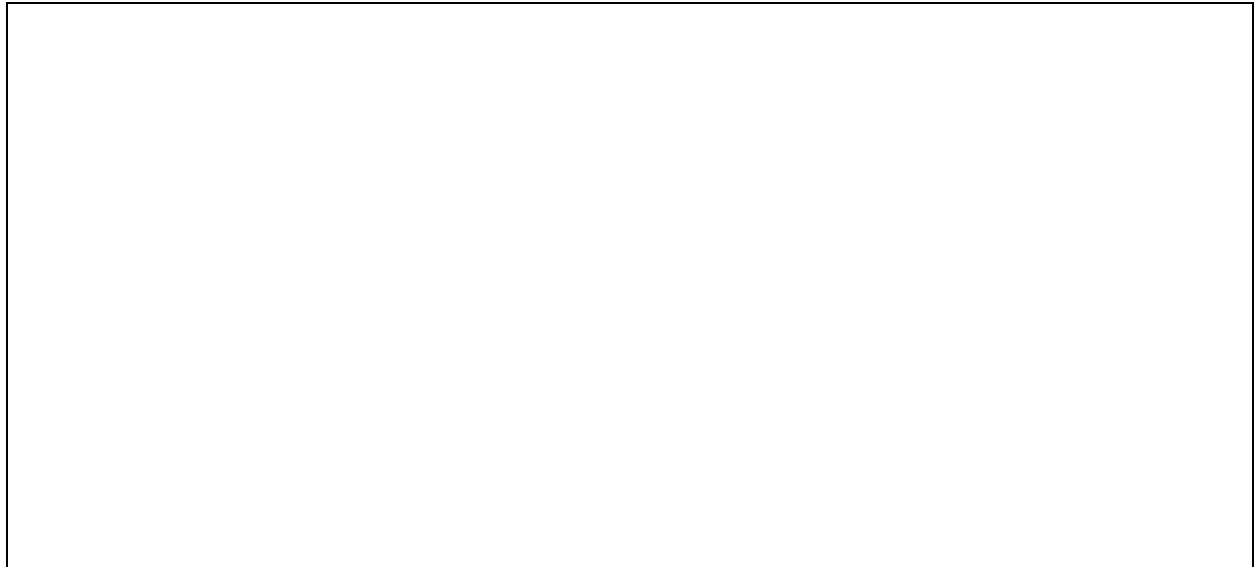
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[1] Equity typically refers to the ownership of a public company or an asset. An individual might own equity in a house but not own the property outright. Shareholders' equity is the net amount of a company's total assets and total liabilities as listed on the company's balance sheet.

controlling 75% of the profit flow until its investment is fully paid back. This dominant position gives Microsoft considerable leverage over OpenAI's financial priorities and management decisions, as the company must ensure Microsoft's returns before any substantial profit flows to OpenAI's nonprofit objectives. The structure emphasizes that until Microsoft's investment is repaid, the organization's financial and strategic focus may be heavily influenced by the need to satisfy these external stakeholders.

ii.   The vision of OpenAI mission/ purpose

"OpenAI is an AI research and deployment company. Our mission is to ensure that artificial general intelligence benefits all of humanity."[2] Now, by "benefiting all of humanity", Open AI defines it as to build the "AI systems that are generally smarter than humans." This notion nonetheless raises **ethical** as well as **philosophical** controversy, i.e., what then, will be the usefulness of human beings? Will AI replace vast labour forces? Should we allow so?

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[2] https://openai.com/about/

For this thought-provoking question penetrating to the fundamental of AI development, I would like to invite you to ponder/reflect your thoughts and articulate a stance.

In the second half of the unit, we will be learning about the rationale underneath OpenAI's signature product—ChatGPT. As well as few other concepts in business analytics.

Recommended readings:

1. OpenAI, "Planning for AGI and beyond", February 24, 2023, https://openai.com/index/planning-for-agi-and-beyond/.
2. OpenAI, "OpenAI Charter", https://openai.com/charter/.