

The Cooperative Advantage: *Configuring Coeval Value On The Blockchain*

Daniel M. Harrison

The Blockchain maybe the first instance in which cooperation – as opposed to competition – is truly engaged as a value configurative process.

One of the core tenants of value is that it is configured according to a competitive paradigm.

This has been the general consensus of the business community since Michael Porter published *Competitive Advantage* in 1985, in which he sought to define the core form of value creation down to its first principles in his modelling of the Value Chain: “Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm’s cost of creating it,” Porter wrote.

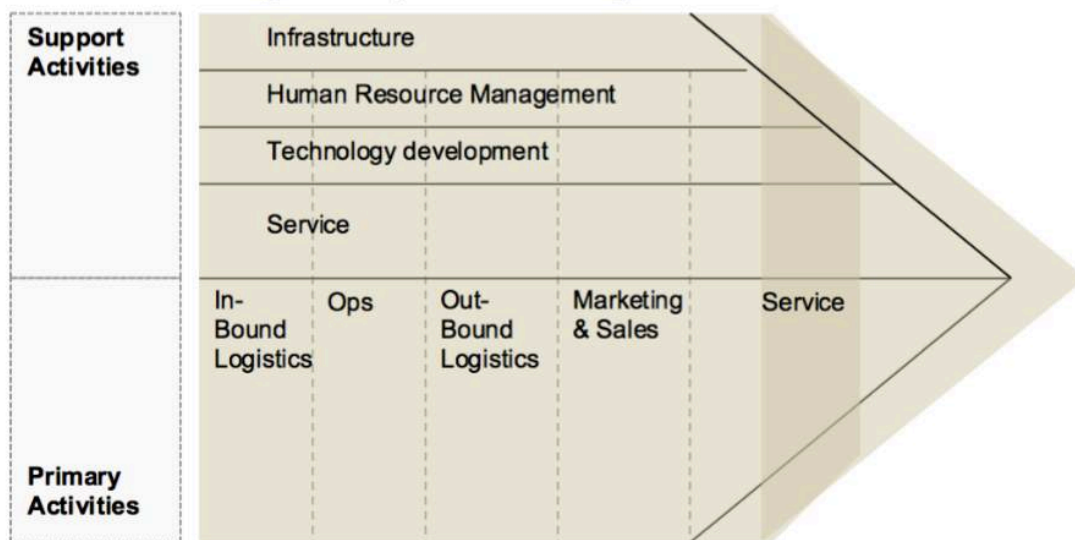


Fig 1: Michael Porter's Value Chain

In 1999, two Norwegian academics, Oeystein Fjellstad and Charles Stabell modelled two alternate forms of value configuration, with the modelling of a Value Shop and a Value Network.

In the case of these two paradigms, what was striking – though somewhat overlooked at the time – was that the processes of knowledge-sharing and network-overlapping in reality indicated a less competitive framework for management creation of value.

For example, in the case of a Value Shop, a consulting firm built into the fabric of an accountancy firm (Arthur Anderson) or a hardware developer (IBM Consulting) was a natural value-overlap which did not correspond to a traditionally vertically-integrated management process (since there was no industry vertical being annexed here):

Infrastructure
Human Resource Management
Technology development
Procurement

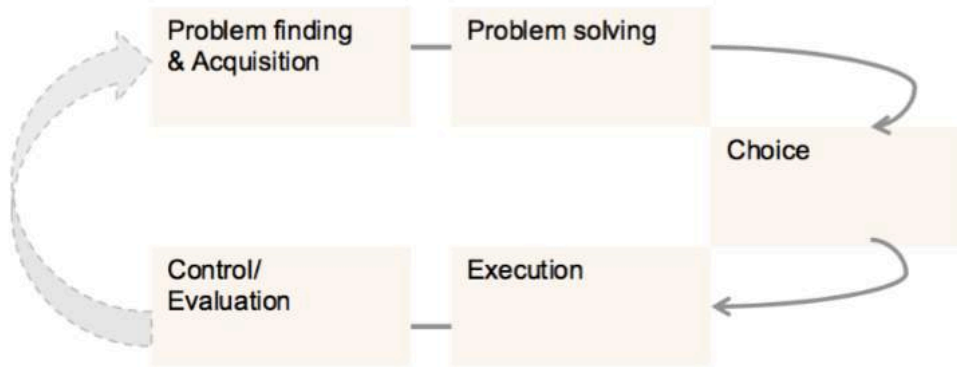


Fig 2: Stabell & Fjelstad's Value Shop

In the case of a Value Network, one or more networks could easily overlap to bring many more users into contact with one another, as has been the case recently with the evolution of social networks (where a new network will accept users to log in to their network via a larger incumbent, such as is the case with Medium, a social blogging network, and its acceptance of Twitter and/or Facebook sign-ins):

Firm Infrastructure		
Human Resources		
Tech Development		
	<ul style="list-style-type: none"> • Design new services • Program service routines 	<ul style="list-style-type: none"> • Reconfigure branch office infrastructure • Expand communications network • Set standards
Procurement		

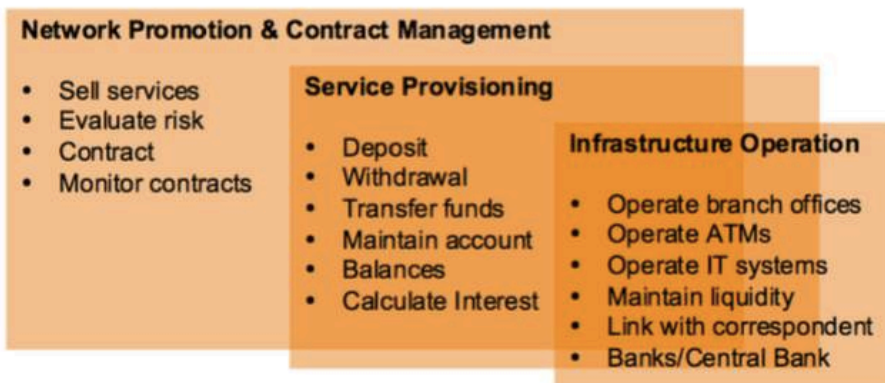


Fig 3: Stabell & Fjelstad's Value Network

The divergence from markets of competitive to markets of cooperative customer acquisition is undeniable. What has been less clear up until now is how value is created via a legal, paradigmatic cooperative advantage.

The Blockchain, by integrating all three Value Configurations, may be the first example of a real revolution in how markets evolve from competitive to cooperative status.

While the Blockchain is clearly a Value Network by design, via utilizing a knowledge-intensive process (i.e. solving an equation with supercomputers) to create a unit of tradeable value (a Bitcoin, Ethereum, Ripple etc.), it is similarly a Value Shop and a Value Chain at the same point in time. We might call this new Value paradigm a Value Coeval, in that it concurrently and progressively interconnects all three value configurations to produce a rather unrecognizable form of value.

Bitcoin’s Blockchain can be viewed as a “closed” Value Coeval, in that the process whereby it creates and delivers value to its end-users is both tight-knit and simplistic from a inbound-outbound logistical delivery process: a unit of value is created on the network via the correct calculation of an equation, after which it is delivered to a “miner” of units. A bitcoin in other words, can be said to possess a core form of “Network Value”.

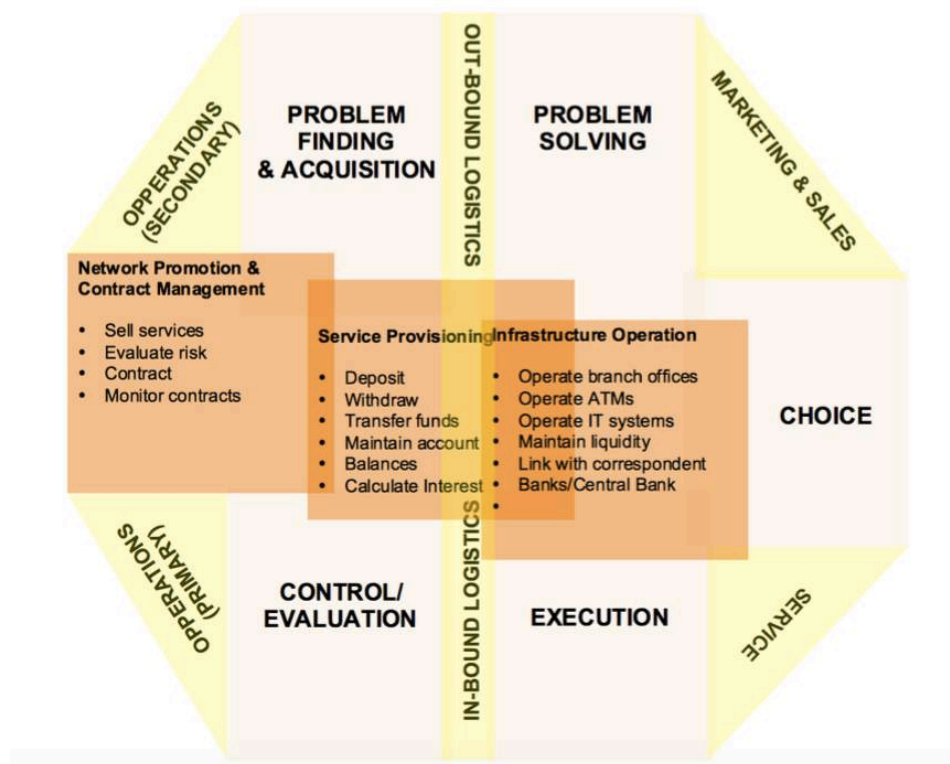


Fig 4: Bitcoin’s Blockchain (Harrison)

In the case of Ethereum, and by association other token-based units of digital value storage, the value creation process is more complex. Specifically, the value configurations herein are expounded, with the network still functioning as the core engineer of value, but with the

“chain” (inbound/outbound logistics) aspects of the value configuration being distinctly enhanced to integrate alternate forms of value:

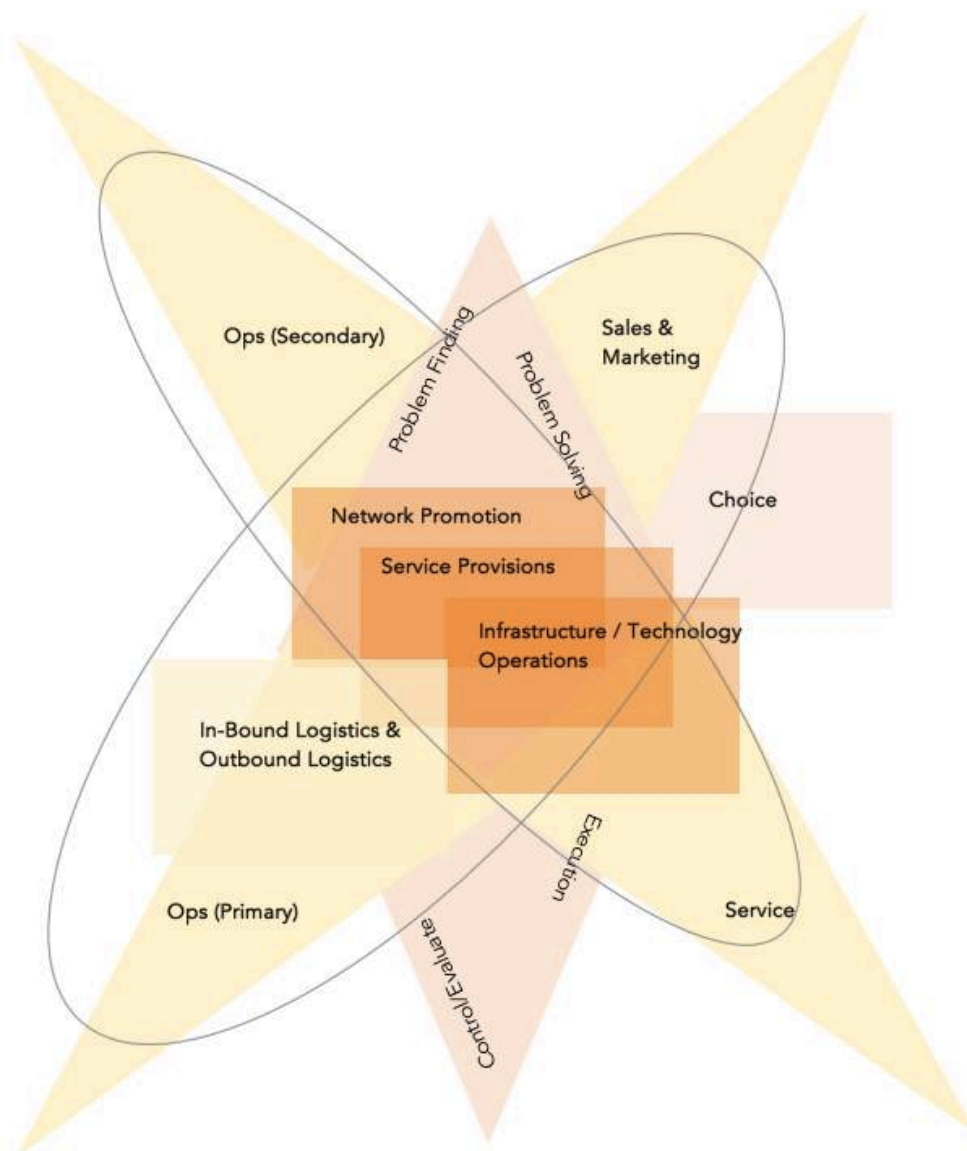


Fig 5: Ethereum's Blockchain (Harrison)

An ERC-20 compliant token is a token that runs off Ethereum's network protocol, and which is modelled on Bitcoin's network protocol and run off a separate Blockchain of its own. An ERC-20 token possesses both Network Value and potential Securitized Value via means of its employment of “smart contracts” that allow escrow-style facilities to be optimized and engaged.

Ethereum was developed as a result of Bitcoin's blockchain; ERC-20 tokens (launched as “ICOs”) are run off Ethereum's network. There are now nearly 800 virtual coins and tokens available, all tradeable with one another in value chain style dynamics. The evolutionary trajectory since Michael Porter's modelling of the value chain is clear: value has gone from being supply-chain based, to knowledge and network-based, to what it is evolving into as a

result of Blockchain-enabled networks: supply-chain, knowledge-intensive and network-based simultaneously, or coeval.

Due to the inherent knowledge/network functionality of the Blockchain, this coeval value appears, rather than being competitively positioned by design, to be one that thrives off cooperative management process. At the same time, competitive positioning of the technology's value attributes is alive and kicking, with units of digital value all trading against one another on multiple exchanges across the world.

In this way, the Blockchain appears to be the first example of a cooperative value configuration working in markets of perfect competition.