

## **Coinbase: An Apolitical But Mission Focused Culture?**

Coinbase is a crypto-currency and non-fungible token (NFT) trading platform that listed (became a public company) on the NASDAQ in April 2021<sup>i</sup>. The CEO, Brian Armstrong, emphasized that “Coinbase is a mission focused company”<sup>ii</sup> while also noting that Coinbase has an “apolitical culture”<sup>iii</sup>. What did Armstrong mean? Is it possible to avoid contentious debates on hot button issues while also having a mission beyond merely making profit?

### **Cryptocurrency Trading**

The firm’s core service, Coinbase Trade, allows users to “buy, sell, and store hundreds of cryptocurrencies”<sup>iv</sup>, with Coinbase storing the coins. Coinbase also offers a Coinbase debit card, digital wallet (a private wallet giving the purchaser more), and Coinbase NFT, a marketplace for trading NFTs<sup>v</sup>.

Cryptocurrencies are digital currencies. They are not controlled by governments and, by design, relatively unregulated, so Coinbase aimed to provide a safe way to conduct trades. In the run up to Coinbase becoming a public company, interest in cryptocurrencies soared. Coinbase’s revenues rose with this interest, and the company even turned a significant profit in 2020<sup>vi</sup>. However, returns to cryptocurrencies have been notoriously volatile. Bitcoin—one of the most well-known cryptocurrencies alongside Ethereum—gave a 1,338% return in 2017, posted a 73% loss in 2018, and had another stellar year with a 302% increase in 2020<sup>vii</sup>. The industry, including Coinbase, has used revenues to significantly increase lobbying (spending to influence lawmakers)<sup>viii</sup>.

Cryptocurrencies operate on decentralized systems that limit oversight by governments and law-enforcement agencies. This lack of government oversight has created a split in public opinion: some see it as a problem, others a selling feature.

Also controversial is the use of energy in “mining” for cryptocurrency. Bitcoin operates on a proof of work concept<sup>ix</sup>, with computers given tasks to uncover new coin. Proof of work rewards those who devote large amounts of computing power to such discovery and the energy this requires frustrates attempts to reduce greenhouse gas emissions. (Ethereum in 2022 moved to a less energy intensive system<sup>x</sup>). The significance of the energy used in Bitcoin mining depends on the type of energy resources used. In the US, where about one-third of mining is conducted, about 60% of energy comes from non-renewable sources<sup>xi</sup>. That does not necessarily mean that 60% of mining uses non-renewable energy. Ideally mining uses renewable sources and energy that is not usable elsewhere (e.g., when grids have excess capacity from renewables that could not be stored.) Indeed, the actual environmental impact of Bitcoin mining has been the focus of much debate. Coinbase has downplayed the impact<sup>xii</sup>, while a research report suggests greater problems, including the memorable analogy that Bitcoin mining used more energy than Norway in 2020<sup>xiii</sup>.

## **Coinbase: A Mission Focused Company**

*“Our mission is to create an open financial system for the world and to be the leading global brand for helping people convert digital currency into and out of their local currency.”<sup>xiv</sup>*

As a for-profit company, Coinbase has adopted a mission that is not simply about profit maximization.

*“**Does Coinbase just stand for making a profit?:** No, we stand for accomplishing the mission and for creating a great place to work. Growing revenue and profit is the only way we will be able to grow our team to build all the things that are needed to accomplish the mission.”<sup>xv</sup>*

Coinbase partnered with Pledge 1%, which established the practice of dedicating 1% of profits, equity, product and employee time to charitable activities<sup>xvi</sup>. For example, Coinbase has donated to givecrypto.org, which distributes cryptocurrency to those in need<sup>xvii</sup>.

Coinbase’s expressed mission is to spread economic freedom<sup>xviii</sup>, envisaging a world run on common economic standards that cannot be manipulated by any company or country. The company sees the promotion of cryptocurrency as central to this. Although experts can access cryptocurrency without its services, the company provides a simple way to access cryptocurrency and so encourages the spread of digital currencies.

Who uses cryptocurrency? In late 2021<sup>xix</sup>, 16% of US adults said they had used cryptocurrency. Interest in, and knowledge of, “crypto” tended to be higher among younger adults (18-29, 31% versus 3% for 65+) and men (22%). Young men (43%) were most likely to have used it. Usage could also be predicted by race, with higher usage by those identifying as Asian-American (23%) or Hispanic (21%) compared to African-American (18%) or white American (13%). Income was a relatively weak predictor of usage (usage: 15% lower income, 17% middle or upper income). While divisions were far from perfect, many saw a split in the political views of cryptocurrency users, with right-wing people more likely to embrace it than those on the left of US politics<sup>xxxi</sup>.

## **Economic Freedom**

Defining and measuring the economic freedom Coinbase seeks to promote has been challenging. Brian Armstrong has agreed that several ways could be used. He often uses a measure developed by The Heritage Foundation. <sup>xxii</sup> This is a conservative US think tank dedicated to advancing the “principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense.”<sup>xxiii</sup> The Heritage Foundation’s broad categories of economic freedom are<sup>xxiv</sup>:

- Rule of law (property rights, government integrity, judicial effectiveness)
- Government size (government spending, tax burden, fiscal health)
- Regulatory efficiency (business freedom, labor freedom, monetary freedom)
- Open markets (trade freedom, investment freedom, financial freedom)

Some elements of these measures are controversial. The Heritage Foundation sees the economic model that best promotes economic freedom as, among other things, 1) promoting free trade (i.e., non-protectionist), 2) low taxes, 3) light touch from government (e.g., no minimum wage laws), and 4) strong property rights.

Armstrong does not claim causation but has noted a correlation between countries with high economic freedom and positive social outcomes. Table 1 has a list of high and low economic freedom countries as measured by The Heritage Foundation.

Armstrong has argued that economic freedom often correlates with better income for the poorest 10%, improved environmental protection, fewer wars, higher self-reported happiness, and less corruption.<sup>xxv</sup> He argues that digital currencies enable economic freedom by, among other things, assisting free trade, emigration, and easy business start-up. The idea is that the more Coinbase becomes available, the more it will promote economic freedom.

Table 1. 2022 Economic Freedom Top & Bottom Countries (Heritage Foundation)

<b>Country</b>	<b>Rank</b>	<b>Score</b>	<b>Country</b>	<b>Rank</b>	<b>Score</b>
Singapore	1	84.4	Pakistan	153	48.8
Switzerland	2	84.2	Zambia	154	48.7
Ireland	3	82	Congo, Republic of	155	48.5
New Zealand	4	80.6	Lesotho	157	48.1
Luxembourg	5	80.6	Suriname	156	48.1
Taiwan	6	80.1	China	158	48.0
Estonia	7	80	Liberia	159	47.9
Netherlands	8	79.5	Dem. Rep. of the Congo	160	47.6
Finland	9	78.3	Lebanon	162	47.3
Denmark	10	78	Maldives	161	47.3
Sweden	11	77.9	Equatorial Guinea	163	47.2
Australia	12	77.7	Timor-Leste	164	46.3
Iceland	13	77	Turkmenistan	165	46.2
Norway	14	76.9	Guinea-Bissau	166	46.0
Canada	15	76.6	Algeria	167	45.8
Germany	16	76.1	Central African Republic	168	45.7
Lithuania	17	75.8	Bolivia	169	43.0
Latvia	18	74.8	Iran	170	42.4
South Korea	19	74.6	Eritrea	171	39.7
Chile	20	74.4	Burundi	172	39.4
Czech Republic	21	74.4	Zimbabwe	173	33.1
Austria	22	73.8	Sudan	174	32.0
Cyprus	23	72.9	Cuba	175	29.5
United Kingdom	24	72.7	Venezuela	176	24.8
United States	25	72.1	North Korea	177	3.0

## Coinbase's Culture

Brian Armstrong wrote down the Coinbase culture publicly in the hope of reinforcing it. One can summarize it as being a mission-focused “championship team”<sup>xxvi</sup>. The idea is to overinvest in top talent, so that new hires all raise the bar<sup>xxvii</sup>.

The year 2020 was a dramatic one for the US and its businesses. Many CEOs and boards sought to involve themselves in public debates over major social issues—most prominently the issue of racism following the murder of George Floyd<sup>xxviii</sup>. Armstrong remained clear in an update to the culture that: “We don’t engage in social or political activism that is unrelated to our mission while at work.”<sup>xxix</sup> “We are an intense culture and we are an apolitical culture.”<sup>xxx</sup> Armstrong suggested that corporate activism is a distraction from the mission and also causes division. By this view, corporate activism, which some might disagree with on political grounds, would go against Coinbase’s principle of inclusion.

At the height of the Black Lives Matter movement, Armstrong refused to issue a statement of support, leading to protests from some of the company’s staff. The CEO suggested that Coinbase would help employees find a better fit if they wanted an activist company. Sixty employees resigned. Armstrong reported that a disproportionately high percentage of employees from under-represented groups did not take the exit package, suggesting that employees from such groups found the company’s apolitical culture policy acceptable<sup>xxxi</sup>.

The New York Times reported on Coinbase employees’ experiences of racism and discrimination and the paper accused Coinbase of paying “women and black employees less than their male and non-black counterparts”<sup>xxxii</sup>. Coinbase pre-emptively denied the New York Times reporting<sup>xxxiii</sup>. “All of those complaints were thoroughly investigated, one through an internal investigation and two by separate third-party investigators, all of whom found no evidence of wrongdoing and concluded the claims were unsubstantiated.”<sup>xxxiv</sup>

## Further Challenges Hit Coinbase

Despite these issues, Coinbase reached a valuation of \$100 billion on its first day of trading in 2021<sup>xxxv</sup>. Coinbase has had a more challenging time since becoming a public company, with hits to the cryptocurrency markets. At the time of writing the company's market value has fallen to \$23 billion<sup>xxxvi</sup>.

One challenge has been the underwhelming performance of the NFT business after its launch in April 2022<sup>xxxvii</sup>. Then, in June 2022, an anonymous online petition circulated calling for the firing of three of its top executives<sup>xxxviii</sup>. This cited, among other problems at Coinbase, the political activism ban, problems with the NFT operation, and overaggressive hiring. (In 2022 hiring was paused and job offers revoked).

Armstrong reacted robustly to the petition. In an extended Twitter thread<sup>xxxix</sup> about the petition he said, "This is really dumb on multiple levels," and suggested that he should have been the target of the complaint, not his other senior team members. He told the complaining staff to "quit and find a company to work at that you believe in." He blamed remote working for causing problems with the culture. "Our culture is to praise in public, and criticize in private." Armstrong noted that employees caught signing the petition would be fired, as it harms "fellow co-workers, along with shareholders and customers." "There is probably lots we can be doing better, but if you're at a place where you want to leak stuff externally, then it's time for you to go."

Less than a week later, Coinbase announced plans to lay off 1,100 staff (18% of the workforce)<sup>xl</sup>. Coinbase had seen losses and a 19% drop in monthly users, and Armstrong admitted that Coinbase had over-hired. This coincided with a bleak period for cryptocurrencies. During April to June 2022, the value of Bitcoin had fallen from over \$45,000 to \$20,000, although supporters suggested that volatility was natural for a still relatively new venture<sup>xli</sup>.

The New York Times, the paper originally investigating Coinbase's staffing issues, in August 2022, chronicled Coinbase's challenges<sup>xlii</sup>. The newspaper reported perceptions that the culture had been significantly changed by rapid hiring. The NFT trading

platform was not highly rated by experts in the field. Furthermore, bold plans to enter the Indian market failed as the company overestimated support from the government.

## **Going Forward**

Cryptocurrencies are a volatile industry and Coinbase has been no exception. Can Coinbase maintain its unique culture given its rapid growth and the challenges it has seen? Was Brian Armstrong right that an apolitical culture boosts inclusion? Could a shared mission reunite the firm after the layoffs?

## Endnotes

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