Forbes / Asia / #NewTech

DEC 7, 2017 @ 01:22 AM 873

Why Corporate Institutions Are Still Hesitant To Make Use Of Blockchain

Out of Asia, CONTRIBUTOR

Stories for expanding horizons. **FULL BIO**

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(Photo by Alain Pitton/NurPhoto via Getty Images)

A simple scroll through Google search results for blockchain these days makes for interesting reading.

Bitcoin and Ether reaching record highs and then falling (again). Government briefings on smart contracts and how lawyers and accountants will be out of work in 5 years. ICOs raising hundreds of millions from blue-chip Silicon Valley VCs. 30 different reports on how blockchain will help banks save billions. 10% of global GDP stored on blockchain platforms by 2025.

Blockchain (or Distributed Ledger) hype amongst technology bloggers, startups and banks is masking an awkward truth. Some of the most promising blockchain applications are designed with corporate users in mind. But corporate leaders remain skeptical at best -- especially in Asia. And to reach the potential of blockchain, providers, including banks and start-ups, need to win over corporate users.

Over the last year I have spoken to over 100 CFOs, CIOs and CPOs at large corporates across the APAC region about technology and transformation.

Many conversations inevitably turn to blockchain. Thoughts tend to boil down to something like this: I still receive 1000s of paper invoices from suppliers in 15 countries in 30 different formats; I hold customer data in 5 different systems. I have been using the same accounting software for the last 15 years. I kind of get blockchain. I see how it could make my business more efficient in theory. It sounds interesting. But I simply have other priorities at the moment and I cannot see the near-term tangible benefits.

If the shoe doesn't fit

A recurring theme: frustration at the mismatch between highly publicized blockchain proofs-of-concept, led by banks and technology companies, and the complex realities of how businesses operate in the real economy.

Recently, Walmart's collaboration with Tsinghua University in Beijing and IBM to track the pork supply chain in China and Barclays trade finance on their Wave platform show promise.

But trade and supply chains are often complicated and messy. This is rarely addressed in the keynote speeches. The number of parties involved in a seemingly simple manufacturing operation can be staggering: suppliers, buyers, banks, insurers and shipping companies at every stage. Add in laws, regulations and different business practices across multiple jurisdictions and you begin to understand why reservations creep in.

Blockchain trials remain small scale. Despite the hype, the amount invested into blockchain is relatively limited. Banks, the most prominent investors in blockchain, typically invest only 1.5% of revenue into research & development - versus 20%+ for technology companies - and not all of this goes into blockchain. According to PwC a ‘record’ USD 1.4bn was invested in blockchain 2016.

Early days

Given the lofty ambitions, USD 1.4bn isn’t that much. Blockchain development is expensive. The amount of research needed is significant. But according to one estimate there are only around 5,000 blockchain engineers in the world compared to 10 million engineers using Java, a popular programming language. Blockchain talent doesn’t come cheap. Add in the cost of coordinating development efforts across different companies with different setups and you have a pricey endeavor.

More on Forbes: *Don't Be Dumb Money: How To Invest In ICOs And Blockchain Startups*

By comparison, according to McKinsey, $39bn was invested in AI technology last year globally. In the battle of the buzzwords, it’s pretty clear who is winning at the moment.

Meanwhile, some of the more ambitious blockchain projects underway are showing signs of strain. Over the last year, major banks including Goldman Sachs, Morgan Stanley and JPMorgan Chase pulled out of R3, a well-funded blockchain consortium based in New York.

This highlights some of the key challenges being faced. Building transformational blockchain applications means sharing data, creating common standards, becoming more transparent - and, in the case of banks - disrupting core, profitable parts of your own business. This is hard enough at the best of times.

With limited dance partners, do we wait out this song?

Corporate leaders invest heavily in technology. But they prefer technology that has already been adopted widely and is technically mature. Blockchain has some way to go, and for those working on blockchain solutions, this means some of their most promising clients may need a lot more time than anticipated to get going.

Tellingly, every CFO or Supply Chain conference in Asia that I have been to in the last few years has had multiple blockchain sessions.

More on Forbes: *How Blockchain Can Stamp Out China's Fake Diplomas*

Yet with blockchain almost a decade old, most of these sessions are still invariably used to explain what blockchain is and how it works. If banks and startups still feel the need to explain the fundamentals of blockchain, their audience clearly isn't comfortable and we need to take heed. We need to find better frameworks to help corporate leaders change mindsets and more near-term use cases for blockchain to take off.

As my old internet bridge partner Bill Gates once said "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten."

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