

Unit 1 Article Review: Tapscott Family on Transformation of Finance and Blockchain

Sundar, Ramamurthy

University of the Cumberland

BLCN 533 A01 - Finance and Blockchain

Dr. Dana Leland

September 3, 2023

Tapscott Family on Transformation of Finance and Blockchain

The father and son combo, Alex and Don Tapscott, are well known in the blockchain community for their high level thoughts and writings on the topic of blockchains. It was through the book “Blockchain Revolution” of theirs that I first saw just how far reaching this technology could go. This week’s article to review is also from the Tapscott family and digs into how blockchain is going to transform the finance industry in particular (Tapscott & Tapscott, 2017). While I was familiar with quite a bit of what they were saying from the book they also wrote, there was one part in particular that stuck out to me in this article. In particular, the Tapscott family describes the greater need for caution and skepticism when innovating in the blockchain space, especially since many innovators may simply take an opportunistic viewpoint towards the technology. Peer-to-peer (P2P) mass collaboration could make many of the existing forms of organization obsolete. When businesses or market structures could change so fundamentally, how exactly are costs being cut? In this article review, I dig into some peer-reviewed literature that tries to dig into how inter organizational relationship might change in the future from blockchain technology, as well as how the smart contracts in particular could be a vehicle to enable this change.

Blockchain-enabled Governance and Inter-organizational Relationships

There are a number of organizational theories that could be affected by the introduction of blockchain technology. While trust and cooperation are generally seen as positives for business relationships, they can also lead to negative outcomes in certain conditions. This somewhat contradictory nature essentially indicates that fraud is a major problem in organizational studies and the reliance on the reactionary ex-post governance strategies of

enforcement are costly and problematic for organizations around the world. This is where Mishra et al. (2022) come in to describe how dark side or dysfunctional effects like conflict and opportunism, which have traditionally been some of the biggest enemies to inter-organizational relationships, could be significantly better managed through the use of blockchain technology. The permanence of the transactions on the blockchain along with its ability to bring together multiple transacting parties could further help reduce the information asymmetries that affect decision making, as described by the New Keynesian and Neoclassical Keynesian schools of economics. Through the maintenance of an inter-company ledger as well as smart contracts that perform predictive analytics on the ledger data, firms could better engage in ex-ante regulation.

The Minimum Hybrid Contract

Mishra et al. only go into the theory of how blockchains could help promote ex-ante enforcement of governance, while also providing some basic insights into how smart contracts might increase overall efficiency in inter-organization relationships. The issue, however, is that smart contracts are still overall misunderstood, especially when compared to traditional legal contracts that make use of natural language. Encoding agreements as deterministic code goes quite a bit against the often open-ended and sometimes intentionally vague clauses that go into traditional legal agreements. Since trust and understanding are a part of the traditional contract experience, how would the transition from traditional contracts to irreversible and rigid smart contracts work out? Thankfully, Notland et al. (2022) propose a solution that might help ease the world into the world of smart contracts - the Minimum Hybrid Contract (MHC). In essence, the MHC is a contract that contains some clauses of the contract on the blockchain, while also referencing a real-world, natural language based contract off-chain. Since the two contracts are

immutably linked with one another, it is possible to get the best of both worlds. Transparency, accountability, auditability, immutability, on top of the ability to use the traditional court in the case there is a dispute. Trying to use more hybrid methods like this could lend itself for an easier transition into a fully digital world on the blockchain.

Conclusion

Business to business agreements have been quite the buzz in business circles for quite a while now, but it is a rather expensive and complicated relationship to maintain. Data exchange is easier said than done, and requiring frequent data migrations to the cloud, hiring service vendors to help maintain servers, or your own data team to manage it all is a rather expensive task. Organizations may tend to use focus on themselves, when in reality governance efforts like ESG (environmental and social governance) require significant cooperation from firms. Thankfully, blockchain technology has the ability to to address the major concerns of B2B exchanges. Through blockchain servers, companies can better manage issues related to dark side effects. Also, companies can experiment with MHBs, which make use of both traditional contracts and smart contracts, to try to get the best of both worlds and slowly transition into entirely digital contracts.

References in APA

Mishra D. P., Kukreja, R. K., & Mishra, A. S. (2022). Blockchain as a governance mechanism for tackling dark side effects in interorganizational relationships. *International Journal of Organizational Analysis* (2005), 30(2), 340–364. <https://doi.org/10.1108/IJOA-08-2020-2362>

Notland, J. S., Notland, J. S., & Morrison, D. (2020). The minimum hybrid contract (MHC): combining legal and blockchain smart contracts. *Proceedings of the Evaluation and Assessment in Software Engineering*, 390–397. <https://doi.org/10.1145/3383219.3383275>

Tapscott, A., & Tapscott, D. (2017, March 01). *How blockchain is Changing Finance*. Financial Markets. <https://hbr.org/2017/03/how-blockchain-is-changing-finance>