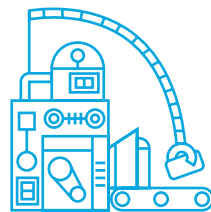SUPPORTING AND
EMPOWERING YOU
EVERY STEP OF THE WAY

DOES BLOCKCHAIN FIT INTO YOUR BUSINESS STRATEGY?

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

CFO & BOARD ROLES

There are six key factors that Boards and CFO need to consider when looking at Blockchain as a solution:

1. **Push past the hype**

   Assess the full implications of Blockchain on your business model and governance operations. This includes exploring potential new business opportunities and processes presented in a distributed and decentralised ledger system.

2. **Understand the implications**

   Consider the implications of smart contracts whose execution have no human involvement. What will this mean for your approach to risk management? As the judicial system catches up with the legal ramifications of a decentralised system, applicable laws and jurisdictions may need to be considered.

3. **Consider your competitor landscape**

   What is already being down in preparing for Blockchain? Consider alliances in the development of standards to ensure consistency – particularly in these early stages.

4. **Engage with the supply chain**

   Understand the approach of your supply chain to leveraging Blockchain. This may not necessarily translate into a shared Blockchain as there may be conflicting priorities and incentives.

5. **Accept the technology**

   It is fast evolving and subject to rapid changes – just like all technology advances. A proof of concept with a limited lifespan may be the best strategic approach in an environment which has a lack of regulatory standards at this point.

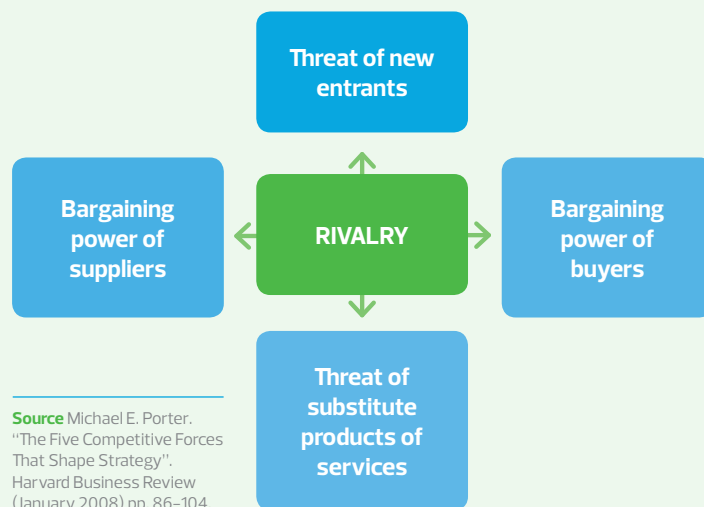6. **Seek advice on developing a Blockchain Strategy**

   You don't have to do it alone. Just with any new process, gather the information needed to make an informed decision and utilise the expertise of advisers who are already working with Blockchain technology.

BUILD
THE STRATEGY

If you haven't already undertaken analysis to develop your business strategy, **Porter's Five Forces checklist** provides a useful tool to understand the factors affecting your profitability.

This informs business strategy and in turn, what tools (including Blockchain technology) are best suited to meet your objectives.

One option is to adopt an external view of your company. **Consider how a business entering your industry could disrupt it?** Disruptors to the industry may originate from external businesses eg Airbnb disrupting the hospitality industry, Uber disrupting the transport industry, Google disrupting the automobile industry.

Source Michael E. Porter. "The Five Competitive Forces That Shape Strategy". Harvard Business Review (January 2008) pp. 86–104.

DEVELOP
THE STRATEGY

One of the common mistakes that boards make in getting caught up in the hype is only reviewing Distributed Ledger Technology in isolation.

Assess DLT as part of your overall digital strategy, in how you are responding to the challenges of digital disruption.
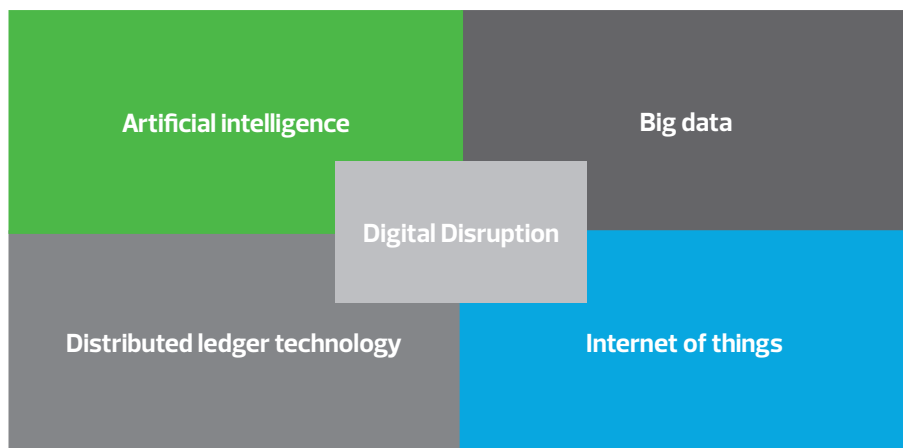
" Computers are useless. They can only give you the answers.

When it comes to developing a Blockchain strategy, we help you ask the right questions.

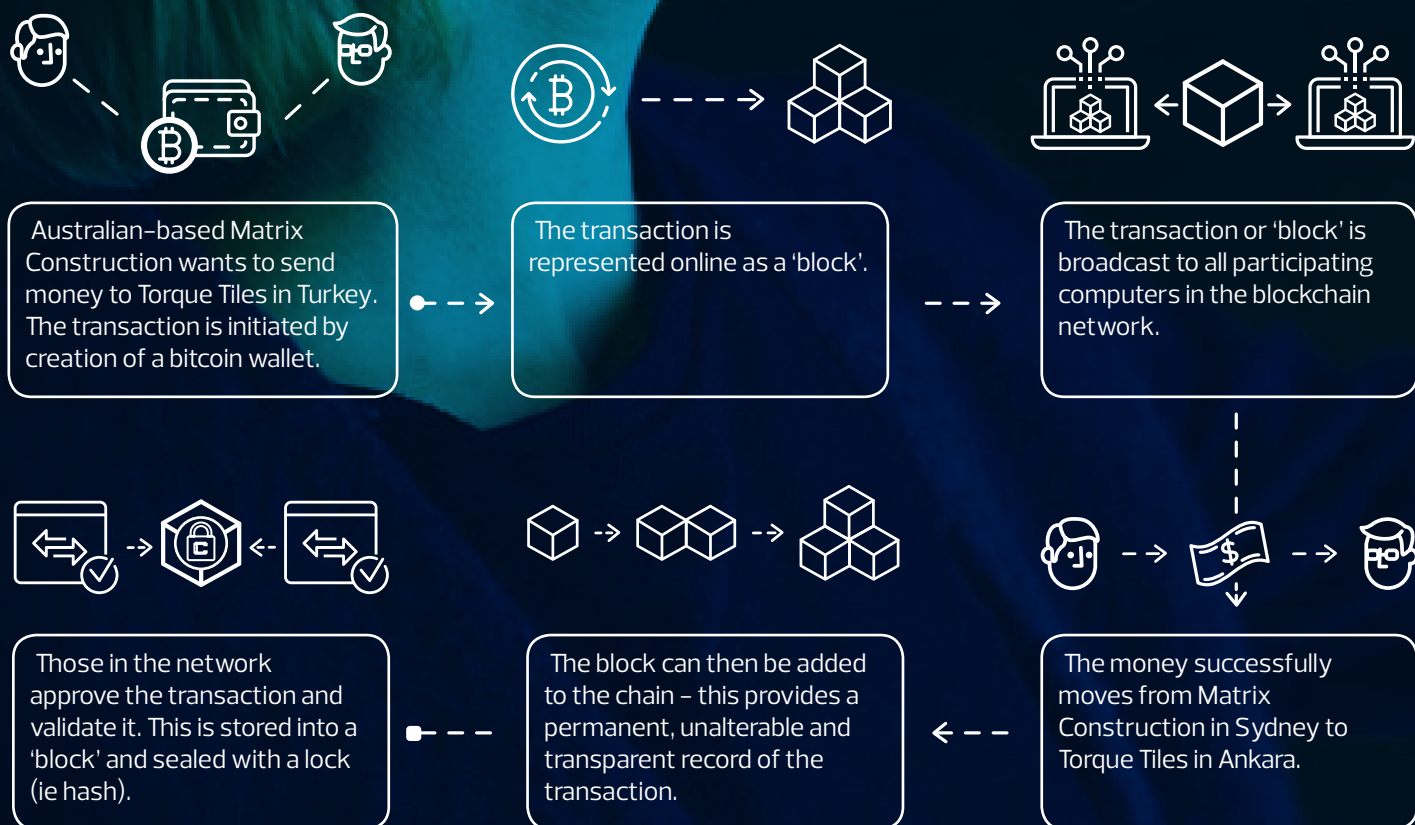**Some of the questions to consider at this stage:**

- How do we deliver good service, at a lower price, which can make our service a sustainable differentiator?
- How do we lower the cost to our clients and how to we disintermediate to lower costs?
- How do we enhance the value chain?
- If we target the consumer how do we incentivise it?
- How do you provide a better customer experience through a better product and/or service ?

It is important to ensure that the proposed solution will improve the process, whilst reducing costs and not sacrificing margins. You should carefully review your competitor's actions and be prepared to challenge your own strategy. Finally, be sure to avoid the 'peanut butter' approach of applying the same strategy across all business lines. Whilst in some instances a similar solution may be appropriate, ensure the problem is clearly defined before seeking solutions.

BEFORE YOU IMPLEMENT
BLOCKCHAIN UNDERSTAND:

- The potential impact of blockchain on the organisation by conducting scenario planning exercises.

- How enterprise structures must evolve to support blockchain.

- How regulations and standards will change to support blockchain.

- The risk management issues for the implementation of smart contracts.

- The implications of automated processes triggered by the use of smart contracts on the organisation.

- The implications of removing intermediaries and regulators from the transaction process.

- The implications for interactions in the supply chain.

- The implications of information immutability.

- The time frames and limited value from the fast changing blockchain landscape.

- The benefits of limited scope engagement and development.

- The internal & external influences of blockchain initiatives.

HOW DOES **BLOCKCHAIN WORK?**

Australian-based Matrix Construction wants to send money to Torque Tiles in Turkey. The transaction is initiated by creation of a bitcoin wallet.

The transaction is represented online as a 'block'.

The transaction or 'block' is broadcast to all participating computers in the blockchain network.

Those in the network approve the transaction and validate it. This is stored into a 'block' and sealed with a lock (ie hash).

The block can then be added to the chain – this provides a permanent, unalterable and transparent record of the transaction.

The money successfully moves from Matrix Construction in Sydney to Torque Tiles in Ankara.

QUESTIONS
TO CONSIDER

- Will there be multiple users responsible for data entry?

- Do database users need to trust each other?

- Will you consider using a third party?

- Are there any challenges with using a third party?

- Would a centralised database address your needs?

- Are the transactions dependent on each other?

- Do the transactions interact with each other?

- Could you use multiple copies of a centralised database?
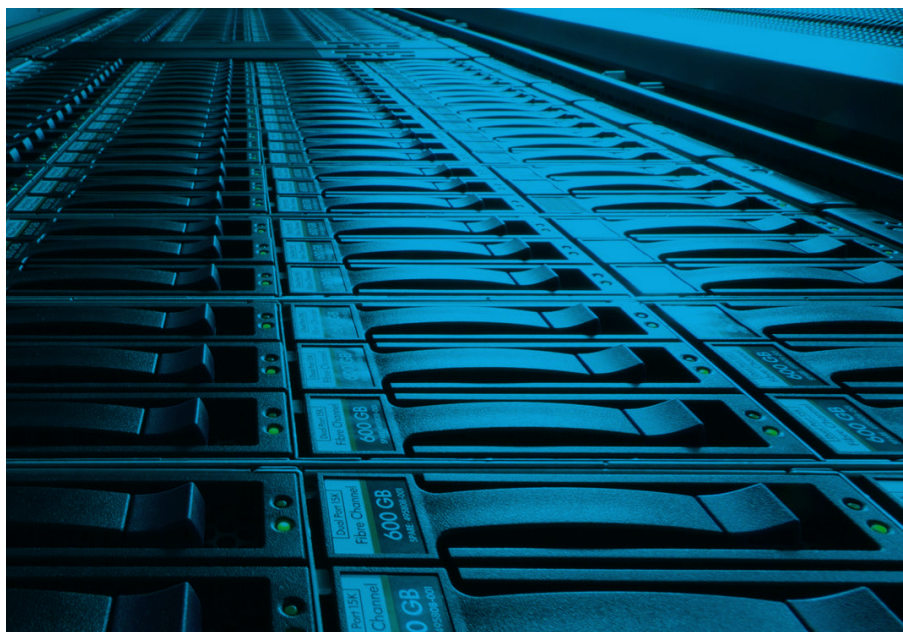
POTENTIAL PITFALLS

Critical success factors

Reducing inefficiencies
- Understand where the existing delays & inefficiencies are in the supply chain
- Target these inefficiencies to reduce friction in the process
- Ensure the proposed solution will actually improve the process, reduce friction and reduce costs

Ensure participation
- All parties need to be on board
- May have issues dealing with competing forces
- Address how you are going to attract customers
- Consider if you need to incentivise participation
- Target customer experience

Governance
- Ensure platform is safe and trusted

Why Blockchain projects fail

- The wrong solution was identified — a significant percentage of Blockchain projects don't need to delivered via Blockchain
- The majority of Blockchain projects have a limited lifespan – rapid changes in technology means that the solution will quickly change and the strategy needs to account for this
- There is a lack of understanding of the purpose of the technology and therefore the wrong expectations are placed on the technology
- Failure to protect learnings means that competitive advantage can be lost
- Confusing future state with current state and failing to consider future business models and processes
- Over committing to smart contracts
- The solutions fails to deliver business value or there are difficulties in establishing ROI
- Masses of ideas are generated — but no real action. The focus should be on ideas that will make a difference

AREAS TO **CONSIDER**

Permission vs permissionless
Consider whether your Blockchain needs to be private or public.

PRIVATE	PUBLIC
Need to be an approved participant	Anyone can join the network and participate in the process
Required to prove identity	No need to prove identity
Only those with rights can view transactions	Everyone can view transactions
Restricted set of users have rights to validate block transactions	Consensus

RSM
A world leader in providing **audit, tax and advisory services** to ambitious and growing companies

Resourcing

When it comes to resourcing a Blockchain initiative, the key decision will be whether to work with an external vendor, form a consortium or resource internally. If you are resourcing internally, you will need to consider:

- How do you set up a cross functional team?

- How do you remain agile?

- What skill sets are required eg developers, architects, data scientists etc?

- How do you skill up, attract and retain talent?

Regardless of how you are resourcing the initiative, you also need to consider your exit strategy and the impact on resources.

Regulatory

The final piece of the puzzle that needs to be considered is the regulatory framework in which you operate. Some of the areas you may need to consider include:

- Data and privacy compliance

- Smart contracts enforcements

- Risks of maturing market

- Implications of GDPR

SEARCH

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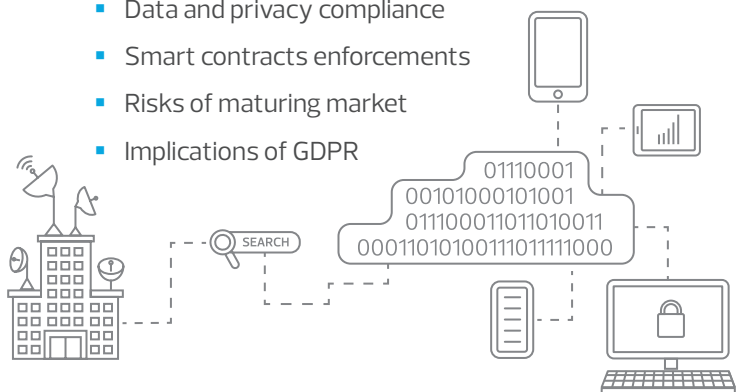
NEXT **STEPS**

Blockchain is a rapidly changing and still evolving technology. Boards and CFOs need to ensure that they have a fully formed business strategy, before considering solutions to any identified problems. **If Blockchain is identified as the best solution**, then you need to identify the key stakeholders both in the business and externally who will be willing to participate in scenario planning workshops to assist in developing the solution.

HOW WE **CAN HELP**

By asking the right questions, RSM can assist in developing future strategic initiatives and operational priorities.

- Why Blockchain?

- What is the current state of this technology?

- Is Blockchain the right answer?

- If so, what are the risks and opportunities from adopting this technology?

- Will it introduce new risks?

For further information, please contact your local Risk Consulting RSM adviser.

www.rsm.com.au/service/risk-consulting

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