

Divergent Incentives – Satarupa Bose (satarupa.bose@gmail.com)

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Diverging incentives between owners and participants of a business network

Most centralized business networks extract fees or data from network participants. In fact, a company has a fiduciary duty to its shareholders to extract large rents. Hence the interests of the participants and owners are inherently divergent.

Questions to decide if blockchain is a good alternative

1. Is there distinction between the incentives of the owners and participants of a network?
2. Can a **tokenized** network such as facilitated by blockchain be designed to increase economic value of the network for owners?

YES: Ultimately networks will grow bigger, quicker because all the value accrues to the participants themselves and each participant including the owner will be able to extract higher economic value. In healthcare, as more stakeholders adopt interoperability standards vs data silos, there will be more benefit to each participant from the longitudinal view of a person.

NO : Decentralized blockchain business networks cannot provide sufficient incentive to the network owners who already have huge monopoly that allow them to extract large rent

If YES to both questions - Proceed with blockchain consideration. If NO to Q2, proceed with caution.

Reference: <<https://medium.com/public-market/the-future-of-network-effects-tokenization-and-the-end-of-extraction-a0f895639ffb>>

Diverging incentives amongst participants of a business network (not including the owner)

Network participants may have motivation to corrupt the data or sabotage participants for personal gain

Questions to decide if blockchain is a good alternative

1. Are there potential participants, such as regulators, central authorities, exchanges, brokers, buyers, sellers in the business network that can benefit from rent-seeking, fraudulent and corrupt behavior? Is there risk of moral hazard?
2. Would an intermediary help?
3. What kind of intermediary would you want?
4. Will accurate and timely record-keeping and transparency of ownership such as provided by blockchain be a good intermediary?
5. Is it possible to agree on a governance process in which the users agree upon a set of requirements for the underlying software code to be changed, including provisions for dispute resolution, sanctions for violating the agreed upon rules, and procedures for enforcement of penalties similar to a partnership agreement.

If YES to all questions - Proceed with blockchain consideration

Reference <<https://academic.oup.com/rof/article/21/1/7/2888422>>