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DAOs

An Institutional Guide to Decentralized Governance

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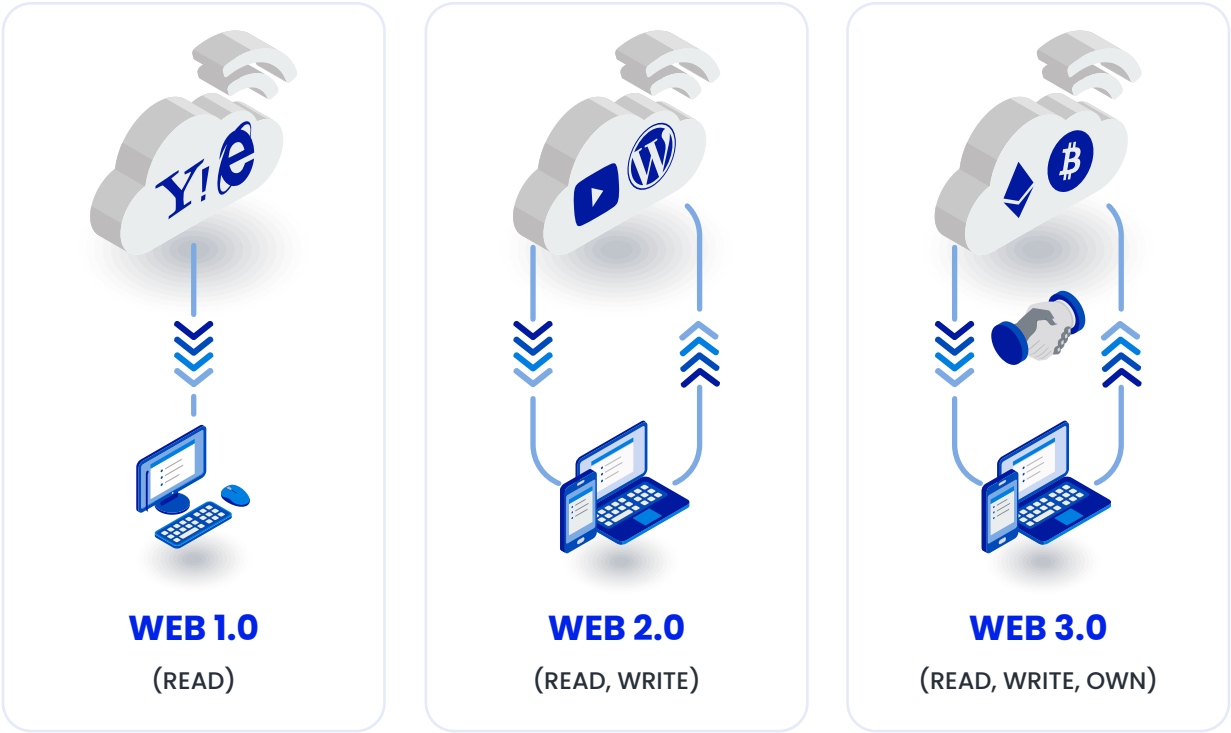
Introduction

Societal change can evolve from cultural, political, economic, scientific, or technological forces. In the last decade—and especially recently—the global community has endured seismic waves in all categories. Civil unrest, wars, financial downturns, and an unrelenting pandemic have rattled confidence in traditional establishments, energizing the search for new possibilities. Technological advances have provided a bright spot among the uncertainty, and blockchain technology, in particular, has stimulated innovations that challenge conventional ideas—especially those pertaining to centralization. The decentralized autonomous organization (DAO) is a recent application of decentralization that endeavors to improve legacy systems. Powered by blockchain and web 3.0, DAOs seek to **modernize the formation of talent and capital as a means to efficient and democratic collaboration. This technological force can pave the way for positive systemic change.**

The first iteration of the internet, web 1.0, was a read-only service that enabled users to search for and consume textual information on static web pages. When web 2.0 emerged, it introduced a more technical framework that provides the current platform for global connection, collaboration, and shared content. However, in exchange for this access, users have given up ever-increasing amounts of personal data to the corporations that supply internet services. Consequently, consumers have grown increasingly skeptical of this model that relies on them for sustenance and profits from their information but fails to deliver personal dominion over data, content, participation, and financial value.



Progression of the World Wide Web[1]

Web 3.0, the third generation of internet-based applications and services built on blockchain, promises to empower a new creator economy and fuel the future of work by adding value through ownership and governance. Blockchains are systems that enable trustless, decentralized networks. There is no need for a third party to execute transactions, no one actor has control over the blockchain, and all participants can have confidence in the integrity of the network. Blockchains enable transactions that used to require trust by removing the necessity of relying on intermediaries.

The 2008 financial crisis ushered in an era marked by a loss of faith in centralized institutions, and the corrosion has only persisted.[2,3] As a result, blockchain has gained more mainstream traction because it facilitates the development of alternative innovations and novel frameworks. Moreover, governments and businesses across diverse industries have recognized its utility beyond cryptocurrencies. They deploy blockchain-based solutions to satisfy complex use cases that traditional infrastructure cannot address. Accordingly, this emerging technology is disrupting and transforming entire industries and markets.

Transformation can be an adaptive response to tension within a given system.[4] Blockchain technology and the applications it enables developed as an answer to the exploitation of centralized power and process inefficiency.

Innovations like DAOs challenge conventional ideas of centralization and inspire a generation of global citizens who prioritize autonomy, ownership, and democratization.

What Are DAOs?

DAOs are blockchain-based, self-governing organizations that enable participants to work toward a common goal on a trustless network. DAO members can communicate, pool capital, vote, and develop projects, demonstrating the future of blockchain technology and coordinated decision-making. DAOs start with an idea based on a defined goal, are organized using smart contracts, and stimulate action by granting access, voting rights, and ownership to contributors in exchange for tokens of the underlying project. Participants use governance tokens to vote on topics relevant to the DAO's mission.

Decentralized

"Decentralized" refers to the distribution of power and resources so that no one entity—an individual, the government, or a financial institution—can unilaterally make changes or obtain majority control. In DAOs, governance is heterarchical rather than hierarchical: decisions are made collectively rather than by a central leader or an elite ruling body. Further, the level of decentralization in each organization is on a spectrum; some DAOs operate with a flat management structure while others retain an element of centralization.

Autonomous

"Autonomous" represents independence from human interference to enable self-sustainable progress and maintenance. DAO tokenholders can submit proposals to suggest governance reform, funding, and long-term hires, allowing the members to communicate on specific business directives and enforce formal decisions through various voting methods. Once consensus is reached, resolutions are executed through multiple verification-secured funds to equitably carry out the DAO's intentions.

Organization

"Organization" signifies the structural makeup, internal processes, and execution of a group that shares a joint mission. Logistically, people often require conviction and motivation within a rules-based environment to coordinate successfully. Corporate bylaws and governmental enforcement of contracts provide this structure in the traditional business world. For DAOs, software on the blockchain creates this framework by embedding the organization's rules and managing transactions in a programmatic, decentralized manner.

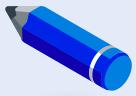
Core Features of DAOs

Communicate

Pool Capital

Vote

Develop Projects



Organizational structure has remained relatively unchanged since the development of the corporate form in the 17th century. This stagnation presents an opportunity to enhance and optimize aspects of collaboration. DAOs offer a novel way of attracting, organizing, governing, and incentivizing talent by integrating blockchain into the organizational framework. This democratic approach to community-building and the alignment of project ownership and compensation through contribution deviates from the principles of existing centralized organizations. Further, DAOs are fundamentally versatile, giving rise to greater role flexibility, motivation-driven rewards, and broader participant connectivity. DAOs are still early in their lifecycle, which presents a vast, undiscovered landscape of significant opportunities for reform and growth. As of May 3, 2022, over 4,000 DAOs hold more than $9 billion in treasury—compelling and ever-increasing numbers for a novel organizing technique that has not fully matured.[5]

DAOs are most similar to cooperatives in the traditional world—organizations, such as unions, run by workers and customers that do not limit roles or pigeonhole contributors. DAO members choose all aspects of their involvement—project collaboration, time worked, the longevity of engagement, and compensation terms—which fosters personal freedom and a voluntary communal culture. Ownership of a DAO's project and having a voice in its trajectory personalize the experience and promote loyalty.

Flexible Contributor Engagement

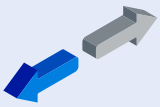
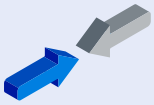
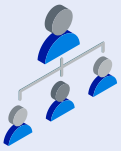
Project

Time

Duration

Compensation

DAOs Compared to Traditional Companies

DAO	 Dispersed	 Communal	 Transparent	 Open	 Fully Global
Company	 Fixed	 Hierarchical	 Ambiguous	 Limited	 Occasionally Global

Benefits of Decentralization

Blockchain technology offers a more open, participatory atmosphere that enables the exploration of optimized business practices.

Fewer Border Restrictions

Blockchains inherently eliminate accessibility restraints and unlock geographic openness to enable peer-to-peer transference on a global scale. As a result, DAOs can invite broader participation with remarkable swiftness as they pursue their goals of pooling capital, recruiting contributors, and compensating users and contributors.

For example, **ConstitutionDAO** raised more than **$40 million** from 17,000 people just 7 days before bidding on an original print of the U.S. Constitution.[6]

The ability to found an organization, raise capital from thousands of people, coordinate actions, and execute the goal within a week would not have been possible in the constraints of the traditional financial system.

Worker Contributions

The top-down management approach, typically found in centralized organizations, tends to limit employees to their specific department and rarely sources ideas from those closest to relevant problems. This hierarchy is evident among bank tellers who have little say in customer service procedures, though they are the first point of contact with customers. In contrast, DAOs are formulated with a horizontal management style to extract combined intelligence and encourage engagement across participants. DAO participation is driven by each individual's desire to be part of a particular project. This active contribution aids in the development and nurturing of freely flowing ideas.

For example, **DAOstack** is an operating system for collective intelligence, offering multiple ways for users to interact with the system, thus serving everyone's needs.[7]

Alignment of Incentives

Organizations have the greatest potential for productivity when individuals' incentives match the mission. DAOs align long-term incentives by enabling their members to build, own, and influence. Building provides opportunities to create, ownership fosters financial confidence, and influence grants control over outcomes—all principles that fulfill self-actualization needs.[8] In addition, a strong emphasis on community and mission, combined with a high degree of personal autonomy, often imbues contributors with meaningful intrinsic motivation.

For example, **Shapeshift**, a decentralized trading platform, rewarded its user base with a FOX token airdrop to compensate and express appreciation for customers' past and ongoing trading activity on the platform.[9]

Distributed Constituents

Centralized collapses can be caused by technology (as in **NASDAQ's** 2013 power outage) or leadership (such as **Enron's** fraudulent accounting practices) and have devastating, wide-reaching implications.[10,11] Alternatively, blockchain technology provides greater transparency of participation and transactions, thus enhancing accountability. DAOs promote the inclusion of diverse opinions and skillsets within these distributed, trustless virtual networks to reduce the risk of single points of failure. The dispersed configuration of a DAO helps mitigate groupthink, the effects of localized disasters, and reliance on intermediaries or central authorities.

For example, **Sushiswap**, one of the largest DeFi protocols, blocked a suboptimal proposal to offer certain investors a large discount on governance tokens.[12] The decentralized framework enabled tokenholders to communicate their apprehensions and engage in an impartial vote.

Degrees of Decentralization

DAOs can vary in their degree of decentralization. The gradation of this central characteristic depends on the goals and priorities of the organization. Many DAOs transition from a centralized to a decentralized structure, while others continually function with a degree of centralization. Additionally, established entities with centralized structures may consider implementing DAOs into their management process as a tool to improve certain business areas or solve specific challenges.

Partial

While some DAOs represent an entire organization, others develop to focus on a certain subset of decisions within an existing entity. The combination of centralized and decentralized decision-making can vary per a company's mission and needs.

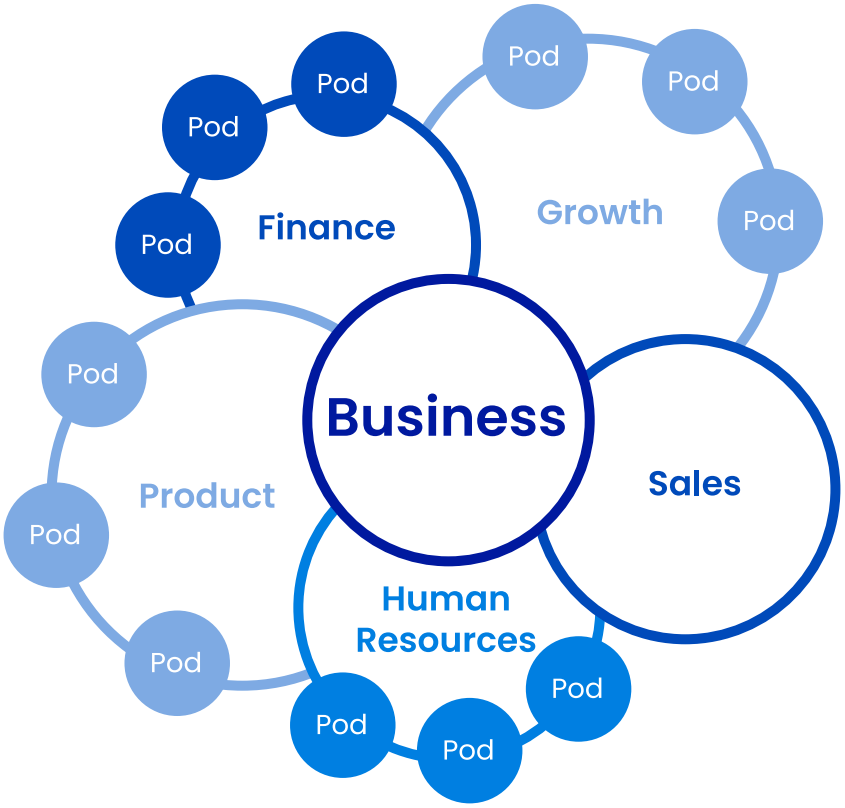
For instance, a DAO could allow stakeholders of a company to influence a particular product by analyzing trends, providing feedback, and making decisions, while other products and company operations remain under centralized management.

Hypothetically, Disney could create a DAO for its creative employees to brainstorm and vote on future plot lines and character development, eliciting ideas reflective of fans and cultural trends.[13]

Multiple

Organizational effectiveness tends to increase with some degree of segmentation, such as working groups, committees, subcommittees, or pods. These subunits may be organized by product line or by general function. For example, an enterprise could form a DAO for each department—human resources, marketing, sales, product, and finance.

It can be difficult to efficiently manage tasks in a flat structure without acknowledging participants' distinct competencies, so leaders naturally emerge. DAO subgroups allow leaders to lead and developers to develop, keeping specialists within their domain but not limiting individuals' soft skills for overall greater productivity and business output.



Multiple DAOs within an organization[14]

Secondary

DAOs are adaptable, allowing organizations that begin with a centralized structure to gradually transition into a more democratic decentralized form.

For instance, ShapeShift, a crypto exchange that exempts customers from submitting personal data for platform use was founded in 2014 and converted to a DAO in 2021.[15]

Hypothetically, Airbnb could transition to a DAO to provide contributors (hosts) and users (renters) with an ownership stake and governance rights over the business.

Types of DAOs

Organizations—government, business, non-profit, political, sports—are diverse in purpose and size. Accordingly, DAOs are functional across industries, presenting a vast field of opportunity. DAOs can generally be classified based on an area of focus:

Protocol

Protocol DAOs provide a direct service based on fixed rules to consumers at scale.

Blockchain:	Traditional Equivalent:
Compound: a lender that matches the supply and demand of a digital asset and dynamically prices interest rates accordingly	**Bank of America:** a bank that collects retail deposits in exchange for a low interest rate and then lends capital to borrowers at a higher interest rate to profit on the spread

Social

Social DAOs foster communities and personal connections by encouraging individuals to share insights.

Blockchain:	Traditional Equivalent:
Friends With Benefits: a social club that consists of creators, artists, and builders who brainstorm ways digital assets and web 3.0 models can transform various industries	**Soho House:** a collection of international private members clubs for people who work in creative industries

Investment

Investment DAOs fund early-stage projects and businesses or invest in high-end collectibles.

Blockchain:	Traditional Equivalent:
The Lao: a member-directed venture capital fund that allows members to pool capital, invest in projects, and share proceeds	**Andreesen Horowitz:** a venture capital firm with more than $20 billion in AUM

Media

Media DAOs curate, create, and publish compelling content.

Blockchain:	Traditional Equivalent:
BanklessDAO: a content creator and curator with a goal of onboarding 1 billion people to open money systems like Bitcoin and Ethereum	**Condé Nast:** a mass media company that develops, brands, and publishes content in entertainment, culture, fashion, architecture, and more

Service Guild

Service Guild DAOs purchase valuable resources for member use, negotiate wages, and offer other group perks and rewards.

Blockchain:	Traditional Equivalent:
RaidGuild: a design and development agency for web 3.0 that protects its members' interests	**The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO):** a federation of national and international unions advocating for better working policies

Grant

Grant DAOs fund public goods by providing grants for a specific ecosystem or protocol.

Blockchain:	Traditional Equivalent:
MolochDAO: funds grants for essential digital public goods deployed on Ethereum mainnet	**National Institute of Health (NIH):** the largest public funder of biomedical research globally

Operating System

Operating System DAOs provide a DIY toolkit for non-professionals to easily achieve a task.

Blockchain:	Traditional Equivalent:
Aragon: provides an open-source infrastructure to help users build a DAO from scratch	**Turbo Tax:** Intuit, a financial software company, launched a user-friendly tax filing solution

Examples of DAOs by Type

Protocol
AAVE, Sushi

Social
Bored Ape Yacht Club, FWB

Investment
BitDAO, The LAO

Media
Bankless, Forefront

Service
RaidGuild, Yield Guild

Grant
MolochDao, Gitcoin

Operating System
Aragon, DAOhaus

Bridging Centralized & Decentralized Governance

DAOs are still in the nascent stages of development—members are discovering best practices for structure, process, governance, incentives, and degree of decentralization. When considering the democratization of organizing and decision-making, a measured approach to considerations like hierarchy, vote cadence, and polling process can help avoid the pitfalls of enacting too much change too quickly.

Hierarchy

While the promise of democratization through decentralized governance is inspirational, flat hierarchical structures pose certain limitations. Consider that effective management requires definable roles and responsibilities for stakeholders to identify and achieve clear goals. Additionally, effective governance necessitates consensus mechanisms to execute decisions. In traditional organizations, focused groups create necessary areas of delegation and accountability. In DAOs, the lack of a vertical hierarchy may confuse responsibilities when individuals cannot classify their roles or identify where to direct questions. Further, due to the self-designated nature of DAO arrangements, it can be difficult to complete time-sensitive tasks promptly if collaboration falls on multiple individuals and deadlines are not established. Certain DAOs may fall flat without directional goals.

Vote Cadence

Establishing a regular cadence of community-wide meetings and a pre-set voting schedule brings more order to the governance process. The acceptance of continual voluntary opinions can result in:

A frequent abundance of proposals

Low voter participation due to uninformed members and time constraints

Distraction from the organization's mission and goals

Polling Process

DAOs introduce unique voting options specific to digital assets based on the blockchain where the project is deployed, its purpose, and its goal. New voting mechanisms are being explored and adopted to optimize impact. A few of the early methods include:

Token-Weighted Voting:

a voting process that relates the degree of influence to the number of tokens.

Advantage: encourages an individual's interest in the DAO project to purchase more tokens for greater influence.

Disadvantage: promotes privilege of large tokenholders over the interests of small tokenholders.

Time-Weighted Voting:

a voting process where each token's number of votes depends on how long the current holder has held that token.

Advantage: supports member longevity by incentivizing early and active tokenholders.

Disadvantage: newer members may find it difficult to implement their ideas, even if they are valid and would be beneficial.

Quadratic Voting:

a voting process that grants large tokenholders greater sway but diminishes supplementary power as more tokens are acquired.

Advantage: voting is more balanced because large tokenholders' influence is scaled.

Disadvantage: larger tokenholders could circumvent this process by purchasing tokens in more than one wallet.

Practical Applications for DAOs

Currently, many applications are theoretical, but the earliest models provide a glimpse of how DAOs could enhance resource coordination, human organization, and idea generation. Implementing a DAO could disrupt large corporations' rigid processes and hierarchies that often impede stakeholders' abilities to expedite business transactions, engage with specialists, and benefit from successes.

Raising Capital

Overcoming Traditional Obstacles

Capital raising is essential to build, grow, and scale an organization. The traditional method of employing an investment bank to help raise funds is based on their promise of relationships with institutional money, leading and tracking the nuanced process, and solidifying inbound capital from reliable sources. However helpful outside consultants can be, it is laborious for the business founders and executives:

Business pitch creation and presentation to VC

Due diligence process and bank loan application

Legal and tax consultation for capital structuring

DAOs can help overcome many of these obstacles due to blockchain's global reach and the feature of peer-to-peer transfer. Such openness significantly expands the pool of available resources by fostering connections among like-minded people worldwide. This straightforward and transparent investment process could also bolster the efficiency of traditional investment banking.

Instead of seeking large investors through traditional means, a DAO enables small investors to contribute relatively modest amounts into a pool of funds. For example, the ConstitutionDAO raised just over $40 million from 17 thousand people, with a median contribution of just $206.[16] Such efforts could signal a shift to individual investors, as DAOs unlock access to private investment opportunities and allow projects to compete with wealthier investors.

Further, the regulatory and legal implications of accepting institutional money mean that businesses must raise large amounts of capital within a specified period to reduce business distractions during the raise period. Conversely, new members can join a DAO at any time with the purchase of the native token and capital contribution. This flexibility allows the DAO's capital base to expand continuously. Additionally, tokenholders can easily sell their tokens on 24/7/365 exchanges, facilitating limitless entries and exits. While DAOs issuing tokens deemed digital asset securities will have regulatory requirements to consider, the advantages of continuous inbound capital for early and growth phase projects are compelling.

Venture Capital DAOs

Comparable to venture capital firms, VC DAOs aim to raise capital for other projects. For example, PleasrDAO pooled $8 million to purchase Edward Snowden's "Stay Free" inaugural NFT, similar to how Airbnb raised capital through Sequoia-led Series A in 2009.[17] PleasrDAO members receive a digital token directly linked to the ownership of the projects purchased in the DAO for their involvement. This token acts as an asset-backed security, entitling holders to a fraction of assets owned by the DAO, which they can trade or transfer at any time. In contrast, the investment tied up Sequoia's capital until Airbnb held its initial public offering in 2020. Eleven years after the original investment is not an abnormal timeframe for venture capitalists; on average, it takes 7-10 years to realize a return on investment.[18]

An investment network and community involvement are often equally important as the financial contribution—for example, investment syndicates such as AngelList endeavor to provide a communal sentiment with shared purchases. However, the perceived inclusion and participation are limited to the investor circle. VC DAOs expand this sense of belonging by providing tokenholders with direct project exposure to which they can offer guidance. This distinct communication channel grants VC DAO members more constructive influence and enhanced engagement to strengthen connectivity. **These features aim to bridge the gap between founders and investors, transforming how capital is traditionally raised and managed.**

As of May 3, 2022, the VC DAO, BitDAO oversees $2.1 billion in assets.[19]

BitDAO

Crowdfunding

A project or business can deploy a DAO as an alternative mechanism for fundraising. This model aims to garner interest and capital from a wider audience beyond institutions. Further, supporters can fund a DAO more quickly than traditional payment processing mechanisms, lending speed and agility to the desired outcome. A primary advantage of crowdfunding via a DAO is that **DAOs provide a return for participation**, whereas centralized crowdfunding methods focus only on the sale of a new project.

A donation to a DAO's crowdfunding campaign grants donors tokens representing governance rights over the organization's decisions. tokenholders have a stake in future decisions and can impact a project's fund allocation.

Tokens Versus Shares: Ownership Comparison

	Tokens	Shares
Description	Digital asset holdings by capital contributors that equal the current or future price of the underlying project token	Traditional method of ownership representation by offering investors a fractional claim on the net assets or future cash flow of a project
Governance	Proposal and voting rights for all DAO project decisions	Voting proxies for select business decisions
Liquidity	Tokens can be traded or transferred at any time as specified in the protocol	Capital is locked up until the business realizes a successful exit
Risk/Reward	Earning potential based on activity risk: • Staking/farming • Supplying to new protocols • Lending	Earning potential based on security risk: • Senior secured bond • Senior unsecured bond • Subordinated bond • Equity

Beyond the genuine governance and liquidity advantages of tokens versus shares, a key distinction is the earning potential. Instead of purchasing a more conservative or speculative security, as in the case of traditional shares, tokenholders obtain the right to participate in ecosystem activities to earn on their tokens. Whereas shares are passive, tokens hold financial and non-financial potential outside of price accrual. In this respect, tokenholders have a greater ability to earn on their holdings than traditional shareholders.

Recruiting and Retaining Talent

Organizations aggregate people to carry out a purpose. Structuring and incentivizing these individuals can be complicated because people are driven by diverse principles. In addition, personal motivation variables are challenging to ascertain due to generational, demographic, and socioeconomic differences. Nonetheless, it is essential to an organization's long-term success that founders recruit talent and connect with their employees to accurately and consistently incentivize them. DAOs, as labor organizers, aim to solve many personnel issues by offering a new way to align mission with value.

A recent Columbia Business School study showed that 80% of individual investors agree: being an owner of a company would make them more likely to be a customer.[20] Additionally, the research stated that individuals with an ownership stake increased their weekly spend at the company by 30-40% and maintained that level for 3-6 months.

The rise of the gig economy has caused a shift in worker preferences. Freelance and temporary jobs provide greater time and lifestyle flexibility. As a result, people are free to pursue endeavors that meet their individual needs and fulfill more than a fiscal imperative. Consequently, DAOs attract self-motivated talent by concentrating on a specific mission and inviting individuals to engage based on that shared value. DAOs further strengthen worker involvement by compensating with ownership and influence, incentivizing workers to actively engage in practices to make the project successful, such as sharing, building, and continuous evaluation. This organic recruiting and retention method provides individuals merit opportunities and disregards superficial factors like school affiliation, club memberships, or family relationships.

Value comes in many forms—tangible, perceived, and intrinsic. Of course, traditional organizations can also diligently assess their talent's passions and align performance with rewards, but the inclusivity DAOs provide extends beyond recognition and prompts a path that can lead to high levels of personal fulfillment.

Coordinape, a platform for DAOs to easily and fairly distribute resources to contributors, offers the Gift Circle feature that allows members to send GIVE tokens to contributors based on the perceived value of their work.[21]

Spreading Ideology

DAOs inspire an enthusiastic camaraderie similar to religious groups, political affiliation, the arts, and the entertainment industry, where people connect over shared interests and find personal enrichment. Communities gather and grow around an ideology—a defined outlook that is popularized with influence—to share ideas, create change, and lead cultural trends. Traditionally, capital has propelled influence rather than influence driving capital.

Consider the numbers from the 2020 U.S. presidential election—candidates raised more than $1 billion, each vying to be voted into a position that pays a $400,000 annual salary.[22,23]

Candidates and supporters spend exorbitant sums of money on leadership platforms because influence is a compelling resource.

Idea generation and dissemination have never been easily monetizable and take considerable time under normal circumstances. Spreading ideas necessitates two main components: people and channels. People originate an idea, channels circulate the idea, and the public reacts to the idea. The printing press and the internet are the most notable information spreaders, enabling recipients to consume what is disseminated passively. Conversely, **DAOs encourage the spread of information and ideas through active engagement and continuous involvement.** Where the internet's capabilities end and the potential of DAOs continues is rooted in the participants' connectivity to the purpose and the longevity of interaction and commitment. DAOs integrate the powers of humanity with the impacts of technology to present a mode of monetizing ideas.

BANKLESS

For example, Bankless DAO, an organization focused on the importance of decentralization, coordination, and self-sovereignty, is on a mission to onboard 1 billion people to open money systems like Bitcoin and Ethereum.

DAOs turn ideas into catalysts for human progress—ideas propagate themselves and, in time, become independent tools of human culture, just as important as profit-generating businesses. For example, Facebook's original mission was to "make the world more open and connected."[24] The company continuously received significantly high funding valuations— upwards of $15 billion—before being profitable, as they focused on growing their user base rather than profits. These valuations are evidence that **investors realized the power of a social network rooted in community, communication, and sharing metrics**, despite a delayed revenue model. Facebook set out to be a mechanism for connecting and sharing—one step shy of an ideology spreader—missing the long-term user monetization component; there was no incentive to stay on Facebook when new social platforms like Twitter and SnapChat emerged. Whereas technology companies like Facebook demonstrated the impact of an expanding user base, DAOs capitalize on this concept by allowing users to contribute and receive compensation for their participation—merging the role of users and owners.

Networks built on the blockchain[25]

DAOs may provide a means of accelerating social movements by combining ownership with community to spur greater influence. Instagram has already recognized and leveraged the power of influence by paying social media influencers to include certain products or service mentions in their posts. These promotional efforts—posting frequency and staying power—can be strengthened by providing the influencer with ownership of the products or services they post. **Ownership is a preferred compensation to cash or kickbacks because its value has the potential to appreciate**. The DAO model draws on emotionally seductive factors like belonging, power, and reward to achieve vitality and resilience.

DAO Stakeholders

DAOs are inspirational because they present a level playing field, providing a channel for influence to all project stakeholders—founders, developers, tokenholders, and institutions. As a result, **DAO members are granted inclusivity and a right of expression in which all voices are heard.**

As DAOs originated from technology, they tend to attract developers to engage first. Technologists ideate a project concept and construct the DAO formation, initially drawing additional members with complementary skills. Next, finance-savvy individuals join the team to address the project's capital needs and involve investors of varying sophistication and caliber. With intense passion and funds raised, the stakes to achieve success are inevitably high. Further, favorable outcomes may vary based on the stakeholder—founders seek product development, developers seek collaboration, and investors seek returns.

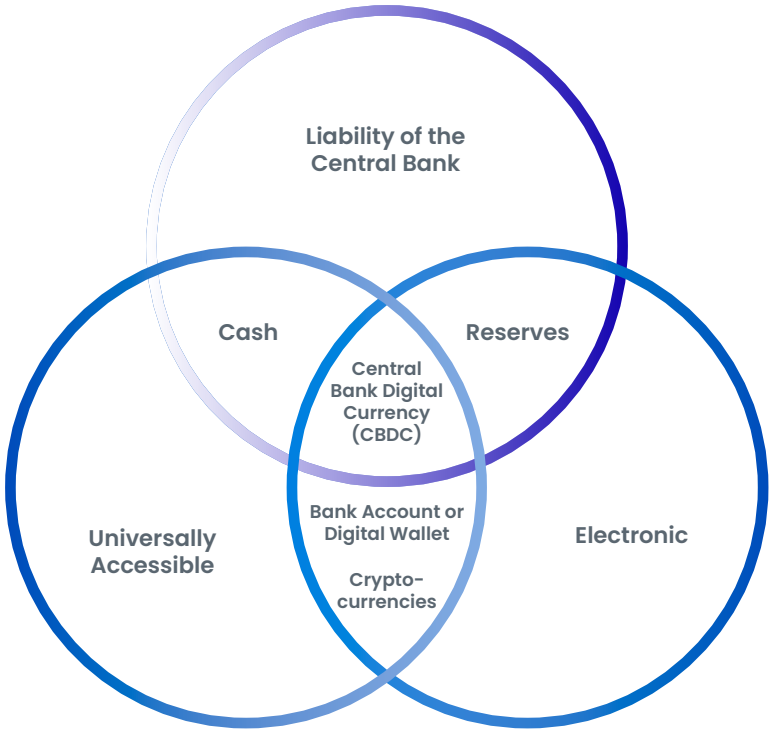
All DAO stakeholders have a unique value. Even though members are drawn to the DAO because of a shared belief or goal, collaboration to execute on a united front takes effort and discipline. While traditional finance is the industry blockchain initially intended to disrupt, investment professionals can add tremendous value. Most organizations, and in turn DAOs, are integrated with a fiscal component—contributions, payments, donations, or dues—the management of which can determine the organization's fate. Finance leaders with experience analyzing economic trends, structuring assets, and managing treasuries, can be instrumental to a DAOs future.

The merging of intelligence that DAOs stimulate can be profound. However, at this alpha stage, DAOs are under scrutiny.

It is the responsibility of stakeholders to diligently guide projects to ensure the health and progression of the decentralization evolution.

The Potential for Legal Recognition

As with any new technology, legislation needs time and information to adapt and provide clarity for users. Regulators have been paying attention to the digital asset industry, with guidance issued as early as 2013, but the pace at which blockchain has multiplied with innovations and permeated the market makes it challenging for them to keep up.[26] Thus, President Biden's recent executive order focuses on one fundamental element—central bank digital currency (**CBDC**).[27]



Venn diagram: central bank digital currency[28]

While the industry's need for stablecoins and government involvement is evident, fundamental questions prevail, like when is a digital asset a security, and into which regulatory jurisdiction does it fall? The SEC has repurposed their Howey Test mechanism for determining if federal securities laws apply, yet Ripple has unfortunately suffered the brunt of this indecision, and the authority debate continues.[29,30,31] This determination will likely affect DAOs and their future adoption because they distribute ownership in the form of tokens. However, discovery and exploration of use cases show no signs of slowing down—a reflection of the entire digital asset ecosystem.

The Howey Test

Regulating the blockchain tokens[32]

The nuances of regulating a decentralized entity are extensive, but modest legal acknowledgments have provided momentum for the sector to progress. For example, on a state level, Wyoming announced the world's first law to recognize DAOs as legal entities in July of 2021.[33] The state allows DAOs to register as LLCs, with the DAO's governance rules taking precedence over any corporate bylaws when conflict arises. As DAOs have the potential to generate comprehensive solutions that harmonize owners, contributors, and users, regulation and legal clarity are essential.

Conclusion

Notable moments in history often initiate and accelerate cultural transformation. In particular, the convergence of pressure and human ingenuity often leads people to reconsider what was and is, followed by a shift to what could be. For instance, in 2008, the Fed's excessively loose monetary policy combined with weak bank underwriting standards and irresponsible derivatives exposure created a once-in-a-generation catastrophe. Although the ensuing financial crisis led to the degradation of trust in centralized institutions, it also sparked an age of enlightenment that drove innovators to disrupt systemic limitations of antiquated infrastructure with revolutionary solutions.

More than a decade later, economic, geopolitical, and public health turmoil has accelerated the drive for innovation and catapulted decentralized frameworks into mainstream consciousness. Most notably, blockchain technology and the application of DAOs have invigorated individuals and communities seeking paths to reclaim relinquished autonomy and establish sovereignty where it was historically absent.

While it is revolutionary in its simplicity, decentralization is still challenging in its application; successful coordination and efficient governance will depend on considerate, methodical implementation. DAOs are a promising alternative to traditional models of organizing talent, raising capital, and administering governance. They show great promise, and we believe they hold great potential for the future. The current landscape offers a glimpse into a new form of human organization that will coordinate resources more efficiently and fairly than ever before. DAOs provide a platform for innovation and stand to transform entire industries, disrupt markets, and establish new paradigms.

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Disclosure

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About Arca

Founded in 2018, Arca is a leading regulated financial institution in the digital asset space. The Los Angeles-based company consists of Arca Investments—its asset management arm—and its innovation division, Arca Labs. The firm's overall mission is to develop financial products that allow investors to seamlessly transition into a new digitally-powered economy. Every aspect of Arca's offering is designed with sophisticated investors and institutions in mind.

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