# Practical Applications for DAOs

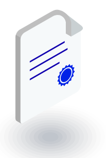
Currently, many applications are theoretical, but the earliest models provide a glimpse of how DAOs could enhance resource coordination, human organization, and idea generation. Implementing a DAO could disrupt large corporations' rigid processes and hierarchies that often impede stakeholders' abilities 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:<br>• Staking/farming<br>• Supplying to new protocols<br>• Lending | Earning potential based on security risk:<br>• Senior secured bond<br>• Senior unsecured bond<br>• Subordinated bond<br>• 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.

*Gig Economy*

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.