UNDERSTANDING THE DISRUPTIVE POTENTIAL OF BLOCKCHAIN TECHNOLOGY

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ABOUT THE AUTHOR

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If you’re working in the financial services industry, it’s more than likely you’ve heard of blockchain, the cryptographic technology that underlies bitcoin. And, just maybe, you’ve even started utilizing it for your bank or financial institution.

But many are still unsure of its strategic significance, even as its usage grows both in financial services and beyond. One reason for its growth, according to The Economist, is that “blockchain has applications well beyond cash and currency. It offers a way for people who do not know or trust each other to create a record of who owns what that will compel the assent of everyone concerned. It is a way of making and preserving truths.”

However, opinions are still divided about blockchain. While some analysts are touting its disruptive potential, others are warning that it may be a digital distraction and are advising proceeding with caution.

A disrupting proposition

Regardless of whether you’re bullish or bearish on blockchain, it is important for banks and other financial institutions to monitor developments in blockchain tech as the market matures. That way, if and when your organization is ready to go down the blockchain path, you’re not starting from scratch.
Here are four keys to consider:

1) **Ensure blockchain is one of your strategic focus areas in terms of market research related to emerging technology**

   With so much market attention and activity, blockchain is worthy of inclusion in your list of strategic focus areas along with other emerging areas such as IoT and intelligent automation. Keep it on your radar and monitor customer and partner interest as well, exploring how it may align with and support your digital business strategy.

2) **Recognize blockchain’s current maturity and trajectory and act accordingly**

   As emerging technology moves through the traditional technology adoption lifecycle, there are generally three opportunities for extracting business value based on your level of risk. Depending on your business strategy and appetite for risk, your approach and the kinds of benefits you can expect to obtain are all quite different.

   In the first wave (at the pioneer stage) you can be in on the ground floor, shape how the industry evolves, and be a “disrupter” as opposed to being “disrupted”. In the second wave (at the early adopter stage) you can extract a high level of differentiation, and in the third wave (at the early and late majority stage) you can extract proven business value. Currently, blockchain is mostly within the first wave, so there is still strong potential for business transformation if you’re up for the risk. However, all is not lost if you don’t act right away. Waiting for the second or third wave can allow you the opportunity to extract competitive advantage or proven business value before you dive in.

3) **Monitor emerging industry and application scenarios and look for industry parallels**

   Even if your appetite is more along the lines of an early or late majority player than as a pioneer, monitoring emerging case studies and success stories is of utmost importance. This will allow you to see what’s been done and apply it to relevant scenarios for your business, as well as help you shape your potential timing of entry.

   Tracking the momentum of the industry consortia – including industry ecosystems – as well as the momentum of individual players and technology providers is also critical. This insight will not only help you track emerging scenarios and test beds, but will also help you identify which altchains (alternative blockchains) are becoming prevalent for different purposes.

4) **Use as-a-service offerings for rapid pilots and proof-of-concepts**

   With the maturing tools, services and infrastructure available from technology providers in the form of blockchain-as-a-service offered via the cloud, you can take a lean approach to pilots and proof of concepts and validate your envisioned business models without having to build out expensive infrastructure.

   For each pilot or proof-of-concept, be sure to lay out your business and technical objectives up front. Are you testing a specific business scenario with a close customer, or testing technical feasibility, or both? These kinds of pilots can also help you ascertain which altchain may be most suitable for your needs.
Knowing where to start

When exploring a disruptive new technology, any business is often bombarded with an overwhelming amount of information and stark differences in opinion. However, it’s worth looking at the facts and formulating a go-forward approach that reflects blockchain’s relative maturity in the market, and aligns it with your organizational goals and your appetite for risk.

It’s also important to consider that many large players are already onboard. Venture capitalists, startups, large industry and tech players, and industry associations and consortia are all making their presence known. Major players, banks and stock exchanges have all entered the fray, and industry associations and consortia such as R3CEV and the Linux Foundation have been making major announcements and are focusing on creating enterprise-grade blockchain ecosystems.

Of course, as you’d expect with any emerging technology, since blockchain is still in its very early stages, there are still several business and technical issues to be explored and resolved, as many have pointed out.

However, with blockchain, the bigger risk would be to turn a blind eye to the potential it can offer and not having a plan for your organization. If you make it a strategic focus area, monitor the emerging industry and application scenarios, determine when you want to dive in, and take an as-a-service approach to pilots and proof of concepts, you’ll be in good shape to strike when the timing is right.