

Incentivisation in the Blockchain Era

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si and Tom Grogan, associate and co-lead blockchain
group, both at Mishcon de Reya LLP, look at the role
of a twenty-first century technology in the remuneration
field.

Implementing an appropriate and effective remuneration and incentive policy for management and employees is a key driver for a successful business. The demands of those managers and employees, and businesses within which they work, are changing at an unprecedented pace, fuelled by the emergence of technologies and the new business opportunities and models which they enable. We routinely advise our clients on how to design and implement incentive plans which are right for them, but we increasingly ask ourselves: are our current incentives models fit for purpose in this brave new world of emerging technology-driven innovation?

As a society, we are accustomed to instantaneous transacting - online banking, contactless bank cards and app-based payments are part and parcel of our twenty-first century, urban lifestyles. We expect to be able to customise our consumption of goods, services and employment benefits, from swapping our flat white to oat milk, requesting to see a certain doctor on our trips to the GP, to opting-in to private gym membership subsidisation as part of our workplace remuneration package. Finally, and perhaps most importantly, there is a trend towards and demand for greater transparency and accountability from our authority figures - our politicians, professionals and, most pertinently for our present discussion, our employers. To the frustration of many stakeholders, the administration, implementation and structure of incentives plans are rarely instantaneous, are often difficult to customise and are anything but transparent; even non-discretionary bonuses can be intensely political and opaque affairs in practice. Incentives plans are too often twentieth century constructs which struggle to remain relevant and attractive in a twenty-first century world.

What is blockchain technology?

A subset of the broad class of distributed ledger technologies, blockchains make clever use of, among other things, private/public key cryptography, distributed computing and

consensus mechanisms. We could get very technical here, but we won't. For present purposes, it suffices to say that a blockchain is a form of distributed dataset or ledger, which can be used to identify ownership and audit transactions of value. A blockchain enables the creation and maintenance of a replicated, shared and synchronised digital dataset which can be held and maintained in a distributed fashion, crucially without the constituent parties needing to trust each other.

One of the key benefits of having a distributed dataset is that each constituent party will have greater oversight and comfort as to the state of the dataset from time to time.

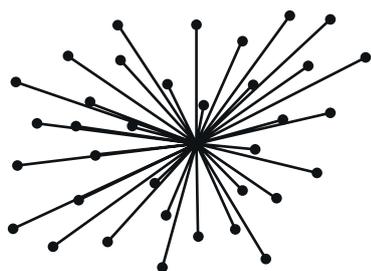
This increased confidence has a number of operational consequences - notably, the prospect of automation. Simply put, the parties might agree that if X appears in the dataset, Y will occur. As the parties have faith in the integrity of the dataset, no manual input is required: a piece of code can simply be set to "self-execute" Y in the event that X appears, thus saving time and money. This piece of code is commonly referred to as a "smart contract".

Confusingly, smart contracts are neither particularly "smart", nor do they by default constitute "contracts"! Nevertheless, they are an extremely useful innovation and, while the example given above is incredibly simplistic, smart contracts can be exceptionally powerful tools.

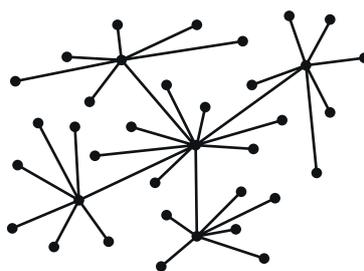
How might blockchain technology be applied to the world of incentives?

The realm of incentives is vast and employers utilise a myriad of products and methods to incentivise their employees and managers. There are a number of these which might be suitable for disruption by blockchain technology (and even more which are not!), but we are going to focus on just one: share incentives plans.

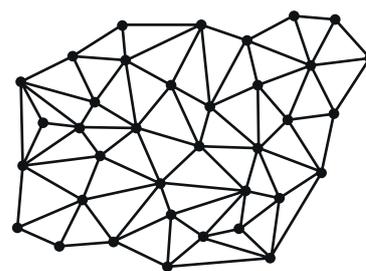
Traditional share incentives structures can often prove cumbersome and expensive; this is never truer than for large companies, especially those listed on a public market. The sheer number of participants and volume of associated data makes the administration of such plans a daunting task. Administrators fulfil a vital role but the current model



Centralised



Decentralised



Distributed

resembles that displayed in the decentralised graphic shown above - it has bottlenecks and single-points of failure.

Administrators might consider moving their business towards the distributed model and, in so doing, repositioning themselves from service to platform providers. By providing a distributed platform, all stakeholders, from the administrator to each employer and individual employee, can benefit from having a near-real time view of their respective obligations, entitlements, products and participating employers and employees. This system would reduce the administrative burden and costs which are currently borne by the administrator, while improving customer confidence and oversight.

A distributed system also makes the creation of a secondary entitlement trading market possible, giving employees an opportunity to liquidate their incentives (particularly useful for private companies), while remaining faithful to the spirit and purpose of the employer's overarching incentives strategy.

Forward-thinking administrators might consider partnering with key clients and advisors to create a working prototype, with a view of rolling out a system if the trial proves successful.

When might a blockchain solution be suitable?

We have given one example, but a myriad of possible blockchain applications exist. When evaluating whether a blockchain solution might be suitable for your business, consider the following:

1. Does my proposed use-case use a dataset which is required to be accessed by numerous actors?

If the answer to the above is "no", please don't use a blockchain! Over the past couple of years we have seen an explosion in the number of purported "blockchain solutions", many of which are totally unnecessary and, often, have simply incorporated a blockchain-based token as an alternative means of raising finance. This is every bit as stupid as it sounds, so don't fall into the trap!

2. Do the actors relying on the dataset trust each other?

If the answer to the above is "yes", a blockchain probably isn't necessary. Multiple copies of a centralised

dataset will probably suffice and will be easier and cheaper to implement.

The above can sometimes be a tricky question to answer, however. Clearly, contractual counterparties may have competing interests and therefore, quite reasonably, don't always trust each other. There are more nuanced examples, for example. Even within an organisation, competing departments may have competitive, even rivalrous relationships, while the employer/employee relationship can often be fraught with suspicion. Such examples may be suitable for a blockchain solution.

3. Does my existing system work?

If it ain't broke, don't fix it! Sometimes, against all rhyme and reason, existing systems and processes just *work* - and really efficiently at that! We are big believers in avoiding complexity where possible.

If an existing system functions could be improved, a blockchain solution may still be appropriate. For example, we have recently advised HM Land Registry on the development of a blockchain solution which enabled the UK's first digitised end-to-end residential property transaction. Nobody ever suggested that HM Land Registry's system was broken, but it was recognised that buying and selling a house could be made simpler, quicker and more transparent and that emerging technology might be a part of the solution.

This is not an exhaustive guide, but rather an example of some of the high-level questions which should be addressed at the outset, when evaluating a blockchain solution.

In the world of incentives where there is a significant amount of data flow between companies and external parties, blockchain is a solution in a technology driven environment that may help efficiencies, costs and ultimately plan effectiveness.

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