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🕒 JANUARY 29, 2018 👤 REAL BUSINESS

Have you felt the blockchain buzz? It's real you know

Blockchain is a word most people have heard used, whether in relation to cryptocurrencies or as part of wider discussions around new technology. But what is it? And how is it likely to impact SMEs?



Blockchain technology is real and its influence is set to grow

The invention of blockchain technology has been widely attributed to a computer engineer called Satoshi Nakamoto, who published a whitepaper about Bitcoin in 2008. It has been described as an incorruptible digital ledger of economic transactions that can be programmed to record virtually everything of value.

The most important word in that sentence is “incorruptible” and it provides insight into why there is so much hype around this technology and why it could prove valuable for all businesses, regardless of industry. Not just the finance or cryptocurrency sectors.

When employers interact with suppliers, customers and partners they engage in hundreds of communications each day. Those communications come in the form of orders, procurement instructions, inventory updates or know your customer due diligence; to name a few. Traditionally, information has been held in silos controlled by individual organisations.

A customer checking on the status of an order with a supplier will not usually have automatic access to that information, relying on access to those siloed systems being granted. That customer must trust any information received is accurate because they have no genuine oversight of the process up to the point the goods or services are delivered.

The decentralised nature of blockchain technology aims to change this situation, creating a new paradigm where all members of a particular blockchain can review any transaction instantly. Every input into the system is transparently recorded and replicated simultaneously across the array of nodes (processing computers) that make up the network.

This is known as Distributed Ledger Technology (DLT), and what it means, in principle, is that bosses can set up blockchains incorporating all the moving parts of their operations. Large corporations such as shipping firm Maersk are already well advanced in this area and are working with IBM to create a global cross-border supply solution.

The two announced the intention to form a joint venture to provide an open blockchain network for global trade digitisation, using the Linux Foundation's Open Source

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Hyperledger Fabric framework. This is a permissioned network where all members are known, as opposed to the Bitcoin blockchain which is both public and anonymous.

A typical SME would unlikely have the resources to build its own blockchain, but are very likely to be asked to join the permissioned networks set up by large customers or suppliers. One of the ways that a permissioned network will physically manifest itself is via smart contracts. Smart contracts are programmed using code and allow all the usual clauses written into traditional contracts to be automated and monitored.

As part of a supply chain, commercial smart contracts will automatically check parameters such as delivery timings, pricing or quality certification; flagging up any breaches. While largely positive, due to increased efficiency and cost savings, this level of transparency and accountability can pose problems for those SMEs caught on the wrong side of a contract dispute.

Accessing blockchain technology without investing in development costs is key for most businesses, and there are a number of permissioned solutions being developed by IBM specifically for SMEs operating in trade finance, global trade and food safety.

Diego Benz, an IR Global member, is a commercial lawyer with Zwicky Windlin in Switzerland. He is based in the city of Zug at the heart of the country's "Crypto Valley," and has close links with the IBM Research Laboratory at Rüschlikon, near Zurich. This connection provides him with an early understanding of innovations in the blockchain field. He cites IBM's collaboration with Borsa Italiana (part of the London Stock Exchange Group) as a notable development.

The partnership uses blockchain technology to digitise the issuance of securities for SMEs. It creates a distributed shared registry containing a record of all shareholder transactions, helping to open up new opportunities for trading and investing.

Further down the ecosystem are startups offering new innovative services based on blockchain technology. These businesses use existing platforms, which operate on an application model, similar to Apple or Android. Startups can use the Ethereum infrastructure to build decentralised applications to solve specific problems for businesses and individuals. A good example is Provenance, which uses such technology to allow consumers to review the entire history of the product they are purchasing.

Blockchain technology is real and its influence is set to grow significantly during the next few years. Ignore it at your peril.

Ross Nicholls is director at IR Global, a multi-disciplinary professional services network that provides advice to companies and individuals across 155+ jurisdictions.



The quiet revolution for next generation SME businesses

Blockchain is, slowly but surely, reaching corporate consciousness. As the Harvard Business Review has put it, blockchain is a "quiet revolution."

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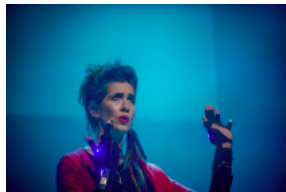
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