

What Are DAOs?

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A decentralized autonomous organization ("**DAO**") is an entity that has risen in popularity thanks to cryptocurrency and blockchain enthusiasts. DAOs are online entities that allow for many individuals across the world to autonomously make decisions for the entity on a blockchain. DAOs are structured on the internet and operate through the use of smart contracts. Smart contracts are created by developers and are self-executing code that execute automatically when specified criteria are satisfied. After launch of the DAO, rules of the smart contract can only be changed via the governance system.

DAOs have no central governing leadership and are instead managed by members of the organization from the bottom-up. The members of a DAO share a common goal (or goals) and collectively own the organization. Similarly to how corporations sell stock to investors to obtain funding, DAOs often sell tokens as a form of ownership interest in the organization to raise funds. By becoming a token holder of governance tokens, members obtain certain rights such as the ability to propose changes through a formal submission process as well as the ability to vote on proposed changes. Most commonly, voting power is distributed based on the stake each token holder has in the organization. As an example, token holders can vote on how to spend funds such as to exchange them for assets like non-fungible tokens (NFTs). Usually, a majority of members must approve a proposal for it to pass. All funds are held in a virtual treasury and all votes and decision-making are held on an open-source blockchain which makes the actions of every member accessible to the public.

Advantages of DAOs

DAOs have advantages over traditional corporate entities. First, there is minimal trust required between the organization and investors. Because the code is publicly available, it can be tested before launch. After launch, all actions must be approved by the members which again is transparent and available to everyone. Second, DAOs can decentralize authority across many users as opposed to being governed by a central body like a board of directors. Many investors see this as a benefit because decisions are made based on the community's choices rather than a small number of individuals. Further, DAOs often encourage token holders to participate by casting votes or burning tokens. This leads to investors feeling more involved in the decision-making even if their voting power isn't strong and ultimately contributes to a tighter community in the organization. Lastly, because members cast their votes on a blockchain which is publicly accessible, members are incentivized to think about their own reputation and to make decisions that will benefit the community.

Disadvantages of DAOs

However, there are also disadvantages that need to be considered. Because every member has the power to vote on matters, the process can take much longer than it would for entities that solely need the vote of one individual or a board of directors. Further, the DAO must strive to educate each of its members who often have varying levels of education and understanding of the organization's developments. Another concern is the security of smart contracts. It can be difficult

for developers to fix flaws in smart contracts even if they are detected, which can hurt the organization directly and indirectly by lowering trust between members.