Introduction: The Myth of Fully Decentralized Governance

The belief that **fully decentralized governance** is the ideal model for DAOs is not just impractical—it's fundamentally flawed. It's a concept born more from ideology than functionality. In reality, **no successful organization—on-chain or off-chain—has ever thrived by removing structure, leadership, and human judgment**. Yet, in the rush to be "decentralized," many DAOs fall into the trap of prioritizing optics over outcomes. They mistake lack of governance design for decentralization. But let's be clear: **there is no such thing as self-executing DAO governance** in practice. Smart contracts can automate execution—but **strategy, vision, and decision-making remain deeply human responsibilities**.

Let's examine the foundations.

> *"Distributed autonomous organizations are organizations built around smart contracts and a blockchain controlled in a decentralized manner by its owners."*
> — **Berg et al., 2019**

> *"A DAO is an internet-native organization collectively owned and managed by its members... enabling transparent and decentralized decision-making without centralized control."*
> — **Ethereum.org**

What these definitions highlight is transparency, collective control, and automation—not the elimination of structure or leadership. **None of them mandate that owners, leaders, or members be chosen in a decentralized way**. The idea that governance should be decentralized at every layer is not only unsupported—it's counterproductive.

Frameworks like Ethereum's *"rollups taking off training wheels"* make sense for protocols—where transparency, immutability, and minimizing trust are essential. But trying to apply those same principles to **human organizations**—with evolving goals, emotional complexity, and strategic nuance—is a **category error**. Running a protocol with one fixed function is not the same as running a dynamic, human-led DAO—or worse, attempting to run a nation.

This essay challenges the blind pursuit of full decentralization and argues for something more grounded: **hybrid governance**. DAOs should automate execution, ensure transparency, and flatten power where appropriate—but **not abandon structure, leadership, and strategic clarity**. Let's now explore how the **purpose and scale** of a DAO should shape its governance—rather than ideology alone.

Broadly, based on what we aim to decentralize and automate, the purpose of a DAO typically falls into one of two categories:

1. Fixed Purpose DAOs – The core rules, objectives, and direction are largely predefined from day one. The DAO exists to maintain and improve upon a known mission over time.

2. Evolving Purpose DAOs – The DAO is designed to handle ongoing change, where the scope, scale, and strategic direction are not fully known at inception. Governance here focuses on how decisions will be made, rather than what decisions will be made.

Let's unpack the first type—Fixed Purpose DAOs.

These DAOs are created with a specific, well-defined objective from the start, and their core mission remains relatively stable over time. Examples include investment DAOs like The LAO or MetaCartel Ventures, cultural DAOs like FWB (Friends with Benefits), music DAOs like SongCamp, fundraising DAOs like UkraineDAO, or thematic DAOs like ConstitutionDAO, which rallied to purchase a copy of the U.S. Constitution. Additionally, DeFi DAOs such as *Aave*, *Uniswap*, or MakerDAO often focus on a single objective—like governing a protocol, managing liquidity, distributing grants or securing decentralized finance operations.

Because their scope and direction are fixed, single-purpose DAOs require less strategic debate and more transparent execution. Decision-making benefits from expert-led proposals, shared community alignment, and structured participation. This mirrors how humans naturally coordinate—drawing on evolved traits like joint intentionality, role-based collaboration, and a shared sense of purpose. In these DAOs, the human layer drives clarity and coordination, while operational tasks like voting, fund disbursal, and reporting can be reliably automated on-chain.

This model strikes a sweet spot: it blends blockchain transparency with expert-led execution. Think of it as decentralized project management, where focused teams operate under a unified mission using off-chain or hybrid governance that is both efficient and evolutionarily intuitive.

Second type:

Now let's turn to the second type of DAO—those with evolving scopes, broad objectives, and undefined futures. These DAOs attempt to decentralize not just execution, but also the way decisions are conceived and coordinated. But decentralization without structure isn't innovation—it's chaos wrapped in good intentions.

Imagine a nation run solely by wealthy citizens, without departments or leadership—just hoping that doctors, traders, and even bad actors will self-organize. It's absurd, yet many DAOs operate this way, managing billions with no clear roles or direction.

Like nation-states, DAOs need expert groups and aligned leadership. But most contributors are part-time and misaligned, making decisions based on short-term incentives. Without structure, governance becomes shallow voting, treasury misuse rises, and responsibility vanishes. Strong frameworks aren't optional—they're essential for DAOs to evolve into resilient institutions.

Research on human evolution shows that our ability to work in groups is rooted in deep cognitive and emotional adaptations. Humans evolved to be interdependent—relying on each other for survival, skill-sharing, and joint decision-making. This led to the development of collaboration, communication, fairness, and reputation-based cooperation. But these traits function best within **structured environments** where roles, trust, and accountability are clear—not in unstructured, leaderless collectives. This group-mindedness is a key evolutionary fact that must inform how we design and govern DAOs.

Arbitrum example -

Look no further than **Arbitrum DAO**—despite holding one of the largest treasuries in Web3, its lack of clear leadership, unified vision, and strong accountability mechanisms has led to

fragmented direction, questionable funding decisions, and limited meaningful progress. The DAO has, unfortunately, become a case study in how not to decentralize—demonstrating that excessive openness without structure breeds indecision rather than innovation. The disillusionment among community members is even reflected in the token's price performance; **ARB** is currently trading at **$0.30**, down 2.51%, mirroring the lack of confidence in its current governance trajectory.

Instances of wasted funds and fragmented direction further highlight these challenges:

- **Backfund Allocation (Dec 2023):** The DAO approved an additional **21.1 million ARB tokens (~$23.5 million)** to fund **26 projects** that had missed out during initial grant distributions due to budget constraints. While the intention was to expand support, many community members raised concerns about the **quality and strategic alignment** of these projects, questioning whether they genuinely advanced the ecosystem's core goals.

- **Controversial Funding Decisions:** The rejection of **Lido's 4 million ARB grant proposal**, despite Lido being a prominent protocol in the Ethereum ecosystem, drew criticism. It exposed inconsistencies in how funding decisions were evaluated and highlighted the absence of a unified vision guiding the DAO's capital deployment.

- **Treasury Management Debates:** At one point, a symbolic discussion emerged about returning **700 million ARB tokens** to the treasury, exposing deep internal disagreements and inefficiencies in fund utilization. This episode revealed the lack of a cohesive long-term capital strategy.

These challenges underscore the complexities of decentralized governance, particularly when there is no central leadership empowered to provide strategic clarity.

- **Strategic Objective Setting (SOS):** The DAO approved this initiative to allow members to collectively define **short- to mid-term objectives**, helping to create a more unified direction for the community.

- **The Watchdog Program:** A grant misuse bounty proposal was overwhelmingly approved, allocating **520,000 ARB** to incentivize members to detect and report misuse of DAO-allocated funds—an important move toward accountability.

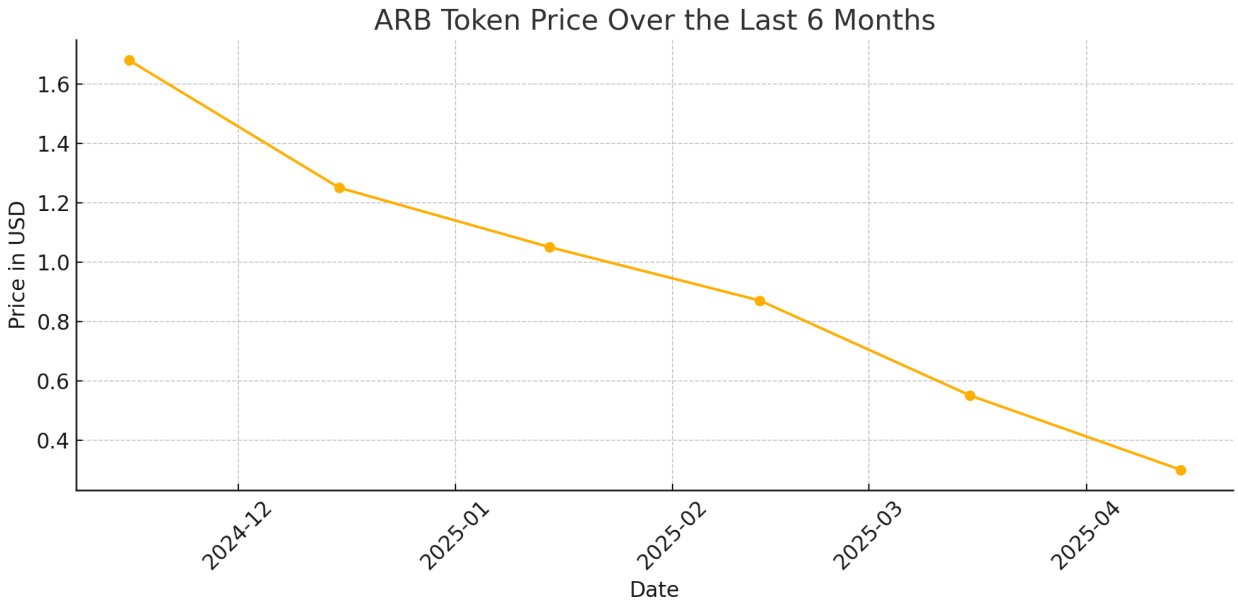
Still, these bright spots have been overshadowed by structural issues:

- **Grant Allocation Concerns:** As seen with the Backfund allocation, funding often appears misaligned with strategic goals, triggering broader concerns about grant quality control and DAO-level coordination.

- **Delegate Participation:** A proposal highlighted that only **10% of ARB tokens** were actively used in governance. This low engagement has sparked discussions on how to improve delegate involvement, including the idea of **staking rewards** for active participation.

- **Operational Predictability:** Recognizing the erratic nature of proposals, the DAO introduced a motion to establish **standardized proposal guidelines**—to ease delegate fatigue and promote a more regular cadence of decision-making.

Taken together, these examples show that Arbitrum's DAO is struggling to balance innovation with effective resource management. If even two or three DAOs like this demonstrate that **full decentralization slows down execution, weakens accountability, and dilutes strategic focus**, then it's time we re-evaluate. A DAO should aim to be decentralized in transparency and accountability—but **leadership, direction, and high-stakes decisions must come from aligned, trusted experts**, not token-weighted consensus by an often fragmented crowd. That's how DAOs move from being chaotic experiments to resilient, impactful institutions.



Here's the chart showing the **ARB token's price over the last 6 months**, reflecting a significant decline—from around **$1.68** to **$0.30**. This downward trend aligns with growing concerns about the DAO's governance, lack of clear strategic direction, and inefficient fund allocation.

As a reminder, we're talking about the **human side of DAOs**—not automated execution, which works well for voting, spending, and reporting. But before any of that, **human judgment** is needed to select teams, set direction, and enforce accountability.

These strategic choices require **aligned, full-time leaders**, not scattered token holders. Without a core team to lead, a DAO risks becoming just a treasury and a Discord—transparent, but directionless.

Ethereum Governance

A great example of Ethereum's offchain governance in action is EIP-1559. Despite strong backlash from miners—who opposed the fee-burning model that reduced their income—Ethereum's core developers pushed it forward based on long-term network health. There was no token-holder vote; decisions were made through research, discussion, and expert consensus. If such calls were left to wealthy token holders or hedge funds, Ethereum's core values could've been compromised. EIP-1559 proves that expert-led, offchain governance allows Ethereum to stay aligned with its vision, even under pressure. The dysfunction of asking every employee in a company to vote on a founder's vision—progress stalls, innovation dies, and risk-taking becomes impossible. Ethereum avoids this fate by embracing off-chain governance: the core team and aligned researchers make tough calls without being dragged down by endless consensus-seeking. If Ethereum's direction were decided by token-rich hedge funds, its values and long-term vision would have been compromised long ago.

According to Vitalik, full Decentralization (Community-Led DAO) is when governance becomes entirely decentralized, with community stakeholders making decisions. A particularly important aspect of blockchain governance is decision-making. As Ziolkowski et al. (2020) demonstrate, blockchain systems are full of decision problems. They identify four main decision areas in blockchain governance: membership considerations, balance between internal and external legitimation, reduction of human interventions, and management of flexibility and adaptability of blockchain systems.

Solana Governance

Once we acknowledge that the human element is inseparable from DAOs, it becomes clear that challenges like trust, motivation, team formation, and long-term alignment don't disappear with decentralization—they just reappear in new forms. Traditional organizations handle this through structured leadership, role clarity, and systems of accountability. DAOs, too, must distinguish between what can be decentralized effectively (like fund flows or proposal execution) and what must remain deeply human—such as judgment, strategy, and direction-setting.

Problems emerge when DAOs try to decentralize these high-leverage decisions too early or too broadly. Requiring consensus from token holders—many of whom are not full-time contributors or even aligned with the protocol's mission—slows progress and stifles bold, strategic moves. This is like asking every employee to vote before a founder can act on intuition or experience. It's not governance—it's gridlock. Leadership, especially from core teams, stewards, or aligned investors, becomes ineffective when drowned out by fragmented consensus.

Solana offers a strong example of responsible decentralization. Its governance framework categorizes proposals by impact level—low, medium, or high—allowing small matters to pass quickly while reserving deep scrutiny for major changes. For example, **SIMD-0096** (Timely Vote Credits) was implemented after thorough testing and community engagement. But **SIMD-228**, a visionary proposal to introduce dynamic inflation, despite receiving **61.4% approval**, failed due to a rigid 66.67% quorum requirement. This was not a failure of the idea, but of the governance process—a well-supported, forward-looking proposal from Solana's most committed builders was blocked by structural friction.

This shows the limits of token-based consensus. If the decision had rested with Solana's core contributors—those who understand the protocol deeply and are invested full-time—it likely would have passed. Solana recognizes this tension and addresses it with a **dual-token system**: while **SOL** handles staking and utility, governance is carried out through **SPL tokens**, which help isolate governance from speculation. High-impact proposals are coordinated with Solana Labs before voting, ensuring technical feasibility and strategic fit.

Solana's model—tiered proposal flows, expert-led filtering, and separation of utility from governance—demonstrates what **responsible decentralization** looks like. It's not anti-community; it's pro-alignment. And **SIMD-228**'s rejection serves as a warning: even visionary ideas fail when leadership is forced to wait on fractured consensus. DAOs don't just need participation—they need structures that empower trusted leaders to move the protocol forward.

Compound

What's even more troubling is how core teams and foundations are often forced to watch governance disasters unfold in real time—unable to intervene because they're handcuffed by the need to uphold a rigid definition of "decentralization."

In many cases, their silence isn't a lack of insight or conviction—it's the result of being trapped in a system where intervention, even in obvious moments of abuse, would be seen as violating DAO purity. This is not innovation—it's dogma. We took a novel, exciting idea—open governance—and instead of adapting its strengths to fix traditional organizational gaps, we tried to build its opposite. The result is governance by philosophy, not by logic. It's like following a religion blindly, refusing to question if it still serves its purpose.

Take **Compound Finance's Proposal 289** as a prime example. A group known as the "Golden Boys," led by an individual called Humpy, successfully passed a proposal to divert **499,000 COMP tokens (around $24 million)** from the treasury to a vault they controlled. The vote narrowly passed, despite community objections and the proposal's two prior rejections (Proposals 247 and 279). The outcome wasn't the result of healthy governance—it was an exploitation of it. The core team, fully aware of the risks, couldn't stop it. Their hands were tied by the same ideology that was supposed to protect the protocol. This wasn't decentralization—it was a governance attack disguised as democratic process. And it revealed what many still refuse to admit: decentralization, without thoughtful boundaries and structural leadership, can become a threat to the very systems it seeks to protect.

Vitalik Buterin's governance theories

Vitalik Buterin's governance theories are intellectually compelling, but when tested against the reality of decentralized organizations, they often fall short. His proposal in *"Moving Beyond Coin Voting Governance"* argues that traditional 1-token-1-vote models promote plutocracy, and suggests alternatives like quadratic voting, futarchy, and conviction voting. While elegant in theory, these mechanisms assume a level of voter understanding, context, and alignment that simply doesn't exist in practice. Most DAO participants are part-time, under-informed, or financially motivated, not mission-aligned. In Arbitrum's DAO, for instance, the problem wasn't the lack of a novel voting mechanism—it was the total absence of leadership, accountability, and strategic direction. Complex voting models cannot solve core organizational issues like lack of vision or misaligned incentives.

In *"The Meaning of Decentralization"*, Vitalik outlines decentralization across architectural, political, and logical layers. While this offers a useful conceptual framework, it overlooks the functional realities of how governance operates in successful organizations. In real-world

systems—whether nations or companies—decision-making is not broadly distributed. Experts lead. Teams execute. Governance structures ensure accountability. The Compound DAO's Proposal 289, where a small group secured $24 million in tokens through a controversial vote, shows how dangerous decentralization can become when there are no robust checks, no oversight, and no consequences. Without leaders or institutional safeguards, decentralization becomes a liability.

His collaboration with Glen Weyl in *"Decentralized Society: Finding Web3's Soul"* proposes building governance around social relationships using concepts like Soulbound tokens. While idealistic, this model assumes high trust, transparent social structures, and a universally accepted legitimacy framework—none of which exist in the pseudonymous, global, high-stakes world of crypto. In practice, DAOs are still governed by mercenary capital, and social capital mechanisms are easily gamed. Most DAOs today can't even ensure participation from delegates, let alone build a trusted social graph to anchor governance. Real institutions are built on performance, leadership, and results—not symbolic tokens of social trust.

In contrast, what our analysis across Arbitrum, Compound, Solana, and others shows is that DAOs succeed when they decentralize **execution, transparency, and funding**, but retain **centralized leadership, strategic vision, and team accountability**. Solana, for instance, doesn't put every major proposal directly to token holders. Instead, it routes high-impact changes through its core development teams and then through structured governance. This layered process works because it acknowledges the realities of human coordination: decision-making is hard, and it cannot be crowdsourced effectively in a complex, fast-moving ecosystem.

Ultimately, Vitalik's theories offer valuable thought experiments—but they fail to address the messiness of human behavior, politics, and organizational dynamics. You cannot build scalable, resilient DAOs on voting systems alone. You need structure. You need trusted stewards. You need systems that reflect how humans actually operate—not just how we wish they would. The future of DAO governance won't be found in theory—it will be built by understanding the practical needs of vision, leadership, and aligned execution.

Conclusion

In closing, not all DAOs are created equal—and not all should strive for the same type of governance. **Single-purpose DAOs**, where the scope and direction are clear, succeed because they reflect how humans naturally collaborate: around shared goals, role clarity, and mutual alignment. These DAOs don't need to debate vision at every step—they simply need strong execution, which can be transparently and efficiently managed through smart contracts. This form of DAO governance—where expert-led decision-making is paired with blockchain-based transparency—represents the sweet spot. It's not utopian decentralization; it's decentralized project management grounded in human evolution.

Just as DAO tooling has enabled code-level transparency and coordination, **human-led tooling** is equally vital. Roles like community facilitators, grants committees, and transparency teams have proven that when purpose and incentives align, small expert groups can deliver consistent results. They act as the real engines of decentralized execution—delivering value while being publicly accountable through dashboards, reports, and on-chain logs. These examples show us what functional, structured, decentralized execution actually looks like.

What we must **stop chasing** is the mirage of fully decentralized governance. That vision ignores thousands of years of **human behavior and institutional evolution**—from tribes to modern nation-states to corporations. Governance is not an add-on—it's a deeply human structure evolved to balance power, direction, trust, and survival. To think we can replace this with token votes and on-chain proposals is naive. Yes, let's decentralize operations, automate execution, and increase transparency wherever possible. But **objectives, vision, decision-making, and long-term strategy must stay in the hands of committed, qualified leaders**. As we've seen with **Arbitrum**, **Compound**, and even **Solana**, governance friction, voter apathy, or misaligned incentives often block progress or create vulnerabilities. The most realistic path forward is **hybrid governance**—templates that blend decentralization with leadership, and automation with human judgment. If even 2–3 of these cases show that full decentralized governance hampers growth, risks, and execution, isn't it time we re-evaluate? A DAO needs decentralization in transparency and accountability—not in vision-setting or core decision-making. That's where leadership, not crowd consensus, should drive the ship.

We must also **rethink the role of governance tokens**. Governance alone should not be the primary utility to capture the entire protocol's value. It's like handing over 100% of a company's IPO shares to people who aren't qualified to lead or even understand its mission. You wouldn't ask retail traders to steer Apple's R&D, so why do we expect token holders to set protocol direction? As Naval says, "If you want to make bad decisions, ask everyone." Governance should be one layer of coordination—not the full foundation for value capture. Tokens should reflect contribution, alignment, and utility—not just a vote.

Lastly, while **AI will transform DAO operations**, we're nowhere near a point where it can replace human governance. Tools like AI-powered budgeting, sentiment monitoring, proposal summarization, and contributor reputation scoring can help automate operations. But AI cannot define vision, resolve ideological differences, or manage trust across communities. The day nations can be run by AI is the day DAOs can be too—and that day is far from practical reality. Until then, we must build with what humans are good at: aligning around missions, building trust-based teams, and taking bold, intuitive leaps.

The future of DAOs isn't more decentralization. It's smarter governance. It's time to evolve the ethos.

Rough work

Arbitrum case study

https://ethereum-magicians.org/t/proposed-milestones-for-rollups-taking-off-training-wheels/11571 - focuses only on tech aspects. In practicality, to run a DAO, you need to be taking all the aspects of it such as what level of decisions need approvals from the DAO to make it efficient, making sure that all the key members of the DAO have aligned and single objective that is to grow the nation. If the objectives are divided, it's a disaster and in the name of decentralization, people will take advantage of treasury and ways to find their own benefit.

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Both traditional orgs and DAOs are run by humans.

Having self executing code doesn't make a DAO human free. The "autonomous" word in DAO is applicable on freedom of taking decisions in consensus, and letting the code execute the final decision made by members of the DAO maintaining transparency. Neither happens without humans as of now (highly

unlikely in future too! We'll talk about human-free DAOs at the end of the blog :), pick any DAO whatsoever for example!

Nation State analogy with DA

The analogy of a nation-state to DA (Project Management) with respect to scope and scale highlights the relationship between a nation's territorial boundaries and its internal governance structure, similar to how a project's scope defines the work and scale reflects its complexity. A nation-state, like a project, has defined boundaries (geographical borders), a shared identity (national culture), and a governing system (government). This analogy helps understand how projects, like nations, require clear boundaries (scope) to ensure focused execution and how the complexity of the project (scale) influences the governance structure (DA).

Elaboration:

Nation-State:

- Scope:
  A nation-state's scope is defined by its territorial boundaries, which delineate the area it governs.
- Scale:
  The scale of a nation-state can vary significantly, from small city-states to large empires, impacting its governance and the resources it requires.
- Governance:
  A nation-state's government (e.g., legislative, executive, judicial) is responsible for managing the nation's affairs within its defined boundaries.
- National Identity:
  A shared national identity (based on culture, language, history, etc.) helps to unify the population within the nation-state.

DA (Project Management):

- Scope:
  In project management, scope defines the specific work required to achieve the project's objectives.
- Scale:
  The scale of a project can range from small, simple projects to large, complex undertakings, influencing resource allocation and management.
- Governance:
  A DA (project management) system provides the framework for managing the project's scope, scale, and resources, often involving various roles and responsibilities.
- Stakeholder Engagement:
  Effective project management involves engaging with stakeholders, ensuring they understand the project's scope and are aligned with its goals.

An Analogy:

Just as a nation-state needs clear territorial boundaries to define its scope and a governance structure to manage its affairs, a project requires a well-defined scope to ensure focused execution and a project management system (DA) to manage its complexity and resources. Both involve defining boundaries, managing internal structures, and ensuring a shared understanding among stakeholders

Nation state analogy with DAO

The nation-state, a geographically defined political entity, and a DAO (Decentralized Autonomous Organization), a digitally-driven organization using blockchain technology, share some similarities but also have distinct differences.
Differences:

Centralization vs. Decentralization:
The core difference lies in their governance structure. Nation-states are centralized, with a government holding ultimate authority, while DAOs are decentralized, with decisions made collectively by their members.
Legal Framework:
Nation-states are subject to international law and have defined legal systems within their borders. DAOs are less clear-cut legally, operating within a digital space with varying regulatory frameworks across jurisdictions.
Scope and Scale:
Nation-states operate within geographically defined borders and have a broad scope of activities, while DAOs can have a more specific focus and operate on a global scale within the digital space.
Enforcement:
Nation-states have the power to enforce laws and regulations through police and judicial systems. DAOs rely on the community's consensus and the code itself for enforcement, which can be more challenging in certain situations.

The analogy between nation-states and DAOs is flawed because nation-states possess established legal frameworks, enforcement mechanisms, and a broad spectrum of functions, while DAOs are primarily focused on specific, often financial, operations within the digital space. DAOs lack the infrastructure, legal certainty, and societal scope of nation-states, making the comparison inaccurate and potentially misleading.

Now let’s zoom in to scope and scale: If the scale is larger, the need for forming expert groups is a must. Also note choosing expert groups, framework, design is an evolving progress. Centralised power/owners have to lead this. Ideally structure the governance itself in a way that shows a solid controlled framework of such groups.

Add when talking about large scale org and nation comparison with large scale, multi objective DAO

In both traditional organizations and DAOs, certain critical activities remain inherently human-led and off-chain. These include defining the overarching vision, mission, and values; forming teams or electing contributors based on trust and expertise; strategic planning and adapting to new contexts; resolving conflicts within the community; navigating legal and regulatory frameworks; and making high-stakes financial decisions like treasury allocations or investments. These tasks require human judgment, context, and alignment—elements that cannot be codified into smart contracts or automated processes. While DAOs offer transparency and automation for many operational aspects, the core of organizational evolution and decision-making still relies heavily on human coordination.

Now let's move to the purpose and scale of DAOs to identify which type of governance makes sense with the assumption of optimal human alignment and right governance framework in place.

Based on the demarcation of what we are aiming to decentralise and automate broadly the purpose of the DAO is either:

1. Things are fixed on day one and expected to run as per it for the rest of its lifetime with its maintenance and improvements. Scope, scale and direction are somewhat fixed

2. We fix a framework or process on how things will be decided in the future.
   Trying to make an organisation decentralised with uncertain scope, scale and direction.

Let's talk about the first one a little - Here we're referring to running protocols onchain such as Bitcoin, Ethereum etc and forming a dedicated like minded community to achieve consensus from them with a undivided motive. DAOs such as investment DAOs, social and cultural DAOs etc.

In this scale, scope and direction are defined by owners/ experts/leaders and decisions are taken in consensus and executed transparently. Sweet spot compared to a mid level org with. Decisions are made through social consensus, discussions, and traditional organizational structures. Common in projects like Bitcoin and Ethereum, where developers, miners, and stakeholders debate changes before implementing them. These are similar to running a project successfully and the well defined process and framework is suitable to achieve consensus, efficiency and making the right experts led decision in a transparent manner for community growth. Such governance style can be classified as offchain governance or hybrid on chain governance where decisions are taken by central teams and execution happens on chain or simply call it a decentralised project execution!

Random removed notes of purpose of the DAO

There are broadly 2 types of DAOs irrespective of profit or non profit nature:

1. Formed for a single cause: such as investment DAOs, social and cultural DAOs etc
2. Formed to make an organisation decentralised: such as L1s and L2s, DeFi protocol governance DAOs

DAO definitions and be smart to pick up definition based on nature of the DAO: code, community, token, grants,
Single objective of the community -
Multiple ways to improve the protocol - experts

There are elements of the DAO that need to be automated and make transparent without one single central entity compared to traditional org

But for what operations? > executing or updating the code if the protocol is open sourced and publicly available, if you want your community to take certain decisions and execute them on their own such as grant distribution, in case of investment DAOs; create, align on thesis and make investment transparently with profit and reports available to their community. In all, DAO emphasis on making collective decisions by its owners but selecting the owners and drafting the framework and design of a governance model cannot and should not be decentralised ever.

Second type where scope, objectives and scale are larger. Governance has to be solid here. We can compare this with traditional large orgs and nations to compare, identify and acknowledge issues especially related to humans. Remember we're talking about human element here not making operations, code automated or being transparent and decentralised.

solana examples

Solana's governance framework exemplifies a nuanced and pragmatic approach that balances decentralization with structured, expert-led oversight, ensuring the network's evolution aligns with its long-term vision. A key feature is the categorization of proposals based on their impact: **low**, **medium**, or **high**. Low-impact proposals, such as minor documentation changes, undergo a lightweight approval process, while high-impact proposals—like protocol-level economic or consensus changes—go through rigorous review, community discussion, and require significant consensus among core contributors.

For instance, **SIMD-0096** (Timely Vote Credits) was a high-impact proposal that aimed to improve validator incentives. It underwent thorough dev testing, engaged the community, and was eventually implemented, reflecting Solana's commitment to deliberative, inclusive governance. On the other hand, **SIMD-228**, which proposed a dynamic inflation model for SOL, received 61.4% approval—a clear signal of strong community backing—but failed to pass due to a rigid 66.67% supermajority requirement. This exposed a structural flaw: a well-supported, long-term-oriented proposal backed by ecosystem leaders and core contributors couldn't move forward because of governance friction. If this decision had been left to Solana's most invested builders and stewards—those who understand the protocol deeply and work on it full-time—it would likely have passed. This highlights the limits of giving purely token-based voting power to a wide, and often misaligned, community.

Solana addresses some of these risks through a **dual-token governance structure**. While SOL is used for staking and fees, governance voting is separated using SPL (Solana Program Library) tokens—similar to ERC-20 on Ethereum—which allows governance rights to be isolated from utility and speculation. This ensures that only stakeholders truly aligned with Solana's mission participate in governance, reducing the influence of transient or self-interested actors.

Crucially, all high-impact proposals are coordinated with **Solana Labs' technical team** before they go to vote. This ensures feasibility and strategic alignment, and that proposals aren't driven

by community groups pushing for grants or popularity-driven changes. Governance is open—but final decisions are safeguarded by core teams whose primary interest is Solana's long-term progress.

In summary, Solana's governance system—through impact-tiered proposal flows, dual-token mechanics, and structured sign-offs—shows what a maximally decentralized yet responsibly led system can look like. SIMD-228's rejection, despite being visionary and widely supported, serves as a reminder that even the best governance models require room for leadership to act decisively when it matters most.

ARBITRUM EXAMPLE

Look no further than **Arbitrum DAO**—despite holding one of the largest treasuries in Web3, its lack of clear leadership, unified vision, and strong accountability mechanisms has led to fragmented direction, questionable funding decisions, and limited meaningful progress. The DAO has, unfortunately, become a case study in how not to decentralize—demonstrating that excessive openness without structure breeds indecision rather than innovation. The disillusionment among community members is even reflected in the token's price performance; **ARB** is currently trading at **$0.30**, down 2.51%, mirroring the lack of confidence in its current governance trajectory.

Instances of wasted funds and fragmented direction further highlight these challenges:

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  (Sources: The Block, Cointelegraph)

- **Controversial Funding Decisions:** The rejection of **Lido's 4 million ARB grant proposal**, despite Lido being a prominent protocol in the Ethereum ecosystem, drew criticism. It exposed inconsistencies in how funding decisions were evaluated and highlighted the absence of a unified vision guiding the DAO's capital deployment.
  (Sources: Cryptoonaut, AiCoin, Cryptologia)

- **Treasury Management Debates:** At one point, a symbolic discussion emerged about returning **700 million ARB tokens** to the treasury, exposing deep internal disagreements and inefficiencies in fund utilization. This episode revealed the lack of a cohesive long-term capital strategy.

(Source: Medium)

These challenges underscore the complexities of decentralized governance, particularly when there is no central leadership empowered to provide strategic clarity.

That said, **Arbitrum DAO has not been without its successes**:

- **Strategic Objective Setting (SOS):** The DAO approved this initiative to allow members to collectively define **short- to mid-term objectives**, helping to create a more unified direction for the community.
  (Source: Medium)

- **The Watchdog Program:** A grant misuse bounty proposal was overwhelmingly approved, allocating **520,000 ARB** to incentivize members to detect and report misuse of DAO-allocated funds—an important move toward accountability.
  (Sources: Medium, Govscan.live)

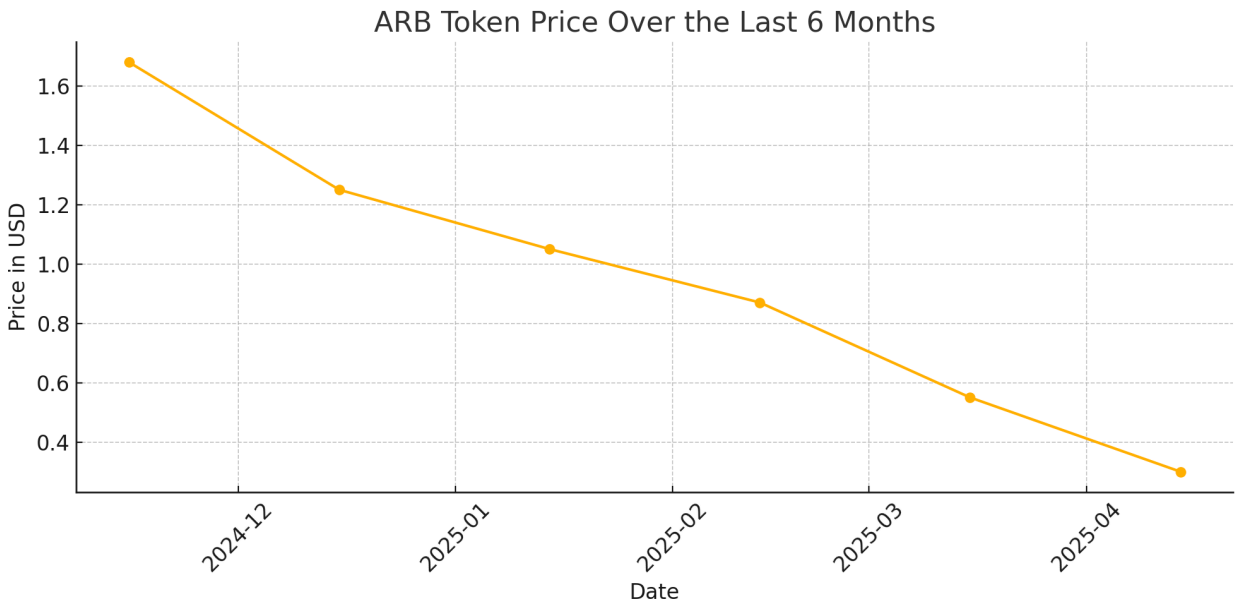
Still, these bright spots have been overshadowed by structural issues:

- **Grant Allocation Concerns:** As seen with the Backfund allocation, funding often appears misaligned with strategic goals, triggering broader concerns about grant quality control and DAO-level coordination.
  (Source: Medium)

- **Delegate Participation:** A proposal highlighted that only **10% of ARB tokens** were actively used in governance. This low engagement has sparked discussions on how to improve delegate involvement, including the idea of **staking rewards** for active participation.
  (Source: The Block)

- **Operational Predictability:** Recognizing the erratic nature of proposals, the DAO introduced a motion to establish **standardized proposal guidelines**—to ease delegate fatigue and promote a more regular cadence of decision-making.
  (Source: Govscan.live)

Taken together, these examples show that Arbitrum's DAO is struggling to balance innovation with effective resource management. If even two or three DAOs like this demonstrate that **full decentralization slows down execution, weakens accountability, and dilutes strategic focus**, then it's time we re-evaluate. A DAO should aim to be decentralized in transparency and accountability—but **leadership, direction, and high-stakes decisions must come from aligned, trusted experts**, not token-weighted consensus by an often fragmented crowd. That's how DAOs move from being chaotic experiments to resilient, impactful institutions.



Here's the chart showing the **ARB token's price over the last 6 months**, reflecting a significant decline—from around **$1.68** to **$0.30**. This downward trend aligns with growing concerns about the DAO's governance, lack of clear strategic direction, and inefficient fund allocation.

Compound example

Compound Finance's recent governance activities underscore the vulnerabilities inherent in decentralized governance models. A notable example is Proposal 289, where a group known as the "Golden Boys," led by an individual named Humpy, successfully passed a proposal to allocate 499,000 COMP tokens (approximately $24 million) from the protocol's treasury to a vault they controlled. This proposal narrowly passed with 682,191 votes in favor and 633,636 against, raising concerns about the concentration of voting power and the potential for governance attacks. Cointelegraph+7BeInCrypto+7Spectrum Search+7blocmates. | Crypto News & Information+6Spectrum Search+6Web3 is Going Just Great+6Web3 is Going Just Great+4Unchained+4BeInCrypto+4

The passage of Proposal 289 followed two previous failed attempts (Proposals 247 and 279) to divert funds to the same group. Despite community objections and concerns about the lack of safeguards, the persistence of the proposers and their accumulation of voting power enabled them to succeed on the third attempt. Unchained+3Web3 is Going Just Great+3BeInCrypto+3

This incident highlights the challenges of decentralized governance, particularly the risk of a small group with significant token holdings exerting disproportionate influence over protocol decisions. It underscores the need for robust governance frameworks that balance decentralization with effective checks and balances to prevent potential abuses.Unchained

Vitalik's claims and wrong proving

Vitalik Buterin's governance theories are intellectually compelling, but when tested against the reality of decentralized organizations, they often fall short. His proposal in *"Moving Beyond Coin Voting Governance"* argues that traditional 1-token-1-vote models promote plutocracy, and suggests alternatives like quadratic voting, futarchy, and conviction voting. While elegant in theory, these mechanisms assume a level of voter understanding, context, and alignment that simply doesn't exist in practice. Most DAO participants are part-time, under-informed, or financially motivated, not mission-aligned. In Arbitrum's DAO, for instance, the problem wasn't the lack of a novel voting mechanism—it was the total absence of leadership, accountability, and strategic direction. Complex voting models cannot solve core organizational issues like lack of vision or misaligned incentives.

In *"The Meaning of Decentralization"*, Vitalik outlines decentralization across architectural, political, and logical layers. While this offers a useful conceptual framework, it overlooks the functional realities of how governance operates in successful organizations. In real-world systems—whether nations or companies—decision-making is not broadly distributed. Experts lead. Teams execute. Governance structures ensure accountability. The Compound DAO's Proposal 289, where a small group secured $24 million in tokens through a controversial vote, shows how dangerous decentralization can become when there are no robust checks, no oversight, and no consequences. Without leaders or institutional safeguards, decentralization becomes a liability.

His collaboration with Glen Weyl in *"Decentralized Society: Finding Web3's Soul"* proposes building governance around social relationships using concepts like Soulbound tokens. While idealistic, this model assumes high trust, transparent social structures, and a universally accepted legitimacy framework—none of which exist in the pseudonymous, global, high-stakes world of crypto. In practice, DAOs are still governed by mercenary capital, and social capital mechanisms are easily gamed. Most DAOs today can't even ensure participation from delegates, let alone build a trusted social graph to anchor governance. Real institutions are built on performance, leadership, and results—not symbolic tokens of social trust.

In contrast, what our analysis across Arbitrum, Compound, Solana, and others shows is that DAOs succeed when they decentralize **execution, transparency, and funding**, but retain **centralized leadership, strategic vision, and team accountability**. Solana, for instance,

doesn’t put every major proposal directly to token holders. Instead, it routes high-impact changes through its core development teams and then through structured governance. This layered process works because it acknowledges the realities of human coordination: decision-making is hard, and it cannot be crowdsourced effectively in a complex, fast-moving ecosystem.

Ultimately, Vitalik’s theories offer valuable thought experiments—but they fail to address the messiness of human behavior, politics, and organizational dynamics. You cannot build scalable, resilient DAOs on voting systems alone. You need structure. You need trusted stewards. You need systems that reflect how humans actually operate—not just how we wish they would. The future of DAO governance won’t be found in theory—it will be built by understanding the practical needs of vision, leadership, and aligned execution.

Second type DAO removed text

Now let’s turn to the second type of DAO—those with an evolving scope, broad objectives, and an open-ended future. These DAOs aim to decentralize not just how decisions are executed, but how they’re conceived and coordinated across a constantly shifting landscape. And here’s where things get tricky: decentralization without thoughtful structure is not innovation—it’s chaos with good intentions.

Let’s draw a parallel. Imagine if a nation-state decided to run purely on the goodwill of its wealthy citizens. No departments, no frameworks, no leadership—just the belief that citizens who happen to be skilled in finance, medicine, research, trading, or, heck, even terrorism will self-organize and run the country in harmony. Who’s handling defense? Who’s accountable for public health? Who’s keeping the treasury safe from creative looting? It sounds ridiculous, but this is often what we see when large-scale DAOs claim to be "decentralized from day one" without defined roles, teams, or information flow. It’s like running a billion-dollar startup by giving everyone a vote and hoping someone volunteers to lead customer support.

In any evolving organization—be it a DAO, a company, or a country—you need *trusted expert groups*, clear structures, and systems for leadership, accountability, and iteration. Traditional orgs have strong boundaries around

departments, seniority, and responsibility. Leaders are chosen based on skill and performance, and they're replaced when they stop delivering. Even nation-states rely on institutional frameworks to ensure their ministries and departments are led by people with domain expertise and unified objectives.

Arbitrum Example

But here's where DAOs face an even deeper vulnerability: most contributors, delegates, or decision-makers are not full-time. They often have other jobs, multiple affiliations, or even conflicting interests. Their attention is split, their motivations are fragmented, and inevitably—*because they are human*—their personal gains will begin to outweigh the DAO's collective long-term interest. And it's not their fault. It's the fault of a governance model that assumes people will self-sacrifice without structure, leadership, or aligned incentives.

In the absence of a clear vision, framework, or ownership model, governance gets reduced to a shallow form of voting—where the loudest voices or the largest token holders make decisions based on short-term rewards, not long-term stewardship. Treasury proposals get gamed. Responsibility gets diluted. And instead of visionary leadership, the DAO is led by fragmented consensus shaped by individuals optimizing for themselves.

That's why building *intentional governance frameworks* isn't just a design choice—it's the only way to ensure DAOs grow into functional, resilient institutions rather than digital commons waiting to be looted.

To be clear, we're still focusing on the *human element* of DAOs here—

not debating whether code can execute votes or whether a treasury can be transparently spent once a decision is made. In fact, many operational aspects of DAOs work beautifully *on-chain*: proposal voting, spending approvals, public reporting, and coordination of information across contributors can all benefit from transparency and automation. Once the *what* is decided, the *how* can—and

should—run via smart contracts. Even the functioning of expert groups, once they are selected, can be transparently tracked with clear reporting lines and on-chain accountability.

There are several great examples of this in practice: dedicated DAO roles like *community facilitators*, *grants committees*, and *transparency reporting teams* often operate with clarity, accountability, and strong alignment to the DAO's mission. Because their mandate is clear and their motivations are well-aligned, they can carry out their work efficiently within a structured framework—and even report back transparently to the community through on-chain tools and dashboards. These groups often represent the best of what decentralized execution can look like when there's a well-defined scope and proper incentives.

But the real challenge lies in everything that happens *before* these roles exist: the selection of expert teams, the formation or elimination of working groups, long-term strategic pivots, security policies, and how coordination and accountability are enforced over time. These are deeply human, strategic decisions—full of subjectivity and nuance—and they require leadership that is motivated, informed, and deeply aligned with the DAO's future. Expecting a fragmented group of part-time token holders to design and refine these complex processes on the fly—without any central coordination—is not decentralization, it's design neglect.

These high-leverage decisions must be led by a core team (call them stewards, initiators, investors or founders) who hold the most context, have the most at stake, and are committed to the DAO's long-term evolution. Without that core, a DAO risks becoming just a treasury and a Discord channel—rich in tokens, but poor in direction.

expert groups, token value - build on top of existing stack, dual token design, improve as you go have some allocation in the treasure to adapt to changes, use more dao tools, automate DAO operations with AI, curious to have AI in DAO

while AI can be a powerful tool for governance, its limitations as a replacement for human leadership are widely acknowledged. The focus is on leveraging AI to augment human capabilities and enhance decision-making rather than replacing human leaders entirely.
Don't aim to make DAO decentralised by unnecessarily fitting decentralised human element or DAOs that are taking offchain decisions or semi centralised framework are the end state. There's absolutely no goal to achieve decentralised governance. It's a comparatively disaster such as giving out treasury to the nation with the hope that industrialists, musicians, medical professionals, defence leaders, businessmen, traders, terrorists etc will use it rightly for the nation! Rather nation runs by finance, medical, defence bodies etc but that is absolutely not needed to achieve anything extraordinary other than making a DAO fancy by calling it decentralised to win short term game.Similarly Governance must outline which groups are trusted and qualified to make decisions based on single objective a

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What to decentralize? - code executed on its own. Communities form on its own, consensus reaches in transparent manner, funds get distributed from treasury on its own in transparent way, people can freely write proposals to present their idea towards DAOs' benefit, open source tech on which other teams can build creatively boosting the inherent token's value