



The Impact of Blockchain on Corporate Governance and Financial Transparency

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DESCRIPTION

Blockchain technology has emerged as one of the most disruptive innovations of the 21st century, originally designed as the backbone of cryptocurrencies like Bitcoin. Over the past decade, its applications have extended far beyond digital currencies into fields such as supply chain management, healthcare, and finance. In the realm of accounting and corporate governance, blockchain holds enormous potential to reshape traditional practices by enhancing transparency, accountability, and trust. By creating immutable records of financial transactions and business activities, blockchain offers a new approach to financial reporting, audit, and governance.

Corporate governance relies on the principles of transparency, accountability, fairness, and responsibility. Stakeholders, including investors, regulators, and the public, depend on accurate information about a company's performance and compliance. However, conventional financial systems are susceptible to fraud, manipulation, and errors due to human intervention or weak internal controls. Blockchain, with its distributed ledger system, ensures that every transaction is permanently recorded and verifiable. This feature reduces opportunities for financial misrepresentation and strengthens confidence in corporate disclosures.

One of the primary contributions of blockchain to corporate governance is real-time transparency. Traditionally, financial statements are produced periodically, often quarterly or annually, leaving gaps in information that can obscure unethical practices. Blockchain enables continuous accounting, where financial data is updated in real time and accessible to stakeholders. For instance, shareholders could monitor company cash flows or supply chain transactions directly on a blockchain network. This visibility reduces information asymmetry between managers and stakeholders, fostering greater accountability.

Another area where blockchain makes a significant impact is auditing. Auditors play a crucial role in verifying financial statements, but traditional audits are retrospective, time-

consuming, and vulnerable to incomplete data. Blockchain provides auditors with instant access to verified, immutable records of financial activity, streamlining the audit process. Smart contracts—self-executing agreements coded on blockchain—can automate compliance checks, ensuring that transactions adhere to regulations and corporate policies. By reducing reliance on manual verification, blockchain increases audit efficiency while lowering costs.

Beyond financial reporting, blockchain can strengthen corporate governance mechanisms. For example, shareholder voting systems can be migrated to blockchain platforms to ensure security and transparency. Proxy voting, which is often criticized for inefficiencies and fraud, could be conducted through smart contracts, guaranteeing that votes are accurately counted and tamper-proof. This democratizes decision-making and increases shareholder engagement. Similarly, executive compensation packages tied to performance metrics can be linked directly to blockchain-recorded financial outcomes, preventing manipulation and ensuring fairness.

However, the adoption of blockchain in corporate governance is not without challenges. The technology requires substantial investment in infrastructure, cybersecurity, and employee training. Smaller organizations may struggle to implement blockchain-based systems due to financial and technical barriers. Moreover, integrating blockchain with existing legacy systems poses compatibility issues that require careful planning. Another concern is the regulatory environment. Many jurisdictions have yet to develop comprehensive policies on blockchain use in corporate governance, creating uncertainty for businesses seeking adoption.

Ethical and privacy considerations also play a role. While blockchain promotes transparency, unrestricted access to financial data could expose sensitive corporate information to competitors or malicious actors. Balancing transparency with data confidentiality is crucial. Companies must design blockchain networks with access controls, ensuring that only authorized stakeholders can view specific information.

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Despite these hurdles, the long-term prospects for blockchain in corporate governance are promising. As regulatory frameworks evolve and technology matures, adoption is likely to increase. Early adopters may gain competitive advantages by demonstrating superior accountability and building stronger trust with stakeholders. Furthermore, blockchain's potential

extends to sustainability reporting and Environmental, Social and Governance (ESG) disclosures. By recording ESG data on immutable ledgers, companies can provide verifiable evidence of their commitments, reducing greenwashing and enhancing investor confidence.