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ARTICLE **ECONOMICS & SOCIETY**

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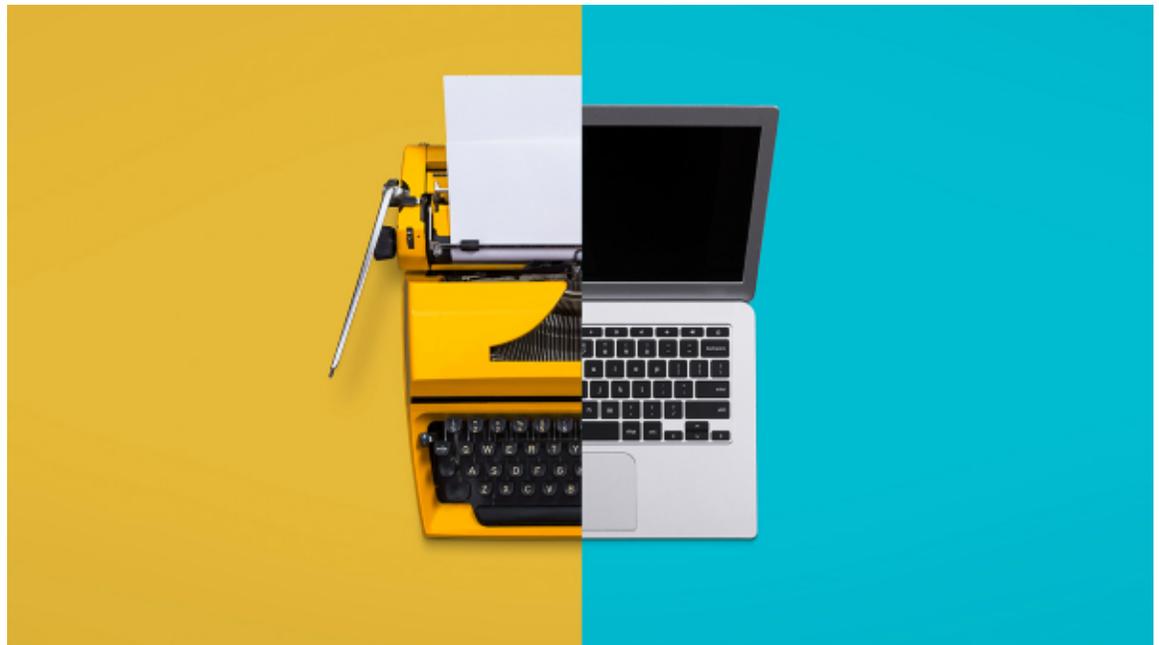
by Marco Iansiti and Greg Richards

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As workplaces mandate that employees work from home, universities shift fully to online teaching, restaurants transition to online ordering and delivery, and [automakers shut down their plants](#), we're seeing the most rapid organizational transformation in the history of the modern firm.

Yes, companies have dealt with financial crises like the 2008 Great Recession or the dot-com bust of the early 2000s. And many have endured wars and terrorist attacks, election surprises, and previous

health crises. But never before have established and evolved economies faced this kind of shock. And nothing quite compares to the physical-digital divide Covid-19 is revealing and how it affects the nature of work.

In some ways, you can trace what's happening today [to a huge digital transformation that's already well underway](#). Firms have been moving to an increasingly digital core based on software, data, and digital networks for years, requiring a fundamentally new operating architecture. From Ant Financial to Facebook, the new digital firm gains its competitive advantage in three ways: by producing more at a lower unit cost (scale), by achieving a greater production variety (scope), and by pushing for improvement and innovation (learning).

This digital scale, scope, and learning paradigm is already difficult for even established organizations to adopt. The pandemic is only making this more challenging by adding an increasingly important fourth dimension to digital operating models: virtual work. Today, rather than digitizing the relationship between firm and customer alone, the virtual model digitizes the relationship between firm and employee. As a result, offices are less important; working from home is not only possible, but often even preferable.

This need to virtualize work due to Covid-19 is driving digital transformation and deepening differences across people *and* across firms at an incredible rate. In a period of *days*, almost any process that could be rapidly digitized has been virtualized — think of video conferencing enabling a case discussion and [telemedicine enabling remote diagnosis and treatment](#). We are seeing the digitization of many ancient bastions of traditional business; [the New York Stock Exchange just closed its trading floor](#) and has moved to electronic trading.

But some businesses and processes still intrinsically require physical closeness — think of hotels, big-box stores, car dealerships, and grocery stores, and traditional retail. In addition, not all businesses with a digital operating core can be virtualized to the same extent. Despite having a largely software- and data-centric operating core, Uber and Lyft leverage huge communities performing traditional work to fulfill operating needs. Similarly, Amazon employs tens of thousands of manual workers working in warehouses and driving delivery trucks.

The stakes for digital transformation have increased dramatically. Now, digitizing the operating architecture of the firm is not simply a recipe for higher performance, but much more fundamental for worker employment and public health. This is creating a new digital divide that will deepen fractures in our society. The firms that cannot change overnight will be left way behind, exposing their employees to increasing risk of financial and physical distress. This divide is not only across firms, but is also driving fissures within firms. At Amazon, arguably one of the most successful digital firms in the world, [warehouse workers are starting to protest](#).

The divide is sure to spread. While easily virtualized businesses like education and software continue to operate, closures and layoffs are mounting in others. On March 26 the U.S. Labor Department

reported that [3.3 Million Americans had filed initial unemployment claims during the week](#), the highest such number in history. At a fragile moment like this, we must acknowledge that the economy cannot be run by digital firms alone. The COVID-19 crisis is giving us a terrifying, up-close view of how the digital divide will continue to play out. Can business and government work together to save us from that future?

(Editor's note: This article was updated on March 26 to reflect the latest U.S. unemployment number. The subheadline was rewritten on March 27 to better reflect the article's theme.)

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