

Alistair Chisholm



The Challenges of Growth - A Case Study of Airbnb

By Alistair Chisholm

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Executive Summary

Airbnb is one of the most famous 'unicorns' of recent history and widely attributed as a pioneer of the share economy. Though somewhat speculative in the current economic environment, its valuation sits at around \$30B - \$35B. Since its launch in 2009 its growth has been steep, fueled by an insatiable demand for people to take matters into their own hands post The Great Recession of 2008. Capitalizing on a growing trend of the decentralization of assets, hosts sought to earn supplementary income through short term rental, whilst a growing user base sought to capitalize on cheap air travel and accommodation. The result over the five years from 2009 and 2014 was a growth of 750% with the company doubling its listings most years. Airbnb oversaw a monumental rise in demand for the sharing of housing which spawned an entirely new model of global supply and demand. But Airbnb also created a platform for value exchange that previously did not exist and in the process found itself operating in entirely uncharted legal and regulatory waters. A victim of its own creation, this ultimately put their very business model under threat. The complexity of overcoming legal and regulatory resistance from governments across all its operational regions in order to deliver on its current model is an impossible task even for a colossus like Airbnb. Adding to the difficulties, a global pandemic which swept the globe in early 2020, led governments to mandate a block on travel, and months of social isolation. At the time of writing, the full economic impact is unknown, however it's had immediate impact on Airbnb and the wider tourism industry. This report analyses the challenges Airbnb face to restructure in the face of these external challenges as well as some opportunities presented. It points to a necessary re-alignment of its core values as well as recommendations for internal structure and activity and an implementation plan for the company to emerge with a sustainable strategy for the future.

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Findings

Background – the rise of the Share Economy

Slightly more than a decade past, the globe was feeling the strain of economic downturn. “The Great Recession” or “Global Financial Crisis” as it has since been labelled, saw a sobering reality check for banks and ordinary citizens around the world as money- markets collapsed at the foundations. Ever growing risk taking in a cavalier banking industry cut-throat in it’s relentless reward for profit-making, saw average American home owners bare the ultimate price.

“In the years leading up to the GFC, economic conditions in the United States and other countries were favorable. Economic growth was strong and stable, and rates of inflation, unemployment and interest were relatively low. In this environment, house prices grew strongly.” (The Global Financial Crisis, 2020). There was an expectation that this would continue, and the growing competition amongst banks saw lending up to and in some cases beyond the valuation of a property in order to secure housing loan business. When the reality check came, over one million American’s lost their homes (Over one million people lost their home in 2008, 2020). A run on banks around the world followed and the situation soon cascaded into global economic meltdown. Aside from those million or more unfortunate Americans, ordinary citizens around the world bore the price of funding enormous sums of money from their taxes to prop up failed banking institutions.

In part, these highly favorable economic conditions prior to The Great Recession of 2008 were a result of a boom in economic activity following the Dot Com bubble of the late 1990’s. “When the bubble burst in 2000, there were only around 400 million people online worldwide. Ten years later, there would be more than 2 billion. In the year 2000, there were approximately 17 million websites. By 2010 there were an estimated 200 million (today that number is over a billion).” (McCullough, 2020). The concept of using the internet to disrupt conventional models of value-exchange had already begun, and despite the 2008 economic downturn, this network growth continued.

But something else significant occurred following the tragic number of housing foreclosures in 2008. Perhaps fueled by the fear of a repeat, a desire for “ownership” of assets gave way to a more relaxed aspiration for “access to assets”, and with it, the exponentially growing network of users opened a greater market for peer to peer sharing than ever before. In auto markets, car rental companies such as Avis were being replaced by the likes of Relay Rides or Getaround, where central ownership of fleets were being replaced by access to a decentralized fleet of vehicles.

The same thing was happening with houses and Airbnb was disrupting to banks and hotel groups as Getaround had been disruptive to vehicle manufacturers and Zipcar. Airbnb now provided short-term

accommodation options that had never previously existed and this gave customers an ever greater selection of locations and accommodation types at much lower prices. At the same time, they offered another group of customers (home owners) the potential to make supplementary income in ways they previously couldn't.

Airbnb – Foundation and Model

“The genesis of the modern-day share economy is best traced to San Francisco in 2008, where Chesky and Joe Gebbia, recent Rhode Island School of Design graduates who had fled west, thought they could make some pocket cash by housing attendees at an industrial design conference on air beds in their apartment.” (Geron, 2020). The name Airbnb is literally a shortened version of Air Bed and Breakfast, which in its earliest inception was the idea: to provide a “pop-up” temporary bed accommodation with breakfast service. Brian Chesky and Joe Gebbia were entrepreneurial in mindset from the beginning however interestingly the disruption of a stagnating hotel industry and creation of a completely new share economy was not the intention. The resourceful and creative mindsets of the early founders were focused on turning an opportunity into reality regardless of resource or cost. The disruption would follow.

With a design conference coming up the astute pair recognized a shortage of hotel space. For the co-founders, the opportunity was to convert the loft in their San Francisco apartment into a lodging space as a way to capitalize on the shortage and help make ends meet. “We didn't want to post on Craigslist because we felt it was too impersonal. Our entrepreneur instinct said ‘build your own site.’ So we did.” (Airbnb: The Growth Story You Didn't Know, 2020). After that first weekend they quickly began receiving emails from people around the world asking when their site would be available for other destinations in the world.

Over the next year, Chesky and Gebbia worked on their idea and brought on a third partner, an engineer by the name of Nathan Blecharczyk. They focused on the October 2009 Democratic Convention as the time to launch their platform.

The model was simple. On the one side, an accommodation service for guests, different to the standard hotel experience and at much less cost, and on the other side, housing offered by hosts who could make income from the supply of their home as accommodation.

Airbnb would make money by charging a service fee — a percentage of the total — to both hosts and guests. “The lion's share of expenses and work fall on the hosts — they buy or rent the property, coordinate with guests, clean up after them — while Airbnb collects fees.” (Molla, 2020)

Customers were those looking for accommodation during glut periods. Airbnb would offer an expanded accommodation option during periods where options were limited. But as Airbnb's supply network grew, people were provided affordable options to stay outside of city centres. This along with the emergence of low

cost airlines served to create an entirely new customer base of travellers who might ordinarily not be able to afford it. And so the demand for Airbnb's service grew.

Values

Aside from the obvious responding to a critical need for a product or service that didn't already exist, Chesky, CEO, attributed the rise and success of Airbnb to its people and culture, stating he preferred a slow approach to choosing a team comprising the right people. On hiring his first engineer he states "There was something much more long-term and much more enduring which was, 'Do I want to work with one hundred thousand more people like this?'" (Lattice, 2020)

Preferring a standardized approach with a long term view, Chesky anchors his employees and community of global hosts and guests to four core values. Airbnb outline these on their careers page (Careers at Airbnb, 2020):

1. **Champion the Mission**

We're united with our community to create a world where anyone can belong anywhere.

2. **Be a Host**

We're caring, open and encouraging to everyone we work with.

3. **Embrace the Adventure**

We're driven by curiosity, optimism and the belief that every person can grow.

4. **Be a cereal entrepreneur** (a reference to custom cereal boxes Cheskia and Gebbia designed and sold to raise much needed startup funds during the 2009 Democratic Convention)

We're determined and creative on transforming our bold ambitions into reality.

Growth

The founding pair were met with early scepticism. The model was questionable. Would people really trust perfect strangers to stay in their home? Would enough customers exist outside of glut accommodation periods to render the model sustainable? In addition, the founding duo Chesky and Gebbia did not fit the usual mould of tech entrepreneurs. Both Industrial Designers, they lacked the usual technical or business expertise to seem a credible team to back in the emerging digital economy. The addition of their third engineer partner went some way to helping however the original duo would quickly prove their worth through creativity, resourcefulness, resilience and pure hustle.

Funders who turned down the opportunity to back the founding team would grow to regret their decision. By 2013, Chesky and crew raised \$120M. A \$112M funding round in 2011 gave the early start-up a \$1.3 billion valuation. (Geron, 2020). It seemed that for the model to work, it needed to grow the network of suppliers

and customers and this is what it focused on doing, largely through hacking the existing Craigslist platform and turning it into its own, but also through the addition of a photography service which successfully sought to standardize the appearance of accommodation presentation in order to make accommodation comparable in appearance to hotel accommodation but at a fraction of the cost. “By Spring 2014, the platform had 10 million guests and 550,000 properties worldwide along with a \$10 billion valuation. At that point the company had raised \$776.4 million from investors like Y Combinator, Sequoia Capital, Keith Rabois, Andreessen Horowitz, Ashton Kutcher, Founders Fund and TPG Growth over seven funding rounds – the last of which raised \$500M alone. (Airbnb: The Growth Story You Didn't Know, 2020).

Over the five years from 2009 and 2014, Airbnb grew 750%, doubling its listings most years and growing an internal team of 550 employees. (See appendix 1.1, and 1.2). In 2016 Airbnb sold common shares to employees at a company value of \$26 billion, whilst in 2017 the company was valued by private investors at around \$35 billion. In 2018 banks and investors considered Airbnb a candidate for IPO and Airbnb received its most recent round of funding at \$1 billion.

Two years later, Airbnb is still a private company. It's most recent valuation for tax purposes was around \$38 billion (Schleifer, 2020). However ahead of its long awaited IPO this year, Airbnb posted losses. “Airbnb is spending big to deal with safety issues, upgrade its tech, and grow its user base. It's also looking at a whole lot of red.” (Molla, 2020). It would appear its growth has stagnated.

Challenges

Since 2013 Airbnb has experienced an astonishing size and pace of growth. Between 2011 and 2018 valuation soared from \$1.3 billion to \$38 billion. However early investors weren't convinced the model would work, sceptical of how hosts would perceive safety and security of a platform which invited total strangers into one's home.

But the lessons from the Great Recession of 2008 were front of mind for a huge population of people who sought to take matters into their own hands. Low cost air fares and the growing use of technology in the way people conducted business served to shrink the globe. Customer adoption multiplied exponentially as hosts sought to earn new passive income through a platform of exchange not previously available.

The challenge for Airbnb has been to keep up with the pace of growth in the demand for its platform whilst mitigating the risk to its longer term growth and remaining aligned to its core values.

Concerns over the safety and security of the platform lurked and these have been cemented in recent times, echoing the concerns of those earliest investors who reneged on funding the early start-up. In addition, the company faced legal pressure in the area of ownership regulation and taxation. As with other businesses such as Uber in the emergent share economy “they operate in interstitial areas of the law because they present new

and fundamentally different issues that were not foreseen when the governing statutes and regulations were enacted.” (Kaplan and Nadler, 2020)

There is a large question mark surrounding how local governments around the world will respond to public safety concerns over the platform and regulations surrounding ownership and taxation, and how Airbnb can standardize its response to this across its global platform. New York has been the first city to make it illegal for anyone to rent out their entire apartment for a stay of less than 30 days. Other cities have imposed restrictions on the platforms use including Los Angeles, Amsterdam, Mallorca, Barcelona, Paris and Airbnb’s spiritual home of San Francisco (Lagrave, 2020).

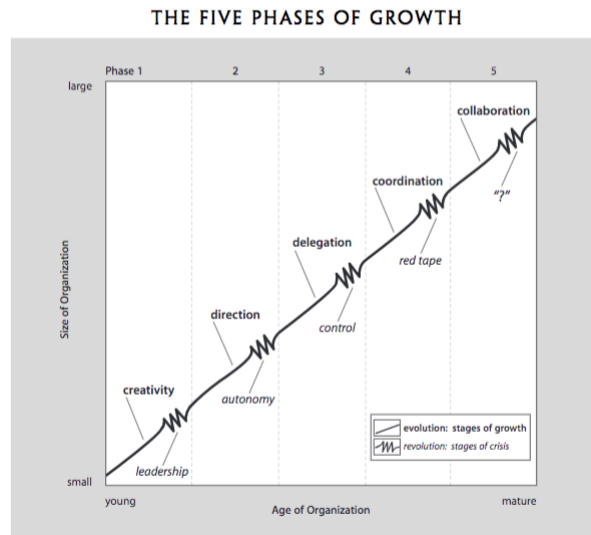
Airbnb’s website acknowledges some municipalities have laws that restrict your ability to host paying guests for short periods and states “These rules can be confusing. We’re working with governments around the world to clarify these rules so that everyone has a clear understanding of what the laws are.” (What legal and regulatory issues should I consider before hosting on Airbnb?, 2020).

Moreover, with its multi-billion-dollar valuation, it is becoming a very expensive company to invest in. And in a cruel turn of irony, at a time when it would appear its only real opportunity to make the next leap of growth is via public share offering, a global pandemic has swept the globe, and rocked share market and investor confidence everywhere. To add complications, the company is under internal pressure to yield a return to its employees on their common shares which are soon to expire. Failure to respond to this could seriously impact their trust, accountability and values in the eyes of their employees and the organizations internal structure and growth could be challenged.

Problems

Airbnb currently face issues owing largely to macro-economic challenges, and so it is faced with the critical need to respond internally. It has enjoyed huge growth in the past but faces a significant challenge in how to manage itself internally through a period of inevitable decline.

Several theoretical frameworks of growth and innovation can be applied to help. The concept of organizational ambidexterity suggests a paradoxical relationship in activities, between those focused on revenue-making from product/service sales to those focused on creation of new opportunities. “In addressing this conundrum, James March notes that central to the ability of a firm to survive over time is its ability to exploit existing assets and positions in a profit-producing way and simultaneously to explore new technologies and markets – to configure and reconfigure organizational resources to capture existing as well as new opportunities.” (O’Reilly and Tushman, 2011).

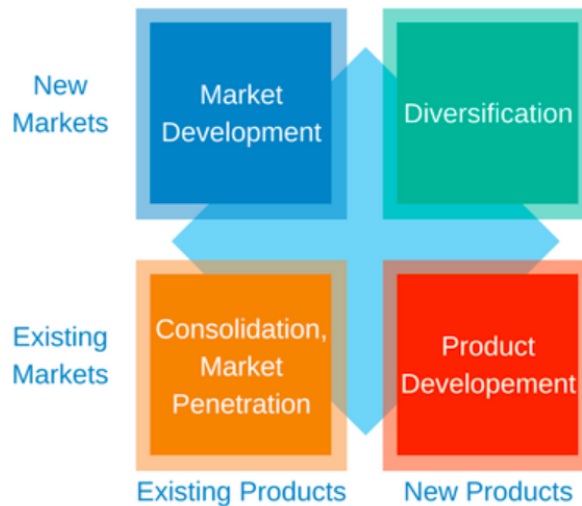


(Greiner, 1998)

Greiner’s theory on Evolution and Revolution is also useful here. He suggests five stages of relatively smooth evolutionary growth interrupted by inevitable periods of organizational revolution. Airbnb is a mature company and in transition from stage 4 to five, where it is in desperate need of revolutionary innovation to shun the red tape of coordination which has been helping it ride the wave of profiteering for so long. To do this, it will need to re-organize toward a culture of problem solving and innovation, with an even greater participative and collaborate culture of diversified teams.

The theory of disruptive innovation vs incremental innovation is also relevant here. It is not enough to consider that only incremental innovation is adequate to be considered innovative. The fact is, doing things differently is only valuable if it translates into business growth. Airbnb was innovative and disruptive in its early days, and possibly owing to the creative and entrepreneurial mindsets of its Industrial Designer founders. It’s platform business model was a transformational innovation for the industry, whereas the move to add a photographic service to improve customer experience and standardize presentation was a necessary incremental innovation that helped feed its immense growth in both existing and new markets. Aside from the bolstering of internal resource to handle the immediate response to the threat of regional short term rental regulation, the model has remained largely unchanged for over a decade. It has enjoyed largely serendipitous growth of a network fuelled by favourable economic circumstances (low cost airlines, post 2008 recession economic growth, the exponential take up of Internet Technology Services, and the miniaturization of computing toward personal handheld devices).

Ansoff's Product/Market Matrix is useful here to consider Airbnb's historical strategy of growth. When observing the matrix it's clear that Airbnb have been very good at consolidating existing markets as well as expanding into new ones, however it has provided limited strategy toward new product development or diversification. If it is to grow beyond it's current state, new products and diversification will be a critical strategic consideration.



If Airbnb wants to avoid a cascading decline even sharper than its rise, it needs to revisit it's core fundamental values and in respect of founding innovation theory, restructure for growth.

Discussion and Critical Evaluation

One could be forgiven for thinking Airbnb cannot possibly fail. Its valuation is still enormous and it has large sums of money to spend. But currently the economy is in free-fall and no-one really knows where it will bottom out. There is a very real threat of another housing market collapse which could significantly reduce property prices and rental yield.

Additionally, the travel market which benefited from low-cost disruption post 2008 and gave aid to the very growth Airbnb has experienced is now under very real threat. Owing to the Covid-19 lockdowns in every country of the world, Airlines have been grounded. Some such as Virgin Australia and Flybe in the U.K. have already gone into administration and others may follow. And with job losses set to increase, the hit on personal income will impact discretionary spending on holidays and travel.

Moreover, governments such as the N.S.W. state government in Australia have made the use of Airbnb illegal during pandemic lockdown. And that is now. There is no guarantee that such lockdowns will not occur again, which puts Airbnb's entire business model in jeopardy.

During its consecutive years of steep and rapid growth, it has been a challenge for Airbnb to remain anchored to its core values. These values have been reflective of a market operating in 'good times', but do little to address the underlying root needs for accommodation. It is difficult to deliver on the promise of creating a world where anyone can belong anywhere when an economy is in deep decline, tourism industry decimated and job losses leading to housing foreclosures and homelessness! Its number one core value of 'championing the mission' aims at uniting community, whereas in some cases its service has served to divide community by facilitating 'illegal hotels' leading some local governments to create policy seeking to limit short term rentals.

But these challenges represent great opportunity when coupled with the right internal structure and response. To start with, the challenge of responding to the enormously divided international regulatory response has already led to an increased cost burden for Airbnb as it looks to grow its marketing and legal teams. But the problem hasn't reached full scale yet and this needs to be anticipated with the same entrepreneurial mindset and hustle that has brought the company's growth this far. How can Airbnb restructure its model to standardize its response?

The root problem for its global legal and regulatory challenges lie in its number one core value "Champion the Mission". To unit a community and create a world where anyone can belong anywhere, Airbnb must play ball with their stakeholders. Since Roman times it has not been possible for community to exist without paying tax, which makes governments key stakeholders in its model. But more importantly, governments are the key accountable custodians of this mission, not Airbnb. So Airbnb can't afford to operate at the whim of these growing isolated regulatory responses, but rather it needs to position itself on the front foot by re-structuring its service to provide for the root needs of governments all around the world.

Ironically, at a time when it wants to become a public company, it is more important than ever for Airbnb to look beneath the surface at the true needs of the public. And there is most probably no better time to align with this, than during an economic downturn where the core needs of a public under economic duress are most visible. "Airbnb has already showed a strong philanthropic streak which includes participating in community-service projects and aiding in relief efforts around the world by providing free housing to victims of natural disasters." (Kaplan and Nadler, 2020)

But what are the real longer term sustainable needs of community? How is community built and how does it prosper? What are the basic needs for people to feel they belong? People and governments around the world are reflecting on these questions right now, and a private company wanting to go public ought to think about this very seriously.

Conclusion

Airbnb is at a strategic cross-road. If it chooses to ignore its current situation it risks going into freefall. On the other hand, it has already fallen victim to a strategy of growth that has ignored the early warning signs of decline, and so in many ways it already has catching up to do. There are immediate problems afoot, the most important of which is the unavoidable impact of loss of demand owing to the Covid-19 pandemic and economic decline. Airbnb also has the very serious issue of governmental regulatory changes threatening its very business model. Thirdly, and perhaps more optimistically, the macro-environmental changes are presenting opportunities for Airbnb which previously were not so apparent and the company has money and resources to respond.

Recommendations

The immediate problem of the Covid-19 pandemic is unavoidable and so is the required response. This report offers three critical recommendations.

R1

Immediately commission the analysis of current and projected loss of business owing to Covid-19 and changes in the international regulatory landscape. These are separate projects in analysis which require independent completion before undergoing merge and cross-analysis prior to strategy development. Both projects should occur under the leadership of a steering committee comprising key members of the Executive Team and The Board. Central to this work will be Dave Stephenson (CFO) Chris Lane (Senior VP Global Policy and Communications), Rich Baer (CLO), Margaret Richardson (VP Trust) and Krishna Rao (Global Head Corporate Development), Joseph Zadeh (CSO) and their teams, and under the direction of Brian Chesky (CEO) and members of the board: Jeff Jordan (venture capitalist), Belinda Johnson (Ex COO of Airbnb) and Ann Mather (Finance) (Appendix 2.1 and 2.2). A rather onerous activity inevitably leading to internal restructure, job-losses and board restructure, most probably in finance, operations and potentially in the the newly bolstered, legal departments.

R2

Immediately commission an opportunity assessment on the changing accommodation needs of people in cities, with an emphasis on the share economy and a focus on internal strengths in online network and service delivery. The outcome of this assessment will drive an innovation strategy with the outcome of a manageable programme charter of exploration projects. It could be that Airbnb emerge from their strategic cross-road understanding that there is a huge opportunity to provide a platform for global long term rental accommodation rather than short term lets. There are also opportunities to leverage corporate and social responsibility and respond to other key needs of society and community such as housing security and homelessness. The consideration of a new key member of the board to strengthen government stakeholder relationships could offer strategic advantage. Central to this work will be Margaret Richardson (VP Trust), Rob Chestnut (Chief Ethics

Officer), Krishna Rao (Global Head of Corporate Development), Joseph Zadeh (Chief Stakeholder Officer), Aisling Hassell (VP Community Support), Aristotle Balogh (CTO), Catherine Powell (Head of Experiences), Alex Schleifer (Chief Design Officer) and Greg Greeley (President of Homes) and their teams under the direction of Brian Chesky (CEO), Kenneth Chenault (Corporate and Non-Profit sector leadership, Ashe Institute for Urban Health) Alfred Lin (Sequoia Capital) and Jeff Jordan (Andreessen Horowitz).

R3

Appoint a Chief Innovation Officer to lead the internal creative renaissance and to create and lead a renewed strategy of exploration and exploitation.

Implementation Plan

Month 1

Begin R1. Assemble Teams, Stakeholders, and Create Project Scopes and Plans. Completion of Analysis for both projects by Month 6. Critical Evaluation Analysis and Strategy Formulation complete by Month 9. Begin Strategy implementation inside Month 12.

Month 2

Launch R2. Assemble Teams to run concurrent to R1. Create Project Scope and Plan. Completion of Initial Assessment by Month 5, with Innovation Strategy work to run between Months 5 and 6 and to coincide with the Strategy Formulation plan by month 9.

Month 1

Start the search for a Chief Innovation Officer with view of commencement Month 3 and to coincide with R2 work from Month 5.

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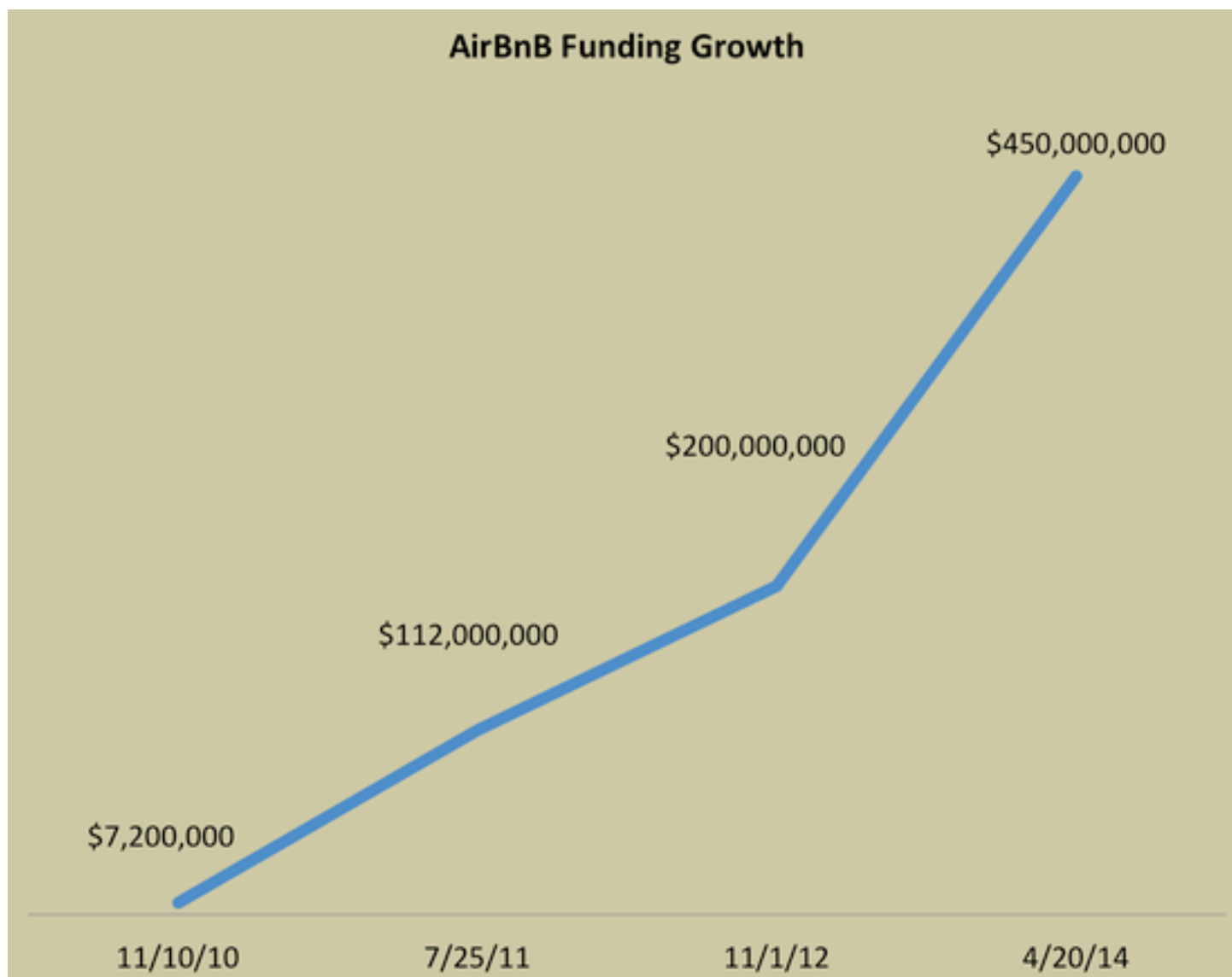
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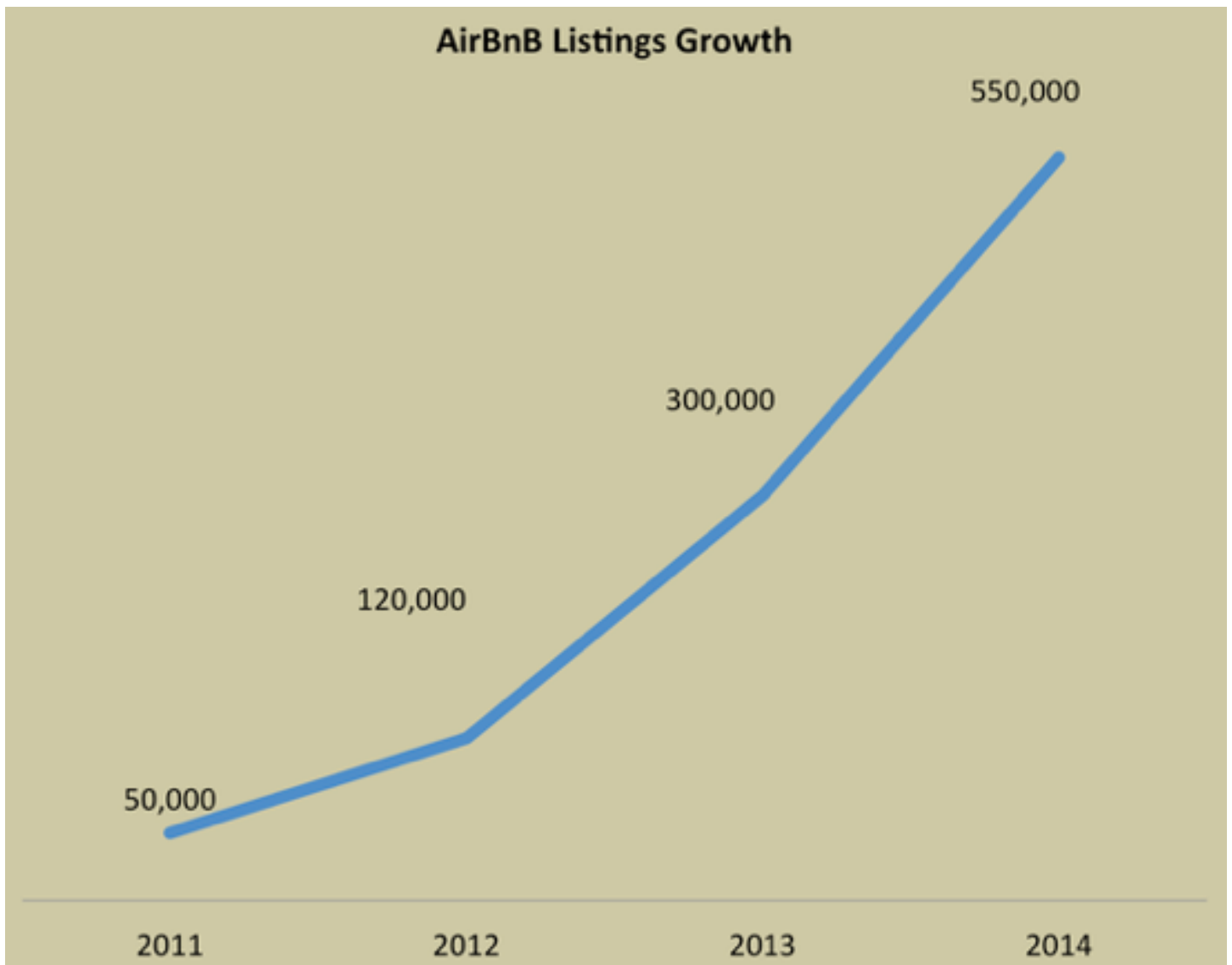
Appendix

Appendix 1.1



(Ferenstein, 2020)

Appendix 1.2




(Ferenstein, 2020)

Appendix 2.1



Org chart





















Brian Chesky
CEO & co-Founder
93 ^

+
Add person

Brian Chesky

^ Collapse

 Catherine Powell Head of Airbnb Experiences 15 v	 Alex Schleifer Chief Design Officer 10 v	 Greg Greeley President of Homes 8 v	 Nate Blecharczyk Co-Founder, CSO, Chairman of Airbnb China 8 v
 Aisling Hassell Vice President of Community Support 7 v	 Joe Gebbia Co-founder & Head of Samara 7 v	 Aristotle Balogh CTO 6 v	 Chris Lehane Senior Vice President of Global Policy and Communications 5 v
 Dave Stephenson Chief Financial Officer 5 v	 Beth Axelrod VP Employee Experience 3 v	 Rich Baer Chief Legal Officer 2 v	 Danielle Zloto EA to Brian Chesky 0 v
 Joseph Zadeh Chief Stakeholder Officer 0 v	 Krishna Rao Global Head of Corporate Development 0 v	 Margaret Richardson Vice President of Trust 0 v	 Rob Chestnut Chief Ethics Officer 0 v









Sarah Goodnow
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Appendix 2.2



Airbnb

Board & Advisors

 Alfred Lin Board Member	 Angela Ahrendts Board Member	 Ann Mather Board Member	 Belinda Johnson Board Member
	 Jeff Jordan Board Member	 Kenneth Chenault Board Member	 Add person