McKinsey & Company

Strategy & Corporate Finance Practice

The 21st-century corporation: A conversation with Brian Chesky of Airbnb

Airbnb's CEO discusses how a company that flirted with demise during the pandemic turned its business around.

July 2021

For Brian Chesky and Airbnb, the pandemic crisis was a bigger roller-coaster ride than almost any other organization experienced. The online lodging marketplace went from predictions that it might not survive the COVID-19 crisis to staging a successful IPO less than nine months later. In this episode of the *Inside the Strategy Room* podcast, James Manyika, who chairs the McKinsey Global Institute and recently co-authored a paper about the 21st-century company (inspired by conversations with CEOs like Brian Chesky), learns from the Airbnb leader what that ride was like. This is an edited transcript of the discussion. You can listen to the full podcast and subscribe to the series on your preferred podcast platform.

James Manyika: In order to pursue and capture the 21st century's unprecedented opportunities while addressing its challenges, companies may need to chart a different course from the past. But what does that look like? One CEO whose company was forced by the pandemic to do just that is Brian Chesky. Brian, you had a remarkable 2020, bookended by events that could not have been more different. Before we get into that, take us back to the spring of last year. What was happening at Airbnb?

Brian Chesky: Like many people, I came back from holidays in 2019 thinking my life would go in a certain direction in 2020. Then, all of a sudden, I felt like a captain whose ship was hit by a torpedo. Within eight weeks, our business dropped 80 percent. That's like a car going 80 miles an hour and you slam on the brakes. I have been in crises before. Airbnb, in a sense, was started during my own personal crisis when I could not afford to pay rent. One of the first lessons I learned is that in a crisis, you have to move much more quickly. People see crises as defining moments, so they try to slow down their decision making, but instead, you have to speed up. You also have to increase the amount of communication you do. The faster things change, the more you need to communicate the change.

Another thing I learned is that in good times, you make business decisions by trying to game-theory out what will happen and hope your decision delivers the best possible outcome. In a crisis-induced fog of war, you often have no idea what will happen next, and you have to make what I would describe as principle decisions: I don't know how this will play out, so how do I want to be remembered? The way a company handles a crisis is often the way the leader handles the crisis, and that comes down to that leader's psychology. The hardest thing to manage in a crisis isn't your company—it's your own thoughts. As a leader, you could think all is doomed. You can ask, "Why me?" You can get paralyzed. Or, you can tell yourself, "This is my defining moment, and it will leave indelible marks." Then you can be optimistic—not with blind optimism but optimism rooted in facts that give you hope of getting out of the situation. If you can project that confidence, abide by your principles, and act quickly, then you can navigate out of the crisis like a captain on a ship that is starting to take on water.

James Manyika: You wrote a letter in May that became quite public. How did you build up to writing it?

Brian Chesky: We knew our business would eventually recover, but we did not know how long it would take, so Airbnb needed to be a smaller and more focused company for a time. We also knew that travel would come back, but it would look different. In a crisis, you often have clarity. Somebody who has a near-death experience suddenly sees more clearly, and we were staring into the abyss. We realized we had to get back to our roots. We had been pursuing many initiatives—transportation, travel content, a hotel offering, a luxury service—which we had to scale back. We turned what had been the equivalent of a ten-division company into a single-division functional organization, and we had to reduce the workforce by around 25 percent.

I wanted to be systematic but deeply personal and fair in how we approached those decisions. We laid off 1,900 people, and I reviewed every single cut. Then I said, "We have to do more than is expected

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of us.” That’s another thing I’ve learned: in a crisis, you have three choices. You could do less than is expected of you, you can do what is expected of you, or you can do more than is expected of you. A crisis is a spotlight. All hands are on deck. It’s a moment to demonstrate your values and lead by example.

We came up with a generous severance program, and all US employees got one year of healthcare. We allowed people to keep their laptops; in a pandemic, your devices are the only things connecting you to the world. Then we took a portion of our recruiting team and turned them into an outplacement firm to help those who were laid off get new jobs. The most creative thing we did, and possibly the most important, was allowing our laid-off employees to publish their information on an alumni directory that recruiters could access. More than 1,000 people published their information, and the majority of them got rehired.

At that time, I was writing down a series of principles. I like to use a letter or a keynote as a forcing function for clarity. I know Steve Jobs did this at Apple. I wanted to work backwards to explain this move. If I can’t explain it, we can’t do it, and if it does not sound right, then it’s probably not right. People often treat communications like waiters treat food: other people cook it, and the waiter has to serve. If you start with the waiter serving the food, then you may say, “I don’t want to serve that. Let me make something different.” I also didn’t want to have a lot of BS in the letter. I included HR and legal, but I told them, “I would rather say a couple of wrong things and embarrass myself, but at least people know I’m speaking from the heart, than execute it coldly and perfectly.” People were looking for compassion and authenticity, so I thought the biggest risk was not that I would say something that opens us to liability but that people would not trust me.

Then I thought about the customer of this letter, and there were two groups: the employees keeping their jobs and the employees being laid off. Employees getting laid off needed dignity, so I repeatedly said in the letter that those people were among the most important contributors to building the company. I even reached out to my peer CEOs, asking them to consider these individuals for jobs. The last thing I did was use a four-letter word that I don’t think you are supposed to use in business. That word is love. I told employees that I love them. That could sound cheesy, but when I wrote it, I felt it. It is easier to feel that when people are scared and depend on you. You feel your responsibility. I was forewarned by public company CEOs that the hardest thing I would have to do is a layoff, and it was hard for me, but I think the way we communicated it helped get us ready for the next step.

James Manyika: That letter is quite remarkable. You even borrowed money to be able to extend those benefits so employees who were leaving would feel like shareholders of the company.

Brian Chesky: Yeah. There were definitely discussions about how generous we should be, and I think if a CEO has to make a choice between cutting deeper and being more generous to everyone you cut or cutting less deeply but also being less generous, you should cut as deep as you need to in order to be as generous as possible. You should be all in on people or be all out but not put them in a type of purgatory. I also felt that we were saving a lot with the reduction in fixed costs and winding down of many initiatives, but you can't cut your way out of goodwill. You cannot cut so deeply that the public does not root for you to return or employees don't want to work for you. So we were brutal about the initiatives, "This is a great idea, and we're not doing it anymore," but we were not brutal about people. That was what got us out of the tailspin.

James Manyika: So you have done the layoff; now you have a big hole to climb out of. Tell us what happened between May and that fall.

Brian Chesky: Not long after the layoff, we started getting indications in our data that we had not been expecting. One of the leading indicators for our business is searches. Before people book an Airbnb, they type in a location and dates with often long lead times. We started getting indications mid-May that our business would rebound. People were not traveling for business or crossing borders, which had been half of our business in 2019, but they did want to gather with close family or friends. By June, we started to see bookings pick up and we also pivoted the company.

We did a campaign called "Go Near" and tried to get our hosts ready. We worked with former surgeon general Dr. Vivek Murthy to develop an enhanced cleaning protocol, and more than one million hosts set that standard. We took $250 million from our balance sheet and gave it to hosts to help them make it through. This was at a time when we were having trouble raising equity. We ended up going with debt and gave more than 10 percent of that cash to hosts. That may have seemed crazy until you ask yourself, "Why do we exist in the first place?" Our hosts are our lifeblood. If they aren't solvent, we are not solvent.

The pick-up in business revealed that we have a fundamentally adaptive model. There is an old saying: the best way not to fall off a bicycle is to keep moving. In a world changing fast, what survives are the things that are the most adaptive, and the things that are most adaptive constantly change. It turned out that, because we have many types of hosts, at nearly all price points, we could adapt to almost any shift in travel. Hotels typically cater to crowds in tourist destinations and business travelers. If there is no business travel and people don't want to be around crowds, hotels still have the concrete and the staff. We do not have to build any infrastructure. Another way to say that is that trillions of dollars had already been invested in the creation of people's homes, and we could leverage this existing infrastructure. We are in mega-metropolises like London and in off-the-grid homes outside of Joshua Tree. We are a network, a community, and communities are ecosystems. Ecosystems, like Mother Nature, are inherently adaptable.

We started realizing we might have a strong third quarter. I will mention that at one point, one of the bankers working on our IPO called me and said, "I think it's safe to say you can put your S1 form [the US Securities and Exchange Commission's pre-IPO registration form] on the shelf; you won't need to look at it again this year." Someone else told me, "It would be beyond inconceivable that you could go public." If I had told people in the depth of the crisis that we would go public that year, they would have asked me to get a sanity check. But, suddenly, we saw a window, and I thought it would be the ultimate comeback story, so in July, we dusted off the S1.

The first problem we noticed was that the S1 described a company that no longer existed because we had made so many changes. So we had to rewrite the S1. I personally wrote around 14,000 words. I really toiled. What the crisis taught me was to totally focus my energy on one thing and do it to the very best of my ability. We immersed ourselves in the S1 and realized there was a real story there, so we filed.

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James Manyika: This letter from the co-founders—you, Joe Gebbia, and Nate Blecharczyk—is unlike any S1 letter I have ever seen. You talk about how you were the first hosts and about belonging and connection being the core of the company. Take us through those first principles you mentioned earlier.

Brian Chesky: Writing the founders’ letter was, surprisingly, more difficult than the layoff letter. The layoff letter was difficult emotionally, but I just had to tell people what was happening step by step. Many companies write about their missions and how they are changing the world, and I was concerned that the letter would be pablum. Originally, I wrote about the crisis because I thought I had to explain why we were going public, but we realized this would not be very timeless. I read Jeff Bezos’ 1997 shareholder letter and what makes it great is that he made shareholders partners. He told them what makes Amazon unique and how he would run the company.

It started with a list of ten things, and I kept trying to reduce it. If Airbnb was gone tomorrow, what would we most miss about it? What makes it different from every other company? I backed into three principles: about why we exist, our creative spirit, and being a company rooted in 21st-century principles and ideals, where we have a responsibility to more than just shareholders.

That third section is maybe the most important or at least the most universal. I wanted investors to know how I would run the company. I said, “The best thing for shareholders is for society to want us to exist. And society will want us to exist if they think that as Airbnb benefits, they benefit.” The rules of business have changed. This idea that the job of a corporation is solely to serve shareholders may have been correct once but talk to anyone under the age of 30—they care about the quality of the products, but they also care about what the company stands for. Even if you are self-interested, it is in the self-interest of shareholders to find harmony with other stakeholders. This idea that for one stakeholder to win, another has to lose is, to me, bad design. I always think like a designer. Design is not the way something looks; design is how something works, and something works best when it works for the largest number of people. We also created a special stakeholder committee on our board to audit our impact on stakeholders the same way an audit committee audits our financials. You need an auditing function to hold yourself accountable.

James Manyika: You also created a host fund that makes your hosts partners. Can you talk about that?

Brian Chesky: One of the most important things we did is to agree that we wanted to treat our hosts as partners. Part of that is sharing in our success. Initially, we thought of giving out equity to hosts, but there are limitations around that, and if someone sells it right away, it does not compound. We found inspiration in college endowments, where a donor puts money into a principal that then grows, and the appreciation can be reinvested. We took 9.2 million shares of Airbnb stock and we put it into the Airbnb Host Endowment. I also committed $100 million of my own equity. The fund's charter is to support hosts now and in future generations. We also created a Host Advisory Board of 17 hosts in 14 countries, who are our community leaders, and that board will advise on how we use the endowment. It could be a scholarship fund; it could support hosts; it can work on community programs. One piece of advice I give to every entrepreneur now is to set aside a couple of percent of the company equity. A private company is like wet cement: it has not hardened yet. Once you are public, it hardens, so we wanted to figure out any commitments before the cement hardened.

James Manyika: You routinely say that you are trying to build a multidecade company and you are just getting started. What's on your mind as you think about what lies ahead?

Brian Chesky: I am 39 years old, although I'm going on 49 after last year, and this is my life's work. One of the things I'm most proud of is that the top of that S1 letter says "A letter from Brian, Joe, and Nate." The three of us are still together. I think of a company like your child. The worst thing you could imagine is your child not outliving you. None of us as founders want to watch our company's demise. I like to ask entrepreneurs, "Why do you deserve to exist?" The best, most generous answer I ever heard is, "Because if I don't do it, no one else will." For us, the answer is those three principles. There are not many companies this size run by a designer and that have a unique, creative approach. There are not a lot of companies in the connection and belonging business at what may be the most isolating time in human history. And I think capitalism needs a little bit of an evolution. We need to adapt to meet the needs and challenges in society, and the next generation of entrepreneurs needs role models.

So I think this is the first at-bat of the first inning for Airbnb. The company is 13 years old. You don't raise your 13-year-old to be a good 14-year-old. You raise your 13-year-old to be a great adult with a long career over many decades. That is how we are thinking about Airbnb.

Brian Chesky is the co-founder and CEO of Airbnb. **James Manyika** is a senior partner based in McKinsey's San Francisco office.

Designed by McKinsey Global Publishing