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## Airbnb: Scaling Safety with Rapid Growth

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## Abstract

Airbnb, a rapidly growing peer-to-peer rental property platform, faces scrutiny and backlash for its actions after teenage guest, Jacob Lopez, claims to have been sexually assaulted by his host. The case discusses the struggles associated with a rapidly growing company in the sharing economy. To provide a proper framework for analysis, the case also details a brief history of Airbnb's responses to similar previous incidents. How does Airbnb protect its guests from harm with little to no control over the behavior of its hosts? (Or, vice versa?) What communication tactics need to be implemented to respond to future hazardous incidents?

## Case

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### The Lopez Incident

When 19 year-old Jacob Lopez traveled overseas to Madrid in July 2015, he anticipated an enjoyable trip and planned to stay at an Airbnb property. His decision to book an Airbnb in Madrid stemmed mainly from his great experience at an Airbnb property in Brazil just a year prior. [1](#), [2](#)

Lopez arrived in Madrid on July 4th and met his host, who turned out to be transsexual, at the subway near the property. The male-transformed-to-female walked with Lopez to the apartment and, upon arrival, locked the main door to the unit. Then, according to Lopez, the woman ordered him to perform a series of sexual acts. Lopez initially refused to obey. He was scared for his life after the host began to hint that she would harm him if he did not comply. She also severed the Internet lines to hinder his ability to reach out for assistance.

Lopez texted his mother, Micaela Giles, in the United States. Giles immediately phoned Airbnb from the family's Massachusetts home for help. However, Airbnb personnel indicated that an address to the property could not be provided as she was not the registered guest. They went on to say that Giles would need to ask the Madrid police to call Airbnb directly for the address to be released. She hung up the phone and repeatedly attempted to call the Madrid police. Each time she rang authorities, she was led through a series of prompts in Spanish only to have her calls continuously dropped. After several attempts, Giles tried to call Airbnb again, but was unable to connect to the company's emergency hotline.

Eventually, Lopez was able to escape by telling the host that he had to meet friends who knew where he was and who would call the police if he did not show up to join them. According to Lopez, the host sexually assaulted him prior to his escape. When questioned, the host maintained that the sexual actions were consensual. Lopez has undergone extensive counseling to overcome the trauma resulting from the situation.<sup>3</sup>

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## Airbnb Company Overview

In 2007, two twenty-something entrepreneurs, Brian Chesky and Joe Gebbia, saw a need in a century-old industry. These two recognized that the lodging and hospitality business had not tapped into the sharing economy. Doing so could provide convenient and economical options for consumers. So, with a website called [airbedandbreakfast.com](http://airbedandbreakfast.com), the duo launched their idea.<sup>4</sup> Chesky and Gebbia decided to pair the debut of their start-up with a local San Francisco design conference in hopes of garnering more attention. For \$80 a night, the friends rented air mattresses in their shared apartment and reached out to members of the city's designer population to do the same. Gaining the interest of only three guests and three hosts, the first attempt was an overall failure.<sup>5</sup>

But Chesky and Gebbia did not stop there. Instead, they paralleled their second attempt with an even bigger event, the 2008 Democratic National Convention in Denver, Colorado. At this time, Nathan Blecharczyk, Geb-

bia's former and technologically savvy roommate, joined the team. The three were able to secure a steady revenue. However, when elections came to an end, revenue dropped significantly.<sup>6</sup>

On the advice of an established entrepreneur, the three took their gig to New York City, an area overpopulated with tourists and desperate for economical lodging options. This environment, paired with an increasingly "open" society in which members were quickly becoming more willing to share due to social media expansion, proved to be the perfect springboard for the startup.<sup>7</sup>

Not long after its debut, Air Bed and Breakfast, or more commonly referred to as Airbnb, transformed into a global billion-dollar company. The entity's transactional process is fairly straightforward. Airbnb hosts post pictures of their property on the company's website and online community members can search the site to find lodging. Property prices range from less than \$50 to more than \$1,000 a night and guests can choose between renting an entire home or apartment, a private room, or a shared room.<sup>8</sup>

Airbnb prides itself in fostering a community feel amongst guests and hosts. Chesky sums it up as follows, "Airbnb is about so much more than just renting space. It's about people and experiences. At the end of the day, what we're trying to do is bring the world together. You're not getting a room, you're getting a sense of belonging."<sup>9</sup> Airbnb's business model provides assets to both hosts and guests. Hosts are able to earn supplemental income, sometimes enough to cover the cost of their own rent or other property-related expenses, and guests have access to relatively low-cost accommodations that they can book efficiently.

Today, a small team of Airbnb executives manages the company. These key staff members include the Chief Executive Officer, Chief Technology Officer, Chief Product Officer, Chief Financial Officer, Head of Global Hospitality, Head of Global Policy and Government Affairs, and Chief Business Affairs and Legal Officer.<sup>10</sup>

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## Airbnb's Business Model

Airbnb is among the fastest growing accommodation companies in the world. In December 2014, Chesky shared some news via *Twitter*: "Airbnb now has 1 million homes on its platform, and is adding more than 20,000 new ones each week."<sup>11</sup> Equally impressive, the company's growth stemmed from a small workforce of approximately 1,600 employees globally.<sup>12</sup> Airbnb deliberately runs a lean operation, but what is most

compelling about the company is that it does not own real estate. Unlike traditional hotel companies, which own and profit from physical real estate, Airbnb is purely in the business of connecting people with other people and, by doing so, people with places.

The company's core focus is connecting cost-focused travelers to homeowners that provide lodging solutions in desirable sections of cities that hotels traditionally underserve. Many users are repeat customers highlighting the fact that the service enables travelers to live like the locals. In essence, Airbnb provides unique travel experiences as well as quick, affordable, and safe accommodation for travelers.

Airbnb's business model is straightforward. Users fall into one of two classifications: hosts or guests. Hosts represent the asset owners who list their homes and apartments on the platform. In effect, hosts provide the listings that are available to customers on the Airbnb digital platform. Guests reflect the demand on the platform, representing customers that are seeking to rent listings in cities around the world.

Airbnb's two main customer segments are personal travelers and business travelers, with personal travelers comprising the majority of its users.<sup>13</sup> Airbnb approaches customer acquisition through two core sales channels – online advertising and word-of-mouth.<sup>14</sup>

According to [Kenontech.com](#), a blog that highlights startups, "Airbnb is very aggressive with its online marketing and ads can be found through an extensive network of affiliate sites and as part of search results on major search engines."<sup>15</sup> [Kenontech.com](#) goes on to say that the second sales channel, which emphasizes a word-of-mouth approach, stems from the founders' belief that "if they provided their users with a great experience there would be a high probability that their users would spread the word."<sup>16</sup>

Furthermore, the company generates revenue from two main sources, commission from renters and commission from homeowners. Commission rates are maintained at a minimum to keep users from moving the transaction offline. Airbnb charges hosts a 3% host service fee for each booking completed on its platform. Withdrawn from the host payout, this fee covers the cost of processing guest payments.<sup>17</sup> Airbnb also charges a guest service fee when a customer's reservation is confirmed. The current guest service fee is a variable fee that ranges between 6-12% of the reservation subtotal (before fees and taxes). The higher the subtotal, the lower the percentage, allowing users to save money when booking large reservations.<sup>18</sup> The section below, 'Sample Nightly Fee Rates', illustrates a sample calculation that the company provides on its website to explain the host service fee structure.

### Sample Nightly Fee Rates

**Example:** 4-night reservation at a listing with a nightly rate of \$100 and \$50 cleaning fee

**Subtotal:** (4 nights x \$100) + \$50 cleaning fee = \$450

- Host Payout:  $\$450 - (3\% \times \$450) = \$436.50$
- $\$450 - \$436.50 = \$14$
- Host Service Fee to Airbnb = \$14 (rounded up to nearest dollar amount)<sup>[19](#)</sup>

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## The Nature of the Sharing Economy

The sharing economy offers the ability for anyone with an asset, whether a car, home, or extra space in his or her driveway, to capitalize monetarily on that asset simply by renting it.<sup>[20](#)</sup> The nature of the sharing economy facilitates peer-to-peer business transactions. By way of a digital clearinghouse, companies such as Parking Panda allow consumers to find a parking space before they even enter a garage. Via Uber or Lyft's electronic platform, a consumer can summon a personal driver with just a couple of clicks.<sup>[21](#)</sup> As for finding a deal on overnight accommodations in an instant, Airbnb allows travelers to forego a call to the Holiday Inn by renting another consumer's bedroom for \$50 a night or, if one prefers a more glamorous option, renting a beachside mansion for a \$1,000 a night by simply perusing the company's website.<sup>[22](#)</sup>

All members of the sharing economy share three main attributes:

1. They rely on recent technological advances to satisfy established consumer demands in innovative ways;
2. They enter a space with well-established companies and disrupt the current competitive landscape; and
3. They function in interstitial areas of the law due to the timing of emergence.<sup>[23](#)</sup>

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## Rapid Growth of Airbnb

Since 2008, Airbnb has enjoyed unmatched growth in the accommodations industry compared to its peers. According to the *Wall Street Journal*, which reported Airbnb's most recent valuation in June of 2015, the company has a valuation of \$25 billion and 2015 revenues were projected to reach \$900 million.<sup>24</sup> By comparison, Marriott, which manages more than 4,000 hotels, is valued at \$21 billion and last year reached \$13.8 billion in revenue.<sup>25</sup> In only a few years, Airbnb grew from a small start-up to an established company with a market value larger than many of its traditional hotel competitors. Furthermore, Airbnb's valuation is approximately twice the size of rival travel site Expedia and more than five times the size of HomeAway, Airbnb's closest online competitor (see Figure 1).

Analysts contend Airbnb commands a premium valuation given the company's accelerated growth rate over the last few years. Airbnb's \$900 million in projected revenue for 2015 was 360% of the company's revenue in 2013, which totaled \$250 million. From 2014 to 2015, the company had an estimated revenue growth of 113% year-over-year.<sup>26</sup> Airbnb's next closest competitor for year-over-year growth was HomeAway at 24% and Expedia at 20%. Traditional hotels like Marriott continue to grow at more conservative rates hovering between 5% and 10% (see Figure 2).

Beyond revenue and valuation, Airbnb is quickly becoming a mainstream lodging brand recognized among travelers. According to equity research firm CB Insights, the term "Airbnb" recently surpassed "Marriott" in Google search popularity for the first year ever in 2015.<sup>27</sup> Analysts remain bullish that Airbnb's online dominance will likely continue to grow, further enhancing its competitive position among its primary rivals in the lodging industry (see Figure 3).

With many promising growth metrics, institutional investors continue to flock to Airbnb as a seemingly secure investment opportunity with a bright future. The Dow Jones Venture Source, an online database that tracks company performance of privately held ventured-backed companies, currently ranks Airbnb as the third most valuable private start-up in the world, trailing only Uber and Xiaomi.<sup>28</sup> Airbnb maintains a stable roster of prominent investors. Notable companies include Sequoia Capital, Andreessen Horowitz, Tiger Global Management, TPG Growth, T. Rowe Price, and Fidelity Investments.<sup>29</sup> What is clear is that the company is well capitalized and positioned to grow. What remains uncertain to some is the company's ability to sustainably



manage this rate of growth.

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## Political and Regulatory Environment

On September 2, 2014, an independent city-wide poll from Quinnipiac University asked, “Do you think New York City residents should be permitted to rent rooms in their homes for a few days at a time to strangers, similar to a hotel, or should this practice be banned?” [30](#) The results of this poll showed a sound majority of voters, 56%, in favor of allowing short-term rentals to strangers. Only 36% of New York voters wanted to ban the use of short-term rentals. [31](#)

Approximately one year later, in November 2015, Airbnb commissioned a survey to gauge whether New York residents perceived the company and their rental service in a favorable or unfavorable way. David Binder Research polled more than 400 respondents over an 11-day period and found the following:

- 65% believed Airbnb should be legal in New York
- 22% believed Airbnb should be illegal in New York
- 05% answered they view Airbnb “very unfavorable”
- 10% answered they view Airbnb “somewhat unfavorable”
- 25% answered they view Airbnb “somewhat favorable”
- 12% answered they view Airbnb “very favorable”
- 48% of voters had “No Opinion” of Airbnb [32](#).

While Airbnb maintains sound consumer support in many of the cities where it operates, the company is no stranger to political and regulatory controversy. Over the last two years, the company has been embroiled in high-profile political battles with regulators in some of its most lucrative markets, including San Francisco and New York City. In November of 2015, San Francisco voters headed to the polls to vote on Proposition F, which was commonly known as the “Airbnb Initiative.”

Proposition F was a ballot initiative drafted by city officials in an effort to toughen regulations on short-term rental apartments and homes in the city of San Francisco. [33](#) A political initiative capable of reducing short-term listings and revenue for Airbnb, Proposition F presented the first significant instance in which Airbnb faced an organized political effort to regulate the company’s business model in its own backyard – San Fran-

cisco. Numerous Airbnb opponents, including hotel industry backed opposition, affirmed Airbnb was operating under interstitial areas of law and urged regulators to codify clear rules that would regulate online rental platforms to a similar standard that traditional hotels must comply with under the law.

Proposition F attempted to enact the following key rules for Airbnb and other short-term rental platforms. If the proposition passed by a majority vote, each company, and their rental hosts, would be required to comply with the following rules:

1. A 75-day imposed limit over the course of a year on all forms of short-term rentals where the host is not present during the stay. Hosts prohibited from listing a unit if it exceeded the 75-day limit.
2. Require hosts and rental platforms to submit quarterly reports to the San Francisco Planning Department detailing which nights the unit was rented out and which nights the host occupied the unit
3. Insert Legal Standing provisions enabling permanent residents and nonprofit housing groups the right to sue hosts and rental platforms for violating the rules.

On November 4, 2015, Airbnb scored a victory as voters favored letting city residents rent out their homes.<sup>34</sup> Proposition F lost by a vote of 55 percent to 45 percent. Airbnb outspent its opposition by a factor of 16 to 1, spending \$8 million dollars to defeat the measure. In comparison, Unite Here, a hotel workers' union, raised only \$482,000 in support of the measure. In the wake of Airbnb's victory, Christopher Nulty, a spokesman for the company, released the following statement: "Voters stood up for working families' right to share their homes and opposed an extreme, hotel-industry-backed measure."<sup>35</sup>

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## Terms of Service and User Liability

As opposition groups across the country remain committed to portraying Airbnb as unsafe and preoccupied with evading sensible regulations, Brian Chesky, CEO and Co-Founder of Airbnb, provides his viewpoint as it relates to the sharing economy. Chesky asserts, "There were laws created for businesses, and there were laws for people. What the sharing economy did was create a third category: people as businesses."<sup>36</sup> Regulators in cities across the world, in particular where Airbnb operates, continue to grapple with the new business model that has risen from the sharing economy. While consumers continue to lend support to Airbnb and similar sharing economy services, questions still remain on where liabilities rest in this new way of doing business. Do liabilities rest with the users of the service or the company facilitating the service?

Airbnb's Terms of Service agreement clearly defines which party assumes liability and how Airbnb approaches risk management and legal strategy. Airbnb operates in hundreds of countries, territories, and cities across the world. Naturally, this diverse geographical presence makes it inherently difficult to inform users of all the applicable public safety, housing, and zoning laws that might apply to them as hosts or guests. Instead of opting to educate all users of the relevant housing and safety laws that apply to them in their respective territories, Airbnb chooses to place all legal responsibility on the user through their terms of service agreement.

Airbnb's Terms of Service state, "Please read these terms of service carefully as they contain important information regarding your legal rights, remedies, and obligation." Airbnb's Terms of Service are over 16,000 words in length.<sup>37</sup> In comparison, Marriott's Terms of Use for the United States and Canada are just under 2,500 words.<sup>38</sup> Uber's Terms are under 5,000 words,<sup>39</sup> and Homeaway, an Airbnb competitor which owns more than five other rental companies, has a Terms page on their website that totals just under 13,500 words.<sup>40</sup> As of February 14, 2016, Airbnb's Terms of Service were last edited on July 6, 2015, two days after the Lopez incident.

Airbnb says that it has no control over the conduct of its hosts, guests, or any other user of the site. The company disclaims all liability in this regard to the maximum extent permitted by the law. Airbnb states that it does not control the content contained in any of its listings and the condition, legality, or suitability of any accommodations. Moreover, Airbnb states that all bookings are made and accepted at the member's own risk. The Terms of Service agreement also states that Airbnb does not act as an insurer.

However, as of May 2012, Airbnb began offering a Host Protection program or Host Guarantee, in which hosts are covered up to \$1 million for damage and injuries. Airbnb's website states that the Host Guarantee does not cover cash and securities, pets, personal liability, or common areas.<sup>41</sup> Furthermore, the insurance is "secondary," meaning the Airbnb policy takes effect only after a host exhausts his or her personal insurance coverage.<sup>42</sup>

Members of Airbnb are sometimes listed as "verified" or "connected" which simply indicates that they went through the verification process. Per the Terms of Service, this is not a guarantee of the member's identity or whether they are trustworthy, safe, or suitable. Members are encouraged to use their own judgment when accepting and selecting hosts and guests.

Airbnb's preferred strategy of informing users of their legal responsibilities through the Terms of Service

agreement does not come without contention between users and the company. Many users confirm they do not read the Terms of Service agreement and the company is aware of this significant caveat.

In September 2012, Nigel Warren, a New York City resident, illegally rented out his bedroom for \$100 a night while he was away in Colorado for a three-night trip. Upon his return from Colorado, Nigel was contacted by his landlord who had been cited for five violations for operating as an “illegal transient hotel.”<sup>43</sup> The fines, if enforced, would have amounted to \$40,000 in punitive damages. Fortunately for Mr. Warren and his landlord, the city dropped the sizable fines due to an administrative error of the city’s buildings department.

Due to his experience, Mr. Warren posed a pressing question that many stakeholders wish the company would more thoroughly address. Acknowledging that Airbnb knows within reason that many of its hosts who live in large cities are violating rules, he wondered why Airbnb doesn’t warn people about the potential for legal hassles. “By ignoring local laws, you (Airbnb) are making casualties of the very people you need to make your site a success,” Warren said.<sup>44</sup>

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## Airbnb’s Safety Tips

### Tips for Guests:

Clicking on the link “Trust and Safety” at the bottom of Airbnb’s homepage directs viewers to another page with a link entitled “I’m a guest. What are some safety tips I can follow?” Airbnb suggests reading the reviews of other guests to ensure the host is reputable. If guests are skeptical about the host after reading the review, they are encouraged to use their intuition and not book their stay with that host. Guests can also ask hosts to complete “profile verifications” before booking with them. Airbnb suggests that guests talk to the host and start a conversation about the upcoming stay. It also recommends traveler’s insurance and reminds guests to call the local police or emergency services immediately if personal safety is threatened.<sup>45</sup>

### Tips for Hosts:

Above the link for guest safety tips, customers can learn about how to stay safe as a host. Airbnb encourages hosts to read reviews of the guests and to use common sense when accepting a guest’s request to stay at

their listing. Hosts can require guests to complete verifications before they book, such as Verified ID. With Verified ID, guests might be asked to upload their government-issued ID, link their Airbnb account with their page on another social media site (i.e. Facebook), or upload an Airbnb profile photo. Airbnb also asks hosts to call the local police or emergency services if their personal safety is threatened. Airbnb suggests that hosts designate a safe location in case of an emergency. Hosts can also notify their neighbors that they are hosting an Airbnb guest as a precautionary measure.<sup>[46](#)</sup>

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## Other Incidents Leading Up to July 2015

### Incident 1:

In June of 2011, an Airbnb host who identified herself as “EJ” reported that the person who rented her apartment trashed it and stole jewelry, cash, and electronics. EJ wrote about this incident on her personal blog. Airbnb initially responded by trying to persuade EJ to remove her blog post and declined to help her recover from the damages. Following the incident, Chesky stated in a blog on Airbnb’s website on August 1, 2011 that he hopes “this can be a valuable lesson to other businesses about what not to do in a time of crisis. With regards to EJ, we let her down, and for that we are very sorry. We should have responded faster, communicated more sensitively, and taken more decisive action to make sure she felt safe and secure. But we weren’t prepared for the crisis and we dropped the ball. Now we’re dealing with the consequences.”

Following the response Airbnb said they would provide a \$50,000 insurance guarantee for any loss or damages at the property of an Airbnb host. Since the incident, the policy has increased to \$1 million but is secondary to the host’s personal insurance. Also, Airbnb planned to launch a 24/7 hotline for its users to report problems. Finally, Chesky offered his own e-mail address in case customers had trouble getting in contact with an Airbnb representative.<sup>[47](#)</sup>

### Incident 2:

A couple rented an Airbnb property in the Hamptons (New York) in June 2014. Following Airbnb’s safety tips,

the couple read the reviews of the host and, because of the positive nature of the reviews, decided to book the stay. Before arriving at the home and meeting with the host, the couple texted the host to let him know the timing of their arrival and asked a few questions about items in the house and where to pick up the keys. The host was reportedly friendly and responsive.

Later that night at 2:45 a.m., the male guest received a text from the host that read, “Do you want to try.” Shortly after, the host let himself into the locked house with another set of keys and appeared to be inebriated. The host then asked the male guest, “The girlfriend, she’s cool, right?” The male guest calmly asked the host to leave, but not before the host picked up the guest’s keys and wallet. The male guest asked the host to put the items down and the host did so before departing.

Shortly afterward, the terrified couple left the home. The female guest tried to call the 24-hour emergency line, but could not reach an Airbnb representative after waiting on the line for 45 minutes. The couple then filed a complaint and received a response that Airbnb would be forwarding the case to their Trip Experience Team. The couple drove back to Manhattan where they found a hotel priced at \$350 per night. That Monday, the couple called Airbnb twice by phone, but no one returned their calls.

Only after *Business Insider* reached out to Airbnb for comment on the incident did Airbnb take down the host’s listing and ban him from the site permanently. They reimbursed the couple for their stay, apologized for the delay, and gave them a \$500 credit to try Airbnb again. A spokesperson for Airbnb commented about the incident in a *Business Insider* article, “We deeply regret that this matter was not handled properly and our response fell well short of the standards we set for ourselves. This behavior is totally unacceptable and the host has been permanently removed from Airbnb.” [48](#)

In September 2015, the couple ventured back onto Airbnb’s site and found that the same property where the incident occurred was relisted on the site under a different name. As a result, Airbnb banned the property again.

Nick Papas, an Airbnb spokesman, commented in another *Business Insider* article, “We have technological tools and procedures that help ensure bad actors don’t try to come back to our community. In this case, one investigator didn’t properly employ these tools. We’ve since addressed this issue and we are implementing procedures to ensure it doesn’t happen again. We will also make it clear to the host that he is not welcome and has no place in the Airbnb community.” [49](#)

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## Response to Lopez Incident

The onus was left on Jacob Lopez's mother to rescue her son in Spain. At the time of the incident, Airbnb's policy was to withhold the location of the guest if anyone other than the guest were to ask and would not report a crime unless contacted by the guest. Lopez's mother called the Madrid police department, but was unsuccessful in her attempts. Even if she had been able to reach someone in Madrid, the inefficiency of Airbnb's protocol would likely not have allowed for police to reach her son in time.

Nick Papas commented in a *New York Times* article, "We realize we can learn a lot from this incident and we can do better. We are clarifying our policies so that our team will always contact law enforcement if we are made aware of an emergency situation in progress. Safety is our number one priority, and we want to get our hosts and guests as much help as possible." <sup>50</sup>

As reported on July 13, 2015, Belinda Johnson was promoted to Airbnb's Chief Business Affairs and Legal Officer. In this role, she is responsible for legal matters, civic partnerships, public policy, social and philanthropic initiatives, and communication. According to Airbnb CEO Brian Chesky, she'll "become more of the face and the voice of the company." <sup>51</sup>

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