

case study

Open Book Management: The case of Zingerman's Deli

By Dasha Plachynda and Susan Gregory

Introduction

Many studies have been conducted with the purpose of discovering what is most magical for success in business. Without grounding in applied theory, this is a seemingly impossible task – new innovations and technologies seem to sprout overnight, overtaking the “old” ones every time a new study is published. With this reality in mind, this work will examine the undeniable success of a single organization through the lens of organizational culture.

This organization, Zingerman's, is a particularly good case for study: the trajectory to success is well documented; the elements of its business model that are unique are well established and therefore lend themselves easily to study and the company has chosen to allow its business model to be published and taught to others. The creation of ZingTrain has allowed for a clear view of what the founders themselves believe are the ingredients to their success.

These ingredients, namely open book management and the creation of a formal mission statement and guiding principles, are well established in the relevant literature. The theoretical underpinnings of organizational culture studies are ideal for dissecting the ingredients for several reasons. First, a grounded theory approach was used in this case study; the aforementioned “ingredients” were identified prior to the identification of the applicable theory. This order of operations ensures that the ingredients to success were uncovered without theoretical bias. Second, Zingerman's employees – from the upper management to the dishwashers – are unusually unified in expressing that the Zingerman's culture is a major reason for success as well as the background to an effective work environment (Weinzweig, 2010). Third, an organizational culture approach is well suited to the study of a single case, single-case study being an accepted practice in anthropology.

Zingerman's began as a deli in 1982 in Ann Arbor, Michigan. In the years since it was founded, that deli has grown into a “family” of food related businesses as well as ZingTrain. The company is “successful” by any benchmark of “success” – it has earned longevity in the community; the food businesses are often voted “best of” in local publications, and have the pleasure to enjoy low employee turn-over.

Zingerman's success may be directly attributable to an open book management style, as well as the guidance of a formal mission statement and guiding principles.

Literature Review

Mission Statements:

Institutional linguistic studies reveal that mission statements are quite important indicators and mediators of organizational culture. Swales and Rogers argue that these mission statements are “rhetorically designed in order to ensure maximum employee buy-in (Swales & Rogers, 1995).” This argument reveals mission statements to be just as important internally as they are externally. Mission statements help to inform the public as to “who” the company is; they also assist in employee cohesion through the formulation of a common purpose (Alavi & Karami, 2009). Linguistics theorists observe that the mechanism that drives this is the use of language to appeal to self- and collective identities of their employees, thus, to mobilize action.

The type of mission statement a company creates has a demonstrated effect on company performance. In surveying a number of companies (N = 80), Deal and Kennedy learned that about a third of the companies surveyed had clearly articulated beliefs (n = 25). Of those companies surveyed, two thirds (n = 18) had qualitative mission statements. An example of a qualitative mission statement would be IBM's articulated belief that “IBM means service.” The authors found that clearly articulated qualitative mission statements (as opposed to completely elided, vague or financially oriented ones) correlated positively with organizational success (Deal & Kennedy, 2000).

Interestingly, employee participation in the creation of the mission statement has been found to positively correlate with organizational performance (Alavi & Karami, 2009). It was found that if employees had a stake in the creation of the mission and goals, the company's culture was more conducive to communication and other contributors to overall company performance (Alavi & Karami, 2009). This is relevant to this work in that it appears that if the creation of the mission statement is done in line with the same egalitarian principles as open book management, the benefits may be exponential.

Organizational Culture:

Zingerman's success is herein examined using the theoretical lens of organizational culture. Organizational culture theorists examine

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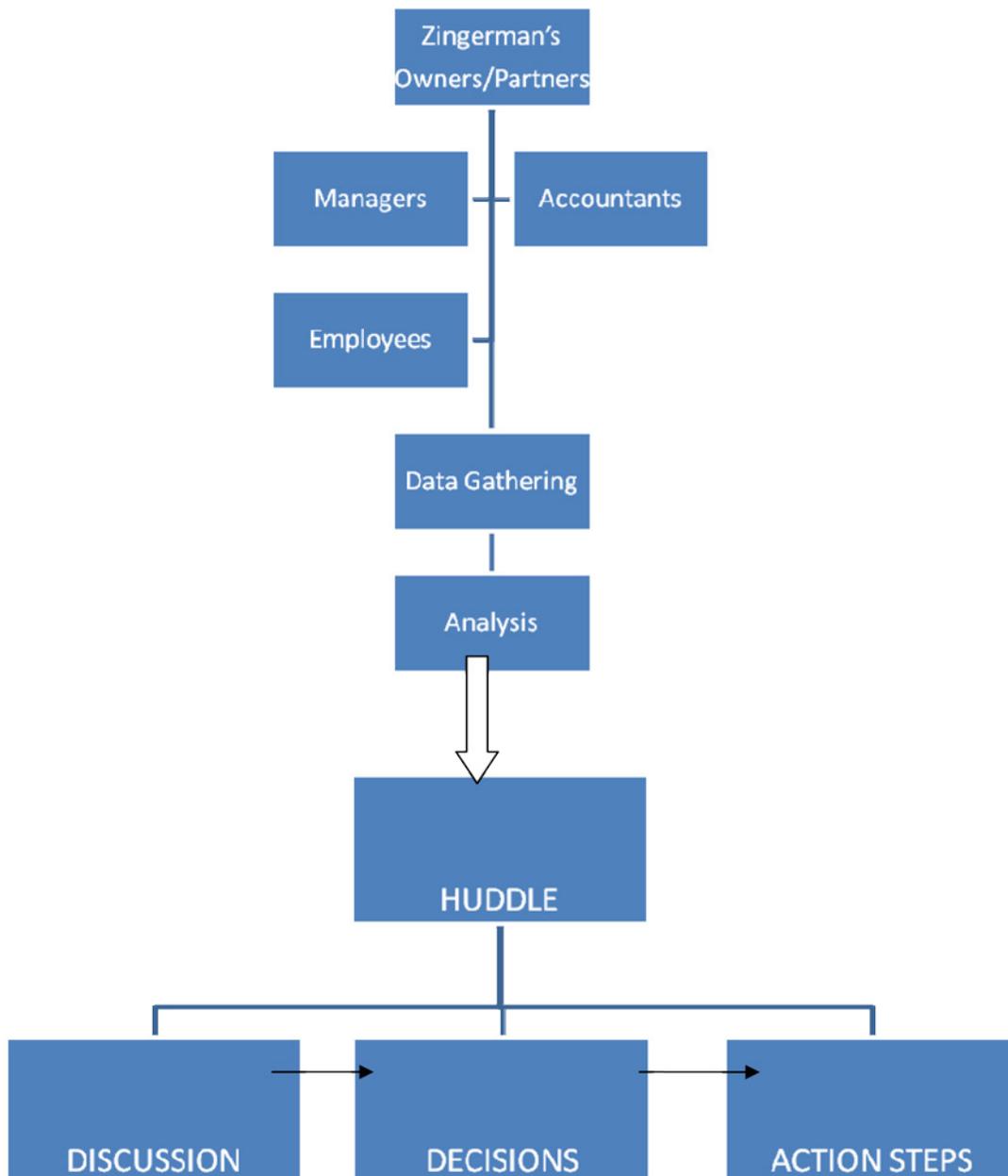
“corporate culture” or a set of ideas and shared assumptions about how to deal with the external environment and the macro culture within which the business is located. Corporate culture also consists of how to facilitate and manage internal integration among employees. These assumptions are socially constructed over time, and may not be consistent over all levels of the company’s internal hierarchy.

Kyriakidou and Gore conducted a study in 2005 in order to identify the elements of an organizational culture that are significant for a

company’s success. They interviewed 89 small hospitality businesses and concluded that organizational culture and its performance can be linked together: “most best-practice operations share cultures that support values such as building the future together, cooperative setting of missions and strategies, development of teamwork, and organizational learning”. The four elements of organizational culture have been described very recently as “adaptability, consistency, involvement, and mission” Mission statements are perhaps a first look into what an orga-

Illustration 1

Zingerman’s Communications Flow



nization's culture might be like (Zheng, Yang, & McLean, 2010).

Business is a human institution, whose real existence lies in the hearts and minds of the employees (Deal & Kennedy, 2000). Their somewhat poetic definition of corporate culture includes shared values, myths, heroes and symbols. All companies have a culture; while some are fragmented and difficult to really define, others are cohesive, have clear goals, and a unified drive. The latter sort of company has a demonstrated higher rate of success in the authors' studies. The current decline in American productivity may be an indicator that business leaders need to remember that people make businesses work, and culture ties people together and gives meaning and purpose to daily work life.

Open Book Management:

Open book management is a business management technique that has been widely publicized and discussed in recent years (Simkins, 2009; Aggarwal, 2001; Case & Stack, 1999). The theory behind it is that employees who understand how their day-to-day decisions affect the bottom line are more likely to have a feeling of ownership in their job, and therefore make decisions with the best interests of the company in mind. In actuality, open-book management is a simple yet very effective approach to managing a business. Back in 1996, in the idea's infancy, John Case described it clearly. It means a firm:

- Shares a broad array of financial and other information with employees
- Trains employees to become more business literate
- Empowers employees to use the information in their work, trusting them as partners
- Rewards company's employees when business is conducted successfully
- The words "it's not my job" are strictly forbidden in the workplace (Case, 1996)

No discussion of open book management is quite complete without mentioning Jack Stack (who was the stated inspiration for Zingerman's use of open book management). Inc. Magazine named Jack Stack "The Father of [Open-Book Management](#)", which is a business practice of sharing financial and decision-making duties among all employees. Stack was also listed among the "top 10 minds in small business" in Fortune Small Business Magazine. Stack argues that educating front line employees, along with giving them tools to operate the company, forecast the growth, and predict the changes, is essential for a modern business society to succeed in a highly competitive market. "Employees cannot possibly see the Big Picture if they don't understand what the company does – what services or products it delivers to customers, or how it helps solve guests' problems and take care of their needs. Opening the books is a way of giving people control and thereby providing consistency." Jack Stack suggests. Employees need to be involved with the overall plan of the business.

Without a plan, people have nothing to which they can compare their performance, no means of recognizing problems, and no targets they can use to organize, motivate, and challenge themselves (Stack & Burlingham, 1994).

There is a link between organizational culture and organizational effectiveness. Knowledge management is a major component of organizational success (Zheng, Yang, & McLean, 2010). How a company manages knowledge – i.e. who gets to know what information and when – is a direct outcome of the organizational culture. This, argue the authors, is because "...knowledge is created, made sense of, and utilized in accordance with a set of cultural values and norms, embedded in structural relationships, and reflected in strategic priorities (pg. 764)."

In the Zheng study, the authors surveyed 301 businesses and collected data on employee perceptions of five constructs: organizational culture, structure, strategy, knowledge management, and organizational effectiveness. Their statistical model shows knowledge management as a full mediator between organizational culture and organizational effectiveness; however, the authors do not directly cite the term "open book management" as the best practice. What they do state is that a company that engages its employees, has a clear and common mission, and has a culture not at odds with the macro culture, had a statistically better chance of success in their study.

Methodology

The Zingerman's organization was examined in several ways. First, research focused on the readily available explication of the company's organizational culture, mission statement, and guiding principles. This is available in Zingerman's co-founder Ari Weinzweig's book: *A Lapsed Anarchist's Approach to Building a Great Business* (Weinzweig, 2010).

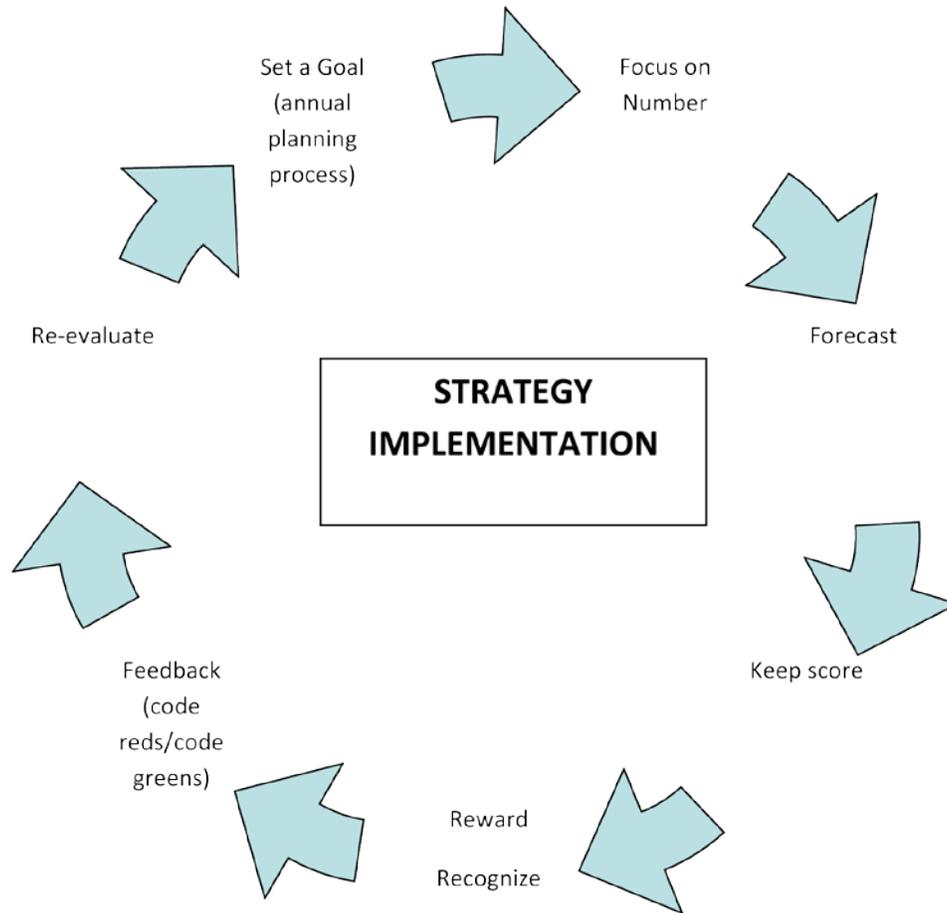
A semi-structured interview was conducted with a Zingerman's employee and a member of middle management, in order to determine certain elements of organizational culture, discussed in the sections below. In addition, a focus group was held with six employees of Zingerman's. The employees used for the group were entry level (not management). This strategy was implemented to get a fresh view on what new faces to the company saw as positive and negative elements of Zingerman's organizational culture. A transcript (edited slightly for readability but not content) of the interview is attached as Appendix A. The results of the focus group are summarized in the case section below.

Case: Zingerman's Deli

Zingerman's Deli began in 1982 when Ari Weinzweig and Paul Saginaw opened a small Jewish Deli in Ann Arbor, MI. What started as a single private business now has grown into a family of businesses that includes: creamery, bakery, restaurant, deli, coffee company, candy manufacturing, local farm, the ZingTrain training program, catering, and mail order business. Zingerman's experience is now created and delivered by 16 partners, approximately 50 managers, and more than

Illustration 2

Zingerman's Strategy Implementation Model



500 front-line employees in the eight different businesses in addition to the Deli. In 2012, gross operating revenue was over \$40 million (Weinzweig, 2010). Zingerman's community of businesses is gaining recognition in the United States and beyond its boundaries. This is due to its stated determination to provide exceptional quality and service.

Zingerman's path to success is a useful case study to illustrate a perspective on how a small company with limited resources but with a strong, highly effective, and cohesive organizational culture might approach restaurant business development. It can be used as a benchmark for restaurant businesses on how to grow into a community of businesses with a high reputation for great customer service, healthy finance, and employee satisfaction.

The macro culture within which a business is located is indicative of what sort of corporate culture is most effective. Zingerman's, located in Ann Arbor, Michigan, emulates the city's culture by encouraging and maintaining a very liberal atmosphere. All manner of people can be observed working in the family of businesses, irrespective of race, creed, sexual orientation, or other personal beliefs. Piercings and colorful hair and other forms of individual expression are not

frowned upon. For example, it would be difficult to take Zingerman's as a whole and duplicate it in the middle of a rural area with less of a cultural mix. The corporate culture would clash with the more conservative ethos of areas unlike Ann Arbor. Therefore, Zingerman's has achieved an organizational culture completely consistent with its macro culture.

Zingerman's mission statement, that crucial guidepost for both internal and external expectations, is as follows: "We share the Zingerman's experience selling food that makes you happy, giving service that makes you smile, in passionate pursuit of our mission showing love and care in all our actions to enrich as many lives as we possibly can" (Zingerman's Staff Guide, 2011). Cynics (and some employees at first, according to focus groups) may see this as a rather 'cheesy' statement without substance. However, the ethos works because, as one focus group member put it, "You might not know at first exactly what showing love and care in all our actions actually means, but if you think about it in each situation, you always know exactly what it doesn't mean." This revealing comment shows the pervasiveness of Zingerman's mission statement in the minds of the employees – per-

haps without being aware of it, the employees have internalized the mission and it therefore reflects in their daily actions. In addition to internal guidance, Zingerman's mission statement is a clear message to its potential customers on what to expect from the company: pleasant atmosphere, great customer service, full-flavored food, respect, and recognition.

Open book management is credited by the founders of Zingerman's as a major key to their success. Not only managers and accountants are responsible for the financial performance of the organization. Not only people in the "front of the house" are responsible for great customer service. Managers are trained that everyone has insights and ideas of great value, and Zingerman's goes to lengths to obtain those ideas implementing them in practice so they can benefit from employees' abilities, experience, and intelligence (Weinzweig, 2010).

In his book Zingerman's co-founder Ari Weinzweig emphasizes the importance of employee self-motivation. He encourages companies to provide the environment in which employees "are likely to motivate themselves to high levels." When people feel that they are a meaningful part of something special regardless of seniority, title, age or experience level, Weinzweig argues, they are willing to dedicate more of their time and effort in order to perform at high levels. Risky but educated decisions, innovations, and radical improvement of product and services are the components of Zingerman's success. Lack of responsibility or statements such as "it's not my job" are a rare issue.

Zingerman's practice shows that a single person is willing to take more risks in a group, rather than alone. The decision making process is complicated, and most people hesitate to take sole responsibility for their outcomes. It is important to take risks and make decisions, but it should be an educated risk where people are using their sense of the current situation. Then, the group as a whole decides to proceed with a certain goal and/or steps toward action. When there is a group of people involved in a discussion, they tend to ask more questions, and pay better attention to details. Therefore it becomes easier to resolve the issue and find innovative solutions (Weinzweig, 2010).

Open book management helps everyone in the company, from the newest employee on up to senior management. The open book style helps keep track of product prices, payroll, and other company expenses. Due to an emphasis on artisan food products (such as handmade or rare cheeses and freshly baked breads), it is not uncommon for a Zingerman's customer to question the price of the product. When staff are given deep knowledge of the product – such as how it is made, where it comes from, and why the price is relatively high – they're able to handle this sort of situation far more gracefully and effectively. "It is easier to explain why our services cost what they cost if you have enough information and knowledge about the product, margins, and profit," states Weinzweig (Weinzweig, 2010).

Zingerman's employees prove they don't need a manager in order

to resolve a situation or issue with the guest; they are empowered to make their guests happy and fix issues directly. The decisions most front-line employees would make are actually quite likely to be essentially identical to those of any of the partners or managers. Therefore, managers are being asked for help only upon guests' requests, or anomalous situations. This freedom from day to day callings allows for higher productivity of management in their specific obligations as well.

Zingerman's also participates in community building activities. Zingerman's company actively supports "community" as a value, and encourages employees and guests to participate. Food tastings, "Zing Feasts" (traditional thematic family dinners from Deli chefs), street fairs, and "paella parties" (traditional Spanish rice dish) are just some of the casual entertaining events that are designed to gather people together and contribute to the community. The value of community is important to Zingerman's. Without it, the company may have fallen victim to accusations of elitism from the wider population. It seems that the focus on artisan quality foods and the higher prices that go with it can intimidate people who can't justify paying \$14 for a plate of macaroni and cheese. After community activities, however, opinions in the wider community may change due to the public display of Zingerman's egalitarian spirit – a spirit prized in Ann Arbor.

Weinzweig created the business model that is currently being used by Zingerman's:

1. Know and teach the rules of finance
2. Keep score
3. Share the success (Weinzweig, 2010)

These principles are directly in line with the open book management theory. Zingerman's Open Management Style includes the following components: Ownership Thinking; Better Decision Making; Distribution of Stress; Building Commitment to the Organization; Break down organizational Barriers and Leadership Development.

In addition, every employee knows this business model and the reasons for it. In focus group sessions, each participant was able to explain the model and give insights as to how it works. One participant stated that this was the first job she'd ever had that taught her finance basics. She found this remarkable given that she was working as a catering server. Not only did she learn these skills in relation to Zingerman's, but the fact that she had this knowledge made her more valuable in any business market. Her general skill level had been exponentially boosted, and she was therefore "extremely loyal" to Zingerman's.

Zingerman's has specifically designed a program called "code greens and code reds," in order to gather information from employees and discuss the issues in weekly "huddles," or meetings. Code Greens are written by a person within the company who has heard positive feedback from a guest, would like to compliment a co-worker, or simply describe a positive situation that happened. Code Reds are

also considered to be positive pieces of information, gathered by an employee who has heard a complaint, needs to resolve an issue, or document an accident that happened with a guest. Like any other company, Zingerman's has not achieved perfection in collecting and processing feedback information. It is everyone's responsibility to document everything that happens throughout the day, and make sure that important issues are addressed and people who deserve recognition are noticed. Focus group members did state that this was an area that is constantly being improved; however, all participants greatly appreciated the opportunity to be heard.

Zingerman's business model has worked so well that the company has a division named ZingTrain. This division disseminates Weinzwieg's open book business model to other businesses that are ready to transition to a different management style. Many businesses are indeed willing to hop on the ZingTrain, as Inc. Magazine has announced Zingerman's as, "The coolest small company in America" (2003). The program offers help in creating mission statements, company "visions," and including employees in these processes.

Conclusion

As is evident from a closer look at Zingerman's, small to medium enterprises can greatly benefit from open book management, the creation of a strong and qualitative mission statement, and a cohesive organizational culture that blends well with the external macro culture. Any one of these elements appears to be dependent upon another. For example, Zingerman's, or any other company could have an open book management style of operation – but without a clear mission, the company would not do as well in the marketplace. Zingerman's could have a great organizational culture, but without open book management, employees would not take ownership of their jobs, and therefore the bottom line would suffer.

In conclusion, more companies should turn away from the old models of doing business which emphasize tightly controlled secrecy (especially in finance) and strict hierarchies not always based on merit. If more companies recognized the value of human capital, the current economic landscape might see some much needed rejuvenation. More employees would invest themselves; enjoy job longevity, and a greater quality of life.

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Appendix A. Interview with Zingerman's Deli manager

To present the advantages and disadvantages of an open-book finance strategy from a managers' point of view, the case authors held an interview with one of the current managers of Zingerman's Delicatessen and asked her opinion on the company's success.

Why do you believe Zingerman's is a financially profitable and successful company?

There is no single formula for success. We are an honest and respectful company, and our customers appreciate that. We strive for excellence in the quality of our products and services. Zingerman's is never going to be among the cheapest retailers/restaurants, but our guests would always perceive value in what we offer to them. The employees have a stake in the company and they're educated about what the company's short and long term visions are. Since the vision is shared, we actually know where we're headed and where we want to be. We know if we're losing money or way ahead of plan. Gain sharing is a great way to get employees involved in the outcome since they are the ones on the front lines.

Is it important to educate front-line employees about the company's finances? Why?

It's crucially important to educate front-line employees about finances because they're the driving force of the company. Employees create and sell the actual products, they can control our waste, expenses, and therefore profit. It makes the most sense to educate those who deal with the essentials of our operations. It is proven that employees care more about their work when their financial well-being partially depends on how the company performs as a whole. They start to look out for each other and manage themselves. Also, giving employees a sense of empowerment and ownership of the company is a way to promote a sense of worth.

What makes Zingerman's approach to marketing and business unique? Can it be duplicated by other restaurant companies?

Zingerman's marketing is fun, approachable, and educational. I think if the marketing was parallel to the price range of some of the

products we carry, it wouldn't be very approachable or appealing to the majority of our customers. By using fun characters and a few educational pieces of information, we create a positive environment for our clients to purchase new products. I think the marketing does a really great job of educating customers without making them feel uncomfortable for not knowing what the product is.

The business as a whole is unique because of its commitment to the local community. It's not all about profit. It would be relatively easy and already in high demand to open multiple chains across the country, but that's not in line with Zingerman's philosophies. It would be nearly impossible to recreate the same business in a different city. A prime example is the original Starbucks in Seattle - it's very different from its multiple franchised counterparts, and for that matter, every location is different. I'm not saying it's bad; it's just not the way Zingerman's wants to expand and grow.

Another unique feature of Zingerman's is the learning opportunity it provides to its employees. You can actually learn about how the business is run without going to business school or being a manager. It's very open and supportive, and operates very much like a community.

It can and has been duplicated. It won't happen overnight and might not be for every company, but I don't see why not. It's not just restaurant companies that can duplicate our approach. There are several companies in very different industries that are successfully practicing similar a style of open-book financing.

How does open book financing help you, as a manager, to perform your daily routine?

Open book finance is a tool; when used right it can be extremely helpful. Employees are able to see our daily sales numbers at any time of the day to monitor the progress. If the company is not hitting its goals, we can discuss what needs to be done in order to change the situation for better. We don't have to wait for managerial meetings or approvals from corporate to make the decisions. It's very empowering to the employees, and it keeps them engaged and interested in the wellbeing of the company. I can refer to financial terminology or last week's sales numbers, and they'll know what I'm talking about because they were a part of the meeting. For example, I can remind them that last week we wasted a lot of food and it brought our gross margin number down. So this week, we shouldn't order as much bread and they'll understand why, and maybe even come up with a better way of ordering bread that I'd never think of.

What are the disadvantages of having companies' books opened?

The learning process is very time intensive and requires lots of dedication and hard work. It takes time to prepare reports, and share them with employees. If you have never applied it before, you might underestimate the final result and think that it's not worth the effort. Sometimes it takes a long time to implement a change because

you're now including everyone in the decision making process. If truly practicing open book, you would want front line employees' input on every change the company is making. As more people are involved, the more complicated the process becomes. There is no perfect system. Zingerman's currently has many areas for improvement. We need to work on increasing the number of employees who attend weekly meetings/ "huddles" on a regular basis. During huddles we share the numbers and talk about ways to improve our business. We could also do a better job at implementing and/or enforcing sales games that our employees suggest. The other area of my concern is the company's management team. We need to have a better system of training, and re-training our managers, because once they obtain the position, their education basically stops. The restaurant business requires an ongoing process of constant change, and we need to predict change, take on the opportunities, and use our resources in the most efficient and effective way.

How has open book management impacted employee retention?

It's all related to the organizational culture. The multiple steps hiring process helps to ensure that we have hired the right person. Each candidate, after an initial interview work a four hour shift (they are paid). At the end of the shift the candidate is interviewed again and co-workers are also asked for feedback to determine "fit". The challenge we have is that turnover in supervisory/management positions is very low and thus limited room for advancement. In a university town we have a lot of student employees that then leave at the conclusion of their studies. There are at least 5 new restaurant business started in the last few years by Zingerman's employees that have left partially due to lack of room for advancement. The culture of open book financing for the most part, has continued in these new ventures.

Discussion Questions

- How would an organization transition to open book financing?
- What are the major barriers to an organization implementing open book financing?
- How do organizations create a culture that supports implementation of open book financing?
- Discuss the return on investment of time and money spent implementing open book financing.
- How would an organization communicate and implement open book financing with a work force that may have limited education and language skills.
- Would you want to work for a company that practices open book financing given its advantages and disadvantages? Would your response be different if you were a line employee or in management?