Case Study: Greyston Bakery

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A CEO’s Challenge

Susan Jackson is the CEO of Mid-Hudson Electronics Corporation,* a privately held manufacturer with 120 employees, in Tarrytown, New York. The company, founded in 1967, supplies specialty electronics components to original equipment manufacturers. It was recently awarded a contract that will require it to hire at least 20 new entry-level manufacturing employees, and possibly twice that many if the business expands as expected.

Accommodating this much growth will require Mid-Hudson to expand its physical plant as well as its workforce. Adding space to its existing facility in Tarrytown is the least expensive option under consideration. However, the Human Resources department doubts it can find and hire enough suitable employees – both to staff up and to maintain the larger workforce. Although Tarrytown’s unemployment rate is significantly higher than the national average, the HR department considers many of the town’s unemployed population to be unemployable – including those who have histories of drug use and those who have spent time in prison.

As an alternative, the company has identified an existing facility in nearby Peekskill, New York, which it could acquire and retrofit to meet its needs in about six months, when the new contract takes effect. This option, although more expensive than expanding the existing plant, offers less of a staffing challenge. Peekskill has a pool of experienced workers from recently closed manufacturers in the area.

Both Mid-Hudson Electronics and Susan Jackson have long-standing commitments to the Tarrytown community. Jackson serves on the Boards of Trustees of local not-for-profit organizations that provide educational and recreational opportunities to children in the community. The company has a history of contributing to similar organizations financially. Her community work has made Jackson aware of Tarrytown’s perennially unemployed population – the people her HR department considers unsuitable for employment at Mid-Hudson.

In Jackson’s community work, she learned about the Greyston Bakery, which operates on the radical principle it calls Open Hiring™. Greyston employs people who would be excluded by the hiring process at a typical company, including those with a history of incarceration, drug use, or homelessness. Its goal is to give them a chance to build a self-sufficient life.

* Mid-Hudson Electronics Corporation is a fictional company, and Susan Jackson its fictional CEO. They represent a composite of companies that have engaged with Greyston’s Center for Open Hiring.

Adjunct Instructor Chet Van Wert wrote this case solely as the basis for class discussion. The case is not intended to serve as an endorsement, source of primary data, or illustration of either effective or ineffective management.

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Given the challenge Mid-Hudson Electronics faces in staffing up, Jackson decided to learn more about Open Hiring™. She wondered if it might be at least part of a solution. Could it open up a labor pool that the company’s HR department had not previously considered, allowing the company to expand its existing Tarrytown facility, rather than the more expensive option of acquiring the new facility in Peekskill?

**Zen and the Art of Business**

Greyston Bakery was founded in 1982 by a Zen Buddhist group led by Roshi Bernard Glassman. The company employs about 150 people, who bake 35,000 pounds of brownies every day for Ben & Jerry’s Ice Cream, as well as for retailers such as Whole Foods Markets.

The bakery is a for-profit business, but the profits it earns serve a social purpose: creating jobs for people who would otherwise have difficulty building a self-sufficient life. The company’s motto crisply summarizes its philosophy and describes what it means to be a ‘social enterprise’:

“We don’t hire people to bake brownies; we bake brownies to hire people.”

Social enterprises are designed to be profitable businesses, but their profits are dedicated, partly or entirely, to serving social goals. The Social Enterprise Alliance defines social enterprises as “organizations that address a basic unmet need or solve a social problem through a market-driven approach.”

How did a group of Zen Buddhists decide to build an early example of a social enterprise? Glassman points to Buddhism’s eightfold path, one element of which is ‘right livelihood.’ According to Glassman, “It’s not the business that makes right livelihood. It’s the way we do business.”

On a personal level, jobs created at the bakery give its employees self-respect, the ingredients of a stable family life, and the ability to set and achieve personal goals. On a social level, jobs help build a healthy community and a more vibrant local economy, while at the same time reducing the need for government-funded social services.

**For-profit Meets Not-for-profit**

The bakery’s profits fund the not-for-profit Greyston Foundation, which offers a variety of services for employees and other members of the bakery’s local community, including:

- affordable housing (for 222 people in 2015) in buildings that have been rehabilitated by the Foundation’s own construction company (which provides additional employment);
- children and youth services, including childcare (for 166 children in 2015);
- a technology learning center;
- workforce development programs;
- health and social services, including housing for 43 people living with HIV/AIDS; and
- community gardens that included 491 individual plots in 2015,

among other social and environmental achievements that are reported in Greyston’s 2016 annual report (Exhibits 1 and 2).
Both the bakery and the Foundation are based in Yonkers, New York, a suburb of New York City on the Hudson River. Like Tarrytown and other cities along the Hudson, Yonkers has seen better days. The region’s traditional manufacturing base has declined, with many jobs moving overseas or disappearing altogether. When the bakery was founded, Yonkers had the highest per-capita rate of homelessness in the United States.\(^4\)

The Foundation was created and began offering its services because bakery management found that they were essential to achieving its goals. According to Glassman, “We were offering job training, but we found that many people who needed jobs didn’t have housing or childcare.” Without stable housing and childcare, bakery apprentices and employees couldn’t focus on work. “In the end, it seemed obvious that there was no single solution to the problem of homelessness and unemployment. Our approach had to include housing, childcare, job training, counseling, and the creation of jobs all at once.”\(^5\)

A typical business would not find solutions to its employees’ needs for housing, training, and childcare services. It would see those activities as drains on the profit earned by the business. Greyston Bakery, on the other hand, could not achieve its mission without them. The bakery earned a profit in order to serve these social needs through the Foundation.

**No-Questions-Asked Employment**

Greyston Bakery’s signature innovation is the practice of Open Hiring\(^\text{TM}\). Anyone who wants a job at the bakery can add his or her name to the Job List. As production line positions become available, either through attrition, new business, or increased production, new employees are hired directly from the Job List. No screening process is used; no one is excluded. Most notably, the company doesn't flinch at hiring people with criminal records or the homeless. The bakery doesn’t view its policy as charity, but rather as fulfillment of a social philosophy that “no one willing to work should be denied the dignity of a job.”\(^6\)

New hires enter an apprenticeship program that lasts six to ten months, depending on the individual’s progress. The majority of those who put their names on the Job List do not complete the apprenticeship:

- About 17% of those who put their names on the Job List ultimately attend a new hire orientation at Greyston.
- Among this group of new hires, about 30% complete the apprenticeship.

This means that Greyston produces one regular employee for every 20 names on the Job List, and yet Open Hiring\(^\text{TM}\) has proven to be a very efficient method for identifying those who are ready to take this step forward in their lives. Graduates of the apprenticeship program have a below-average annual turnover rate of 33%,\(^7\) compared with about 42% across all industries and job levels in the U.S.\(^8\)

Candidates who attend Greyston’s new hire orientation enter a paid apprenticeship program that lasts between six and ten months, depending on the employee’s demonstrated commitment to succeed. It offers both job-specific training and more general life skills, such as effective communication skills, which are needed for long-term success.

Apprentices work a minimum of 30 hours per week, during which they are monitored and assessed by a supervisor or manager on criteria such as punctuality, job performance, teamwork, and availability. The manager has formal performance meetings with the apprentice every two
weeks to discuss the apprentice’s progress and areas that need improvement.

Throughout the program, apprentices are eligible for incentives, such as bonuses for perfect attendance, and they are held accountable for negative performance issues, which are tracked with a point-based system. Apprentices are allowed up to ten points, with each point representing a negative performance report or attendance issue; those who accrue ten points are subject to dismissal.

### Spreading a Good Idea

Greyston Bakery has created not just a successful business, but an innovative business model and a healthier local economy. While Greyston’s leadership is proud of the company’s achievements, they want to extend the organization’s impact on a much larger scale. CEO Mike Brady points out that 70 million Americans have a criminal record, limiting access to jobs, education and housing. This large segment of the population represents a major cost to society in social services. It also represents enormous untapped economic potential, if a significant number can be transitioned to productive employment and self-sufficiency.

While hiring those typically considered ‘unemployable’ has clear benefits both to the individuals who are hired and to society at large, those benefits can’t be realized unless many businesses follow Greyston’s example and hire them. The benefits to a business that adopts Open Hiring™ are not intuitively obvious, while the risks seem all too clear.

To make the case for Open Hiring™, Greyston created The Center for Open Hiring at Greyston to share its experience, its employment data, and the best practices it has developed (Exhibit 3). In order to serve the needs of organizations like Mid-Hudson Electronics, and communities like Tarrytown, the Center pursues several distinct initiatives, including:

- **Education and Training**: providing CEOs like Jackson, and their management teams, with research, best practices, and facts to inform their decisions about Open Hiring™;
- **Research**: working with academic and other research partners to codify best practices and quantify the costs and benefits of Open Hiring™ compared with traditional alternative practices; and
- **Advisory Services**: providing direct, ‘hands-on’ consulting services for organizations adopting an Open Hiring™ model.

### Adopting the Greyston Model at Mid-Hudson Electronics

Susan Jackson is exploring the possibility that Open Hiring™ might solve a workforce challenge for Mid-Hudson Electronics, and play a positive role in the community at the same time. She described her thought process as follows:

“Mid-Hudson Electronics Corporation has always been a strong supporter of the Tarrytown community. In addition to the employment benefits we bring, the company contributes generously to programs for children and recreation. Mid-Hudson has been a stabilizing factor for the local economy over the years.

“When General Motors closed its plant here in 1996, so many jobs were lost – over 2,000 GM workers, as well as the businesses that depended on those workers! Mid-Hudson Electronics Corporation has managed to hang in there through the ups and downs, providing good manufacturing jobs for 50 years – jobs that pay well above what our
employees could earn at a fast food restaurant or a big box retailer. So, believe me, we are aware of our importance to the community.

“I love what Greyston is doing, but it’s important to remember that Mid-Hudson Electronics isn’t a social enterprise. That said, I think that we can still learn from Greyston. It’s no longer acceptable for business to ignore its impact on the communities that support it. Businesses can’t succeed if the communities on which they depend fail.

“We are just a few miles downriver from the spot where General Electric dumped millions of tons of toxic PCBs in the Hudson River for 30 years. I remember swimming in the Hudson River at Croton Point Park when I was a child, and watching dozens of fishermen all along the riverbank. My kids couldn’t experience that because, by the mid-1970s, the impact of those PCBs on water quality in the river was recognized, the beach was closed, swimming was discouraged, and eating fish from the Hudson was considered dangerous. We later had a Superfund clean-up, and the beaches have been reopening, but the idea that a local manufacturer – much less an icon like General Electric – could be so cavalier about its impact on the health of its community is no longer acceptable.

“The same is true of social issues, like homelessness and the inability of so many citizens to find work. If we don’t change course now, I hate to think what my grandchildren’s world will be like. Our ability to bridge the social divide between the haves and the have-nots seems to be deteriorating every time I check the news.

“Those are enormous challenges. The answers – at least some of them – start at the level of companies like Mid-Hudson Electronics Corporation. Can we make an excellent product, advance the state of the art in our industry and, at the same time, improve the well-being of our employees and our community? I think we can. I think we have to.”

Financial Benefits Meet Social Benefits

Greyston Bakery’s Open Hiring™ process delivers measurable financial benefits. The cost to onboard and train each graduate of the apprenticeship program was $1,555 in 2015, including costs associated with those who dropped out during the apprenticeship program. Moreover, about 28% of Greyston’s new hires that year qualified for the federal government’s Work Opportunity Tax Credit, which paid Greyston about $2,300 per qualified apprentice from “groups with significant barriers to employment.”

Averaged across that year’s entire class of graduating apprentices, Greyston received $644 per graduating apprentice – an amount that partly offset the $1,555 Greyston invested in hiring and training costs. Compared with an average cost per hire of $4,129 in the U.S., which includes recruiting, background checks, interviews and testing, Greyston’s process produces significant savings in the first year of employment.

Furthermore, the cost savings continue after an employee’s first year of employment. The bakery’s annual employee turnover rate of 33% during the period 6/1/2016 to 6/1/2018 is lower than the U.S. national average of 42% for the year 2016. This significant reduction in turnover has important financial implications:

- It reduces overall hiring costs in future years, as fewer employees need to be replaced.
- It delivers improved operational efficiency, as inexperienced new hires represent a smaller percentage of the overall workforce in future years.
In addition to the financial benefits it produces for the bakery, Greyston’s Open Hiring™ initiative also produces benefits for the community and society overall. While difficult to quantify precisely, some of these benefits include:

- Reductions in prison costs. The annual direct cost per inmate is over $30,00012, and the indirect costs to inmates’ families, communities, and society overall are much higher. On average, 40% of ex-convicts end up back in prison.13 While that rate may not apply to Greyston’s successful employees, any reduction in recidivism resulting from employment produces substantial benefits both for both society and the individual.
- Taxes paid by employees, as well as reductions in their need for social services.
- Stronger family units and communities, with additional reductions in the need for social services.

Susan Jackson saw the direct financial benefits as key to making the case for Open Hiring™ at Mid-Hudson Electronics:

“The truth is that Greyston Bakery is teaching us management lessons as well as moral ones. No kidding! We know that screening job candidates has always been an inefficient and inaccurate process. We spend more than $4,000 on screening, recruiting, interviewing, and on-boarding every new hire, and still our turnover rate is 42%. Every year!

“Compare that 42% to the bakery’s 33% turnover rate and think about the costs that process avoids – not just future hiring costs, but operational inefficiencies as we manage around job vacancies and untrained new hires. Think about the new opportunities we could tackle with a more stable, better trained work force! Think of the cost savings if we...
could hire for this expansion in Tarrytown, rather than having to acquire another plant 15 miles away.

“Most HR professionals see this enormous inefficiency as an unfortunate, but unavoidable, fact of life. Let’s rethink that assumption. Is that really the best we can do? Or is it an indicator of how poorly the current system works? We would never accept that kind of inefficiency on our shop floor. We’d be out of business.

“So I think we should consider the bakery’s hiring process not just a means of achieving a social good, although obviously it does that. Instead, maybe it’s just smart management. Rather than pretend that we can select the best candidates ahead of time, when we know we can’t, maybe we should consider another way. And maybe that way is Open Hiring™.”

Formulating a Plan

Mid-Hudson’s Board of Directors would have to approve Jackson’s plan, whether she decided to propose Open Hiring™ or not. The Board was very civic-minded, but in a traditional way. If Jackson could present a convincing argument that Open Hiring™ would strengthen the Tarrytown community, that would be a positive factor – but certainly not the deciding factor – in the Board’s view.

The Board of Directors of a traditional corporation, like Mid-Hudson, has to give primary consideration to the business case, not the social impact. Can Jackson make the case that Open Hiring™ is really a smart management process, resulting in lower on-boarding costs, reduced employee turnover, a better trained workforce, and a more cohesive company culture?

To make this case, Jackson will need to present the costs and benefits very clearly, based on Greyston Bakery’s real-world experience and objective evidence. According to Jackson, “I’ll need to respond to some tough questions on the subject. We want to be leaders in our community. We want to do the right thing and take reasonable risks. The question I have to answer is, Is Open Hiring™ a reasonable risk?”

Jackson has had numerous meetings with the Greyston team and has begun putting together a proposal for her Board. Some of the tough questions she must answer include:

1. Unlike Greyston Bakery, Mid-Hudson Electronics Corporation is not a social enterprise. It does not exist mainly to provide employment. Will that change the Open Hiring™ equation? Is Greyston’s experience replicable by a traditional corporation?

2. If it adopted Open Hiring™, Mid-Hudson Electronics Corporation’s overall employee base would be a mix of Open Hires and traditional hires. Can the company justify providing support services for Open Hires, but not for others? Should it provide similar support services for all employees? Can the two kinds of hires work together comfortably?

3. One element in Greyston Bakery’s success has been the social support structures provided by the Greyston Foundation – things like early learning initiatives. Can Open Hiring™ succeed without these services? How should this figure into Mid-Hudson Electronics Corporation’s plans?
4. Mid-Hudson Electronics Corporation’s work force is unionized (as is Greyston Bakery’s). Jackson is worried that Mid-Hudson’s union might not welcome an Open Hiring™ plan. What objections might the union have, and how might Jackson answer them?

5. Greyston Bakery has documented the cost advantage of its own hiring experience compared with the average costs of companies that use traditional methods. To what extent would these lower costs apply to other, more traditional companies? And what other factors are critical to Jackson’s cost/benefit analysis?

6. Once new hires complete the apprenticeship program, with its high drop-out rate, Greyston employees have a below-average turnover rate. Jackson would like to calculate the financial benefits of this reduced turnover. What factors should she be considering?

7. If she were to propose an Open Hiring™ approach, Jackson would have to manage the perceptions and reactions of various stakeholders.
   a. In presenting a proposal to the Board of Directors, how should she balance consideration of the financial benefits of Open Hiring™ with the social benefits?
   b. The company’s employees would have to accept a radical new hiring process, and the new hires resulting from it. How adaptable can she expect them to be? How will their reactions affect the success of an Open Hiring™ experiment?
   c. And what about the company’s customers? Are they more likely to view Open Hiring™ in a positive or negative light?

Source: Greyston.org, “Greyston Annual Report 2016”
Exhibit 2. Greyston Combined Sources and Uses of Funds (2016 Annual Report)

<table>
<thead>
<tr>
<th>Financials</th>
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<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td><strong>EXPENSES</strong></td>
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<tr>
<td>Bakery Sales</td>
<td>15,808,286</td>
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<tr>
<td>Government Grants</td>
<td>1,629,044</td>
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<tr>
<td>Private Donations</td>
<td>1,144,495</td>
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<tr>
<td>Service Fees</td>
<td>950,125</td>
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<tr>
<td>Rental and Other Income</td>
<td>778,392</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>20,310,342</strong></td>
</tr>
</tbody>
</table>

Source: Greyston.org, “Greyston Annual Report 2016”
Exhibit 3. Center for Open Hiring Goals

Our signature initiatives weave together business innovation and social justice to create thriving and inclusive communities:

- The Center for Open Hiring™ at Greyston, a collaborative learning space facilitating the widespread adoption of Open Hiring™ and supporting innovation in the delivery of community programs for employees and neighbors;
- Development of new financial models to support mission-driven, hybrid organizations;
- Public policy engagement to create a level playing field for benefit corporations;
- Design of social return on investment (SROI) vehicles that bring transparency and rigor to measuring impact;
- Creation of the Association for Open Hiring™ to collaboratively set standards and best practices for Open Hiring™;
- Leveraging the purchasing power of global supply chains to support Open Hiring™;
- Alignment with business schools to prepare new leaders ready to manage for social, financial and environmental success; and
- Preparation of the Open Hiring™ toolkit and guidelines for innovative HR leaders.
Exhibit 4. B Corporation Declaration

The B Corp Declaration

DECLARATION OF INTERDEPENDENCE

We envision a global economy that uses business as a force for good. This economy is comprised of a new type of corporation – the B Corporation – Which is purpose-driven and creates benefit for all stakeholders, not just shareholders.

As B Corporations and leaders of this emerging economy, we believe:

That we must be the change we seek in the world.
That all business ought to be conducted as if people and place mattered.
That, through their products, practices, and profits, businesses should aspire to do no harm and benefit all.
To do so requires that we act with the understanding that we are each dependent upon another and thus responsible for each other and future generations.

Source: BCorporation.net
<https://www.bcorporation.net/what-are-b-corps/the-b-corp-declaration>
Exhibit 5. Characteristics of Certified B Corporations vs Benefit Corporations

<table>
<thead>
<tr>
<th>What's the Difference?</th>
<th>Certified B Corporations</th>
<th>Benefit Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accountability</strong></td>
<td>Directors required to consider impact on all stakeholders</td>
<td>Same</td>
</tr>
<tr>
<td></td>
<td>Must publish public report of overall social and environmental performance assessed against a third party standard</td>
<td>Same*</td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>Must achieve minimum verified score on B Impact Assessment</td>
<td>Self-reported</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>Recertification required every two years against evolving standard</td>
<td></td>
</tr>
<tr>
<td><strong>Availability</strong></td>
<td>Available to every business regardless of corporate structure, state, or country of incorporation</td>
<td>Available for corporations only in 30 U.S. states and D.C.*</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>B Lab certification fees from $500 to $50,000/year, based on revenues</td>
<td>State filing fees from $70-$200</td>
</tr>
<tr>
<td><strong>Role of B Lab</strong></td>
<td>Certifying body and supporting 501c3, offering access to Certified B Corporation logo, portfolio of services, and vibrant community of practice among B Corps.</td>
<td>Developed Model Legislation, works for its passage and use, offers free reporting tool to meet transparency requirements; No role in oversight</td>
</tr>
</tbody>
</table>

* Delaware benefit corps are not required to report publicly or against a third party standard
** Oregon and Maryland offer benefit LLC options

Source: BCorporation.net. “Certified B Corps and Benefit Corporations.”
https://www.bcorporation.net/what-are-b-corps/certified-b-corps-and-benefit-corporations
Endnotes


7 Rosengarden, A. Email message to Chet Van Wert, 13 June 2018.


For comments or questions please contact sustainablebusiness@stern.nyu.edu