



OPEN BOOK VS CLOSED BOOK

By Thomas H Walker

Let us begin with a definition. The following is the best description I found that is all-inclusive for any management, accounting, or design/construction operation utilizing the closed or open book system. A Closed (Book) System is a system that is not influenced by, nor does it interact with others. An Open (Book) System is a system that dynamically interacts with others. For a further explanation, we can use the Thesaurus to find the meaning of the words open and closed. OPEN: exposed, unlocked, and revealed. CLOSED: sealed, obstructed, and private.

In the closed book system the old adage, “what you don’t know won’t hurt you,” becomes its mantra, because much is kept out of view from the owners. In a closed book system, overhead expense is disseminated over several operational areas making it impossible for the owner to know the exact percentage. For example, many General Contractors will place a certain percentage of overhead expense under general conditions thereby creating the appearance of a lower overhead fee. This is done intentionally because everyone in the industry knows that low bid wins, and that the most common question asked in an interview is “what is your average square footage cost?”. Contrariwise, those firms utilizing an open book system are required to “open the books” so that nothing is hidden, buried, or dispersed.

You would think that an Open Book System would be a “breath of fresh air” for those wanting to build. During the interviewing, the open book process makes good sense. Let me explain what happens to an Open Book System (O.B.S.) firm during the interviewing process. First, the O.B.S. fees will seem higher than the Closed Book System (C.B.S.), because the open book is obligated to reveal all fees and overhead costs and to generate a paper trail of where every penny of the owner’s money is spent. In other words, the open book system is completely transparent from beginning to end, and the closed book is just that: sealed, obstructed, and out of sight. Without the understanding of the O.B.S among the church building committee, the firm can struggle during the interview, having to spend valuable interviewing time educating as opposed to selling. What you don’t know will hurt you and so therefore, “knowledge is power.”

More and more committee members are becoming better educated on the different delivery systems. Due to the internet and the powerful search engines, information is readily available in an instant. Better-informed committee members are learning that in an Open Book System the owner takes on less risk because of the system’s inherent transparency. However, in a closed book system, the lack of transparency increases the risk to the owner and conversely reduces the risk for the firm.

With virtually no restrictions on how, when, or where the construction loan money is distributed, the General Contractor can use the present owner’s money to pay off labor and suppliers from

previous jobs. This can cause many problems. First, to pay off the current owner's project the GC will need another project; otherwise, unpaid Prime Trade Contractors and Suppliers can place liens on your facility. This is the reason that banks require firms to post a bond costing the owner 2% to 3%.

Remember, when comparing fees of the competing firms, you must distinguish between the firms operating under an open book from those under a closed book system. On the surface, the open book firm's fees will seem higher than the closed book, however, now you know why.