



# Disruption in the supply chain within the construction industry: effect on claims and mitigation strategies



**NIQS NORTH EAST/NORTH WEST ZONAL WORKSHOP  
SUSTAINABLE CONSTRUCTION CLAIMS MANAGEMENT:  
CONFLUENCE OF THEORY, PRACTICE AND INNOVATION**



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# Overview



# Introduction

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The supply chain in the construction industry refers to the

- Interconnected network of suppliers,
- manufacturers,
- contractors,
- subcontractors,
- distributors,
- Other entities involved

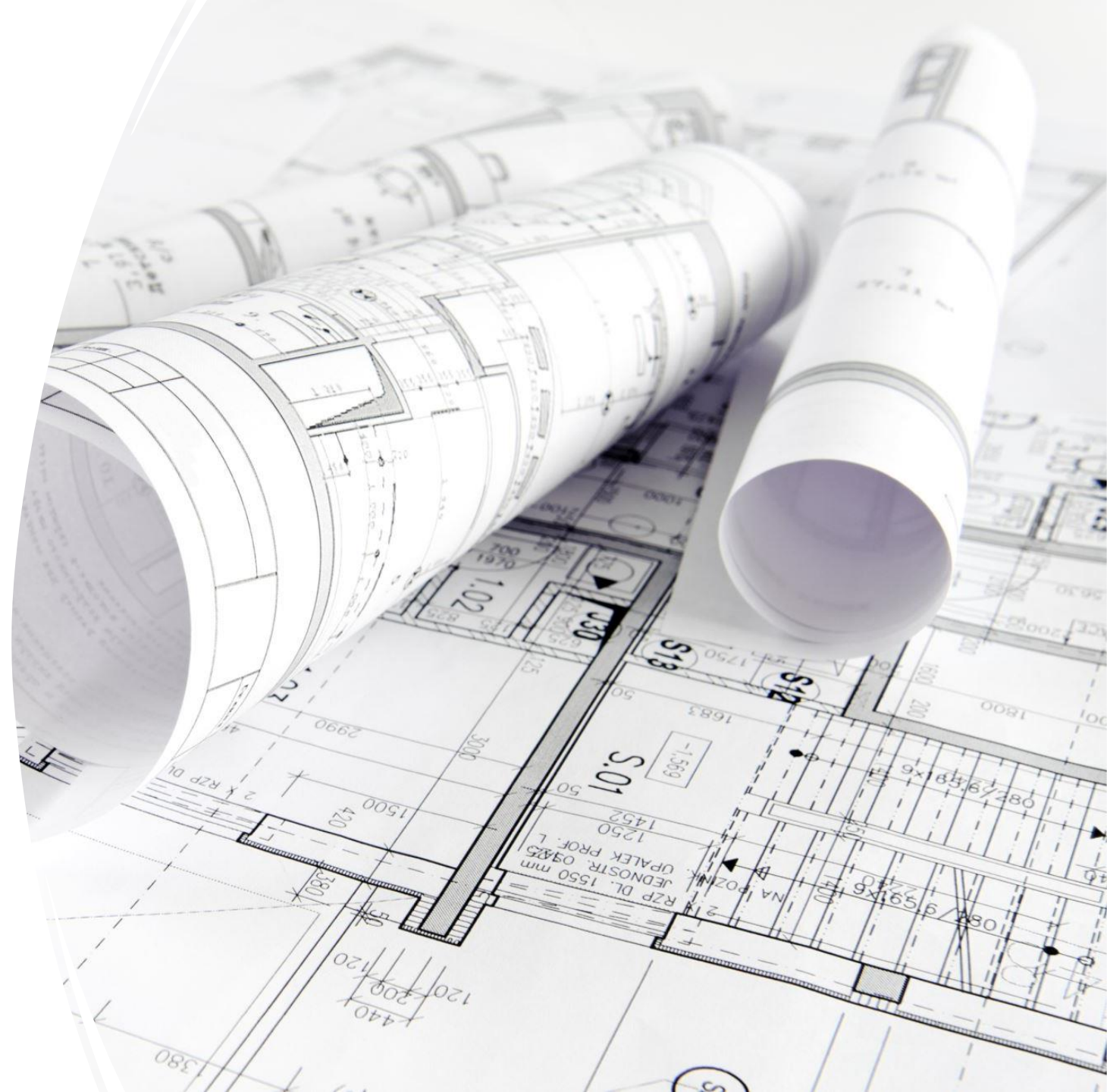


# Supply Chain

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It involves :

- the procurement,
- production,
- and delivery of materials,
- equipment,
- and services necessary for construction projects.



# Supply Chain Management

- It encompasses the entire lifecycle of a construction project,
- from initial planning and design
- to construction,
- operation,
- and maintenance.

The main flows within the supply chain include

- the product flow,
- information flow, and
- financial flow.





## Key Parties

1. Raw  
Materials  
Suppliers

2.  
Manufacturers

3. Distributors

4. Contractors

5.  
Subcontractors

6. Logistics  
Providers

# Why supply Chain Management

- Better collaboration with suppliers.
- Better quality control.
- Shipping optimization.
- Reduced inventory and overhead costs.
- Improved risk mitigation.
- Stronger cash flow.
- A more agile business.
- Better visibility and data analytics.



# Challenges

1. Fragmentation
2. Lead Time
3. Quality Control
4. Cost Management
5. Risk Management





# Emergence of SC disruption (Global)



As a result of the increased complexity of supply chains, firms have become more vulnerable to supply chain disruptions,

- Since the covid-19 pandemic started in Q1 2020,
- The construction world has been faced with major challenges due to supply chain delays.
- These issues are still prevalent today, more than two years since the pandemic started, and continue to grow, due to other world issues such as the
- Russian invasion of Ukraine,
- Environmental challenges, wildfires
- Economic issues related to increased tariffs.
- Contractors and project teams have worked to mitigate the impacts during the past few years,
- but it has become increasingly challenging due to the unpredictability of the issues with no foreseeable end in sight.

# Supply Chain disruption

A supply chain disruption refers to any event or circumstance that

- interrupts or interferes with the normal flow of goods,
- services,
- information,
- or finances within a supply chain network.

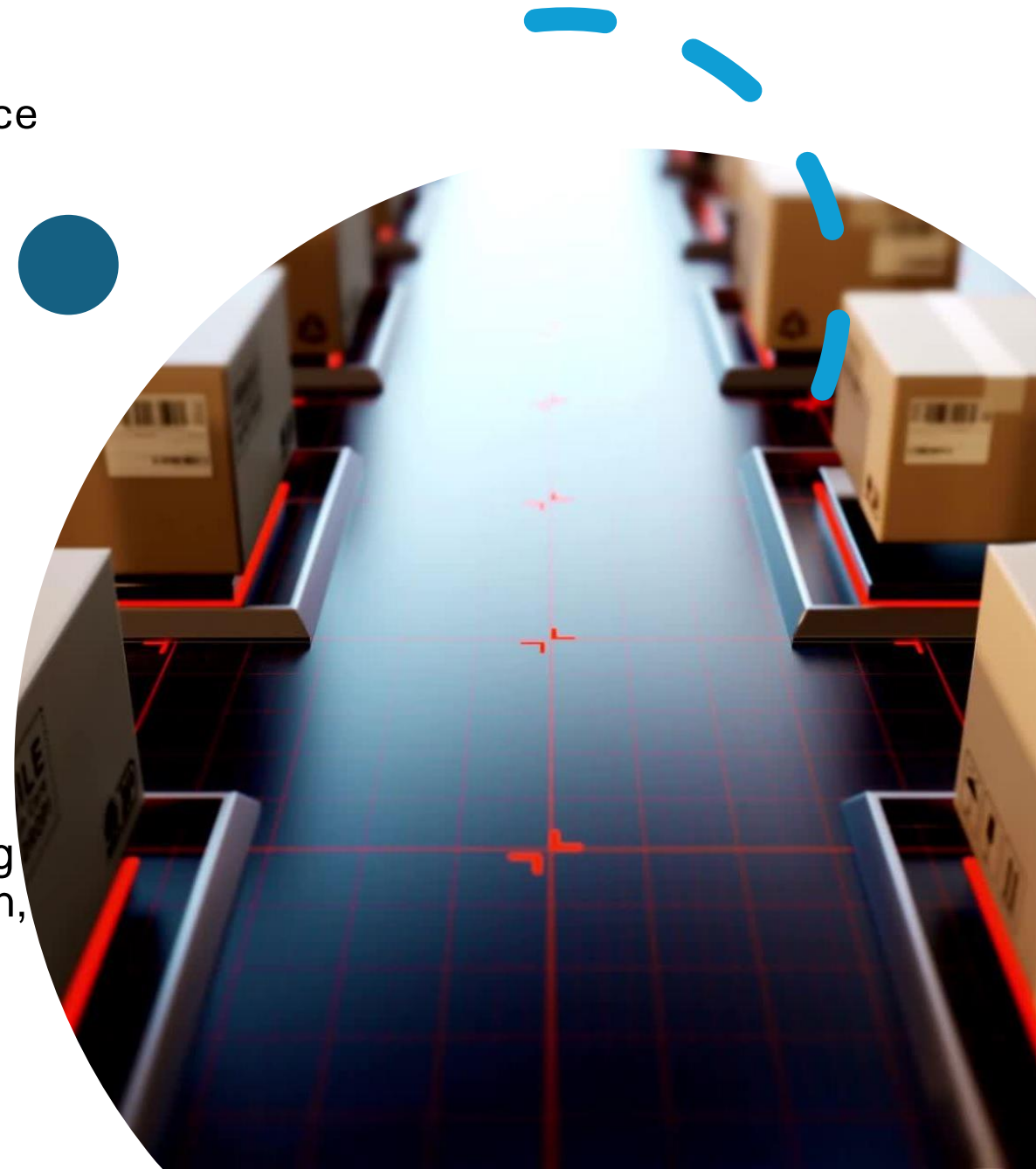
Such disruptions can lead to

delays, shortages, increased costs, reduced quality, or other adverse effects on businesses, consumers, and the overall economy

It could also be defined as

The combination of an unintended and unexpected triggering event that occurs somewhere in the upstream supply chain, the inbound logistics network,

or the purchasing (sourcing) environment, and the consequent situation that presents a serious threat to the normal course of business operations of the focal firm.



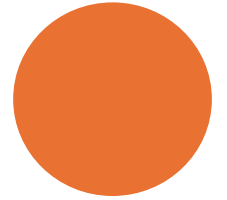
# SC disruptions

These disruptions can occur at any stage of the supply chain,

- from raw material sourcing
- to manufacturing,
- distribution,
- and delivery to end customers.

## Three types of disruption:

- a unique event (disruption in a single supplier);
- a semi-super event (simultaneous disruptions in more than one supplier); and
- a super event (an event that affects all suppliers)



# Causes of SC disruption

Supply chain disruptions can have various causes,

- including natural disasters,
- Raw material shortages
- labor strikes,
- weather
- transportation issues,
- geopolitical events e.g. pandemics
- economic fluctuations,
- technological failures,
- regulatory changes/Quality control issues
- or unexpected demand fluctuations.
- Cyber Security threats
- Dependency on single suppliers



# Managing SC disruption

Managing and mitigating supply chain disruptions require proactive

- risk management,
- contingency planning,
- resilience-building measures,
- and collaboration among supply chain partners to
  - a. minimize their impact and
  - b. ensure the continuity of operations.



# Construction Claims

- A construction claim is a formal assertion or demand made by one party involved in a construction project against another party, seeking compensation, resolution of disputes, or other remedies for issues, conflicts, or damages that arise during the course of the project.
- These claims typically arise from disagreements or disputes regarding contractual obligations, performance, delays, changes in scope, quality of work, payment, or other project-related matters.
- In the construction industry, a "claim" typically refers to a formal assertion made by one party (often the contractor or subcontractor) seeking compensation or other remedies for damages, costs, delays, or disputes that arise during the course of a construction project.



# Forms of Claims

- Construction claims can take various forms,
- including written notices,
- requests for change orders,
- formal letters, or legal filings, depending on the nature and severity of the issue and
- the contractual requirements governing the project.

Parties involved in construction projects, such as contractors, subcontractors, owners, architects, engineers, or suppliers, may submit claims

- to assert their rights,
- address grievances,
- or seek compensation for losses incurred due to factors beyond their control or as a result of alleged breaches of contract or negligence by other project participants.



# Types of Construction Claims

Delay Claims

Cost Overrun Claims

Change Order Claims

Payment Disputes

Defective Work Claims

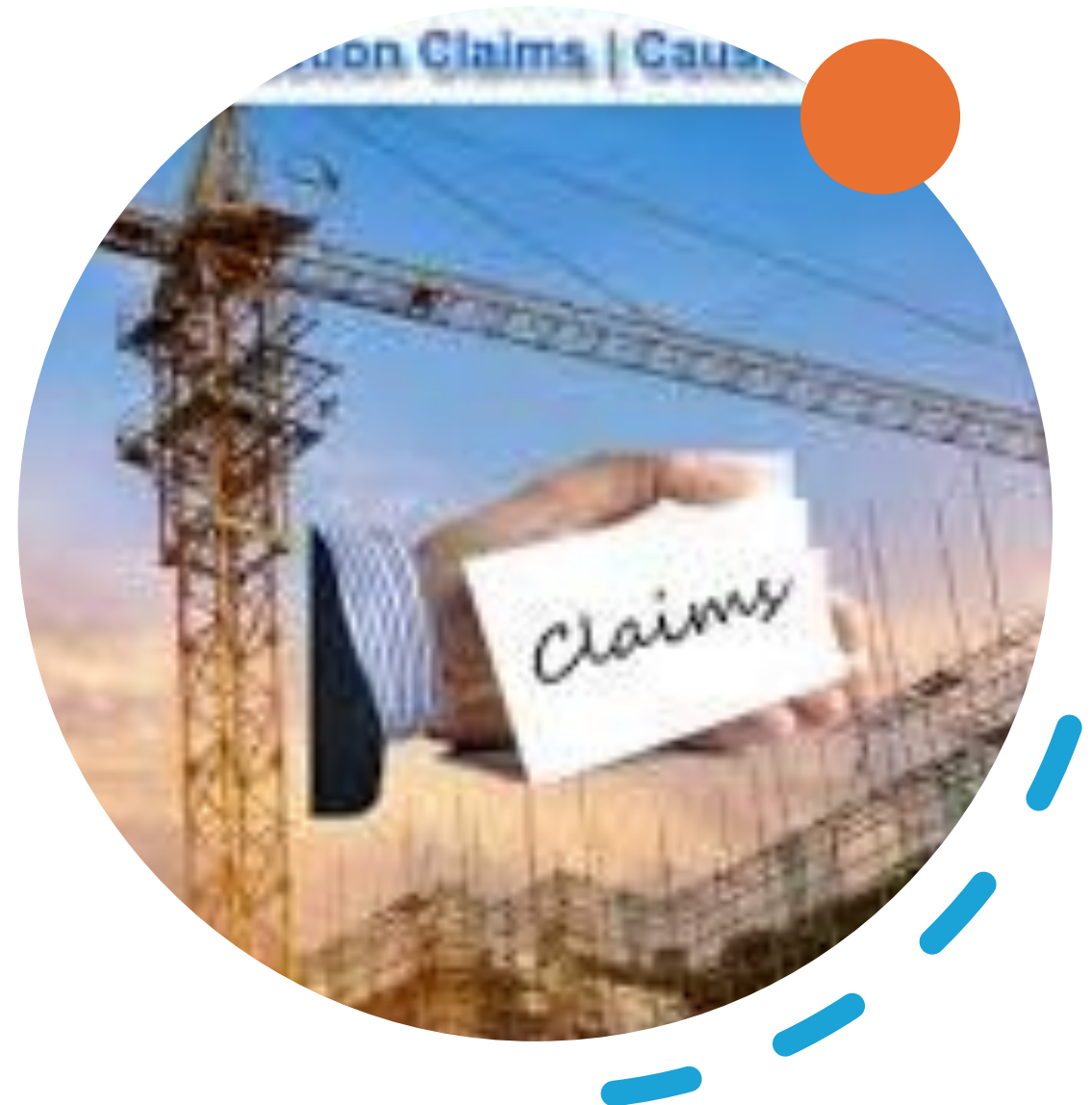
Breach of Contract Claims

Design Errors or Deficiencies Claims

Force Majeure Claims

Acceleration Claims

Termination Claims



# Conditions

Construction claims are typically subject to

- contractual provisions,
- dispute resolution mechanisms, and
- applicable laws or regulations governing construction contracts.

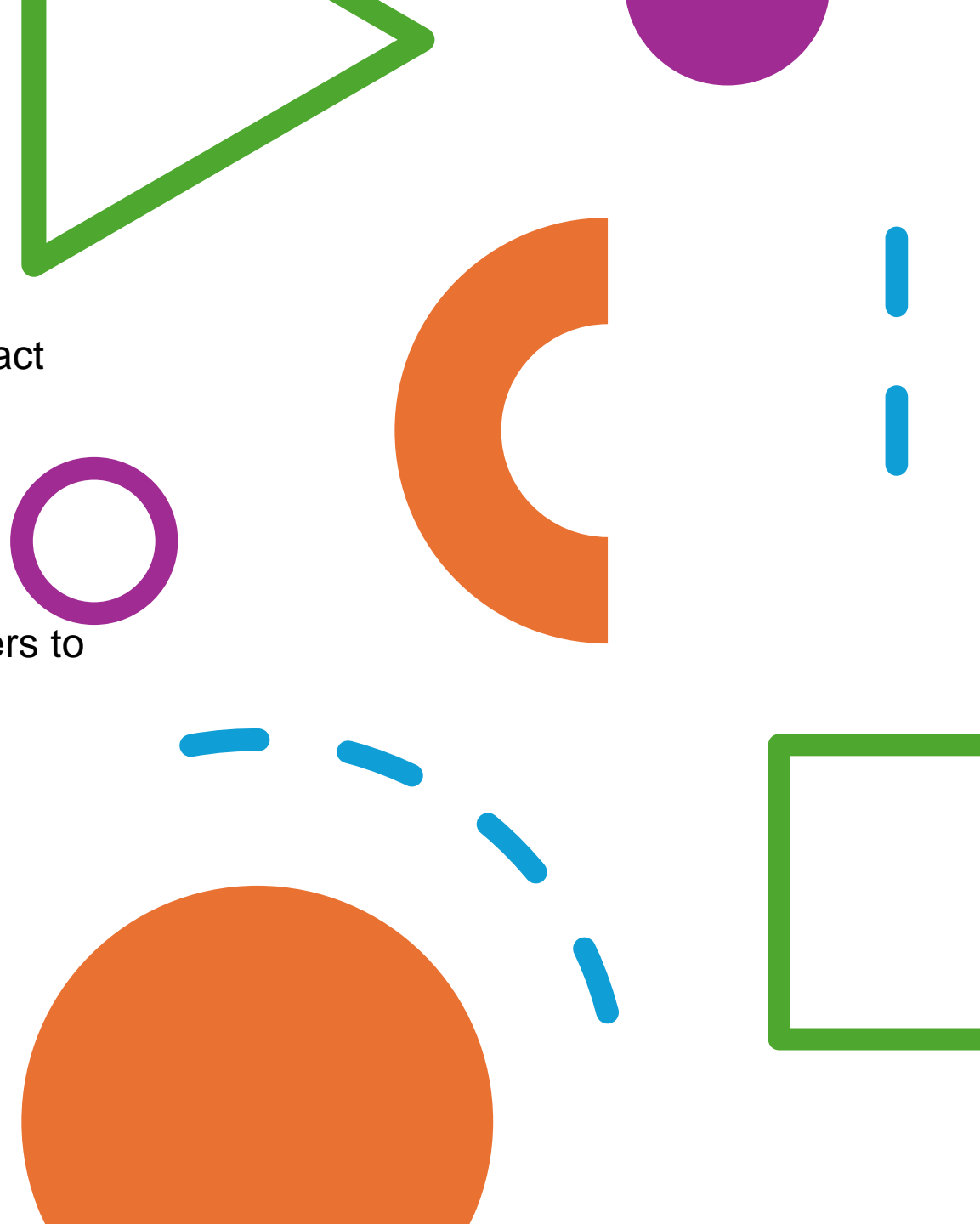


# Addressing claims from SC disruptions

Addressing supply chain risks can help minimize the impact of supply chain disruptions on construction projects and mitigate potential claims it requires

- careful documentation,
- analysis of contractual rights and obligations,
- and effective communication among project stakeholders to mitigate disputes and achieve equitable resolutions.
- Proactive risk management,
- contingency planning,
- and contractual provisions

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# Resolving Construction Claims

Resolving construction claims often involves a structured process of negotiation,

- mediation,
- arbitration,
- or litigation, depending on the terms of the contract,
- the severity of the dispute,
- and the preferences of the parties involved.
- Effective claim management practices,
- clear communication,
- documentation,
- and adherence to contractual procedures are essential for minimizing disputes, resolving claims efficiently, and achieving successful project outcomes in the construction industry.



# Supply chain disruption and claims

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Delay Claims

Cost Overrun Claims

Change Order Claims

Defective Work Claims

Liquidated Damages Claims

Acceleration Claims

Termination Claims

Force Majeure Claims



<b>SN</b>	<b>CLAIM</b>	<b>NEC</b>	<b>JCT</b>	<b>FIDIC</b>
1	Delay Claims	Extension of time Liquidated Damages	Extension of time Liquidated Damages	Time for completion Extension of time Liquidated Damages
2	Cost Overrun Claims	Variation Adjustment to contract sum	Variation Adjustment to contract sum	Variation Adjustment to contract price
3	Change order claims	Variations to the contract	variations	Variations Instruction for changes in the scope of works
4	Defective work claims	Defects liability rectification	Defects liability Rectification of defects	Defects liability Rectification of defects
5	Liquidated Damages Claims	Delays and time for completion	Liquidated damages for delays	Time for completion Delay damages
6	Acceleration claims	Variation Acceleration of works	Variation Acceleration of works	Variation Acceleration of works
7	Termination claims	Breaches of contract Termination rights	Termination of the contract Rights to terminate	Breach of contract Termination rights
8	Force Majeure claims	events beyond the parties' control	Force majeure events	unforeseeable events suspension of works.

SN	EVENT	EFFECT	CLAIMS
1	Unavailability of goods due to COVID-19	Factory closure Transportation challenges Effect on cost and project timelines	Health and safety considerations Shortage in personnel and supply chain Extension of time Changes in law affecting the contract Changes in cost
2	Unavailability of goods due to war in Ukraine	Supply chain disruption Damage or loss to goods and works Personnel shortage	Liability for care of works Risk allocation Force Majeure Geo political conflicts
3	Unavailability of goods due to trade ban e.g EU on russia	Legal complexities Challenges in procurement Impact on project cost	Claims related to changes in law Force majeure considerations Risk allocation Dispute resolution mechanisms
4	Unavailability of Ukrainian Contractor's Personnel	Unforeseen personnel shortages Navigating contractual obligations	Claims related to personnel unavailability Force Majeure consideration
5	Damage/Loss to Goods, Works, Contractor's Documents due to the War	Evaluation of damages incurred due to the war Implications for project timeline and costs Documenting and mitigating risks associated with the war	Claims for damages and losses Invocation of force majeure clauses Dispute avoidance provisions to manage conflict arising from war related damages
6	Inflation of costs	Tracking of inflation trends in construction cost Challenges in budgeting and financial planning	Claims relating to changes in cost Economic viability assessment and consideration for contract adjustment Provision for unbearable inflation rendering continued performance economically unfeasible
7	Unbearable Inflation/Continuing Performance	Assessing the economic viability of continued contract performance Balancing contractual obligations with financial sustainability	Reevaluation of contract terms in the face of unbearable inflation Options for termination and release from performance obligations Legal considerations and implications for ending contracts prematurely
8	Impossibility to Continue due to War or COVID-19	Evaluating the cumulative impact of global disruptions on ongoing projects Legal and contractual considerations for terminating contracts	Force majeure considerations and entitlements Termination options and the release from performance obligations Legal frameworks guiding the cessation of contracts in extraordinary circumstances

## Mitigation strategies

Diversified Supplier Base

Local Sourcing and Suppliers

Buffer Stock and Safety Inventory

Collaborative Planning

Alternative Material Specifications

Resilient Logistics Planning

Early Warning Systems



# Mitigation strategies

Contractual Risk Mitigation

Strategic Stockpiling

Technology Adoption

Supplier Audits and Assessments

Insurance Coverage

Scenario Planning and Simulation

Regulatory Compliance



# CONCLUSION

- Effects of supply chain disruption on claims are significant and far reaching
- Disruption can lead to increased claim frequency and severity.
- Effective supply chain risk management is crucial for minimizing claims.



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***• Thank  
you for  
listening***