

# Impact of COVID-19 on Construction Projects

## The Construction Recovery Road Map to Mitigate the Aftermath of COVID-19

### Introduction

The coronavirus (COVID-19) disease, known to the whole world as a global pandemic, has been the trending topic of the year, drastically impacting the economy and disrupting the lives of many people, businesses operating in numerous industries, financial markets and supply chains. All capital projects come with opportunities and uncertainties, but how does COVID-19 impact the future? Are owners and contractors prepared for the next steps to deal with the aftermath of this outbreak? In this paper, we provide our thoughts.

### Our Point of View

Amid COVID-19, the construction industry has been hit hard and is being challenged by many obstacles regarding contractual obligations, availability of resources, deliverables, health and safety measures, and project delays or cancellations. A study on the construction industry conducted by FMI Research pointed out that the perception of change regarding schedule impacts for the next quarter will significantly affect the lodging, international and commercial construction sectors.<sup>1</sup>

The World Health Organization (WHO) declared the COVID-19 outbreak a pandemic on March 11, 2020. From a logical perspective, many may assume that COVID-19 can be classified as a force majeure event. “Force majeure” refers to a contractual clause regarding an extraordinary event beyond the party’s control that prevents it from accomplishing the contractual obligations on time. That said, the declaration of a pandemic by WHO without a force majeure reference to pandemics will not automatically trigger a force majeure clause, and disputes between parties are likely to happen alongside other project delays.

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<sup>1</sup> CIRT Sentiment Index: Second Quarter Report, FMI, page 6, 2020:  
[www.cirt.org/resources/Documents/Q2\\_2020\\_CIRT\\_Final.pdf](http://www.cirt.org/resources/Documents/Q2_2020_CIRT_Final.pdf).

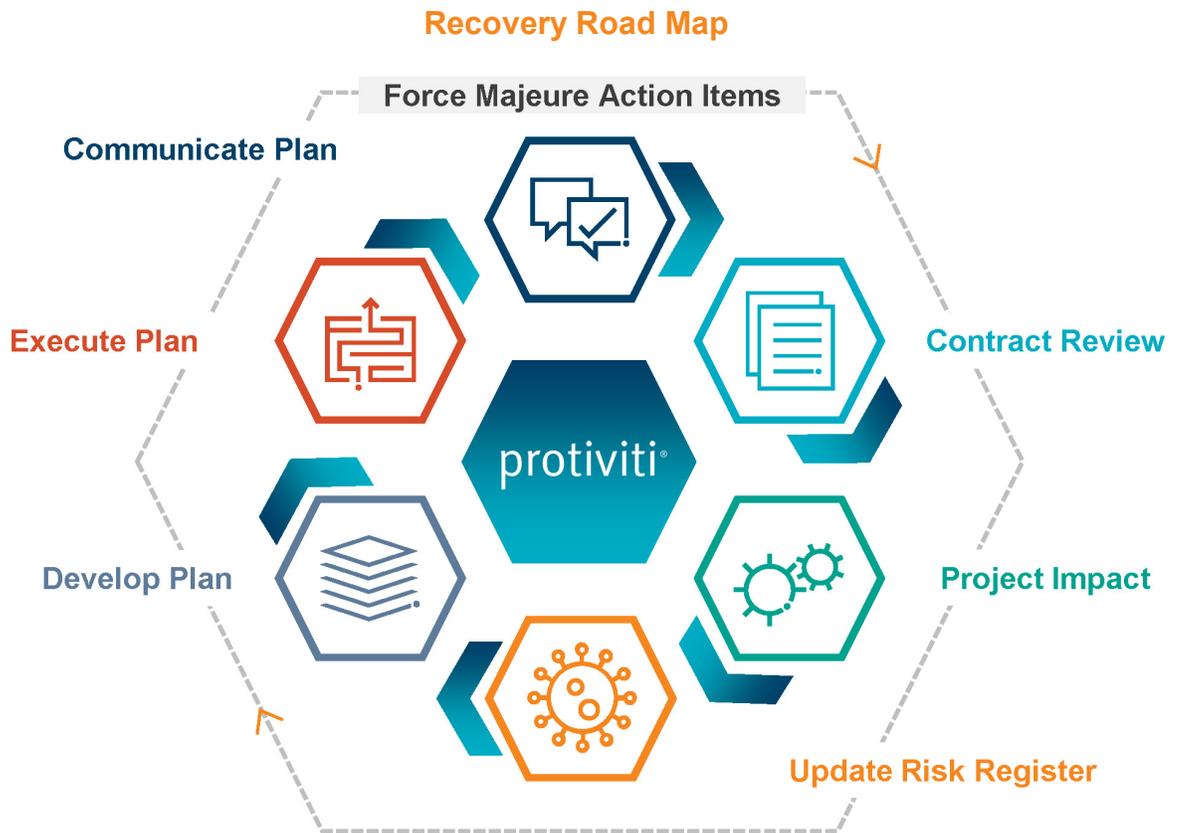
Owners of projects will need to evaluate contractual provisions, including project termination, force majeure clauses, notice requirements, change order requests, entitlement for time extension, effect of refused time extension, cost escalation, availability of resources, and health and safety measures. As the situation continues to evolve, it is critical for owners to navigate through those changes in order to prepare for the future of their projects and manage them effectively. From a risk management perspective, owners should be considering the following:

- What events entitle contractors to a time extension?
- What are the consequential damages from either suspending the project or terminating it?
- What is the shared risk and cost impact from this delay?
- Does the contract account for possible material and labor cost inflation?
- Do we need a review of invoices to assess progress and identify changes related to COVID-19 delays?
- Do performance bonds provide options to manage or mitigate contractor performance issues in a cost-effective manner?
- What additional health and safety measures must be implemented before resuming the project?

Contractors will also assess their contractual obligations and the impact to back up and validate nonperformance on agreed-on milestones and scope. To deal with the repercussions of COVID-19, project stakeholders will have to realize a specific approach in order to evaluate the overall progress of their projects and plan the recovery road map.

## Our Approach

A six-step recovery road map can be useful for evaluating potential approaches to mitigate cost and schedule impacts:



- 1. Contract Review:** Review and identify contract clauses to understand what provisions and relief entitlements are eligible for claim based on the current pandemic. The purpose of a force majeure provision is to protect a contractor from unavoidable events beyond its control that cannot be anticipated. Clauses that are quiet on pandemics or lack any description of viral outbreaks might not be adequate to defend COVID-19 as a force majeure claim. It is important to evaluate the provisions in the contract to determine whether COVID-19 can be classified as a force majeure event. In case the provision is not available, then a discussion needs to take place between the owner and the contractor to develop the project approach for the current pandemic.
- 2. Project Impact:** If a force majeure claim was granted by the owner, then the contractor must demonstrate the damages suffered from the COVID-19 pandemic. The impacts to a project can be classified in five categories:
  - **Cost:** COVID-19 costs should be tracked separately by assessing the damages and performance barriers. The cost analysis should be evaluated based on impacted scope of

work, idle equipment, general conditions, and extra preventive measures such as thermal readings, employee screening and facilities management.

- **Schedule:** Evaluate and quantify idle time, incurred cost to date and schedule delays caused by this event. The contractor should assess the current conditions and update the schedule to reflect the new late-start and late-finish dates of activities with the updated date for project completion.
  - **Resources:** Evaluate the availability of resources due to sickness and social distancing guidelines.
  - **Logistics:** Evaluate the impact on critical lead times of materials, shipments and critical components.
  - **Quality:** Assess the impact on completion, lack of trade/skilled personnel and limited travel of skilled resources.
- 3. Update Risk Register:** As a result of the pandemic, the owner and the contractor should identify future risks, assign ownership and determine a mitigation plan to address the risk components for successful completion of the project. COVID-19 occurred as an unknown risk without having the control measures in place to mitigate such risk. Now that COVID-19 has landed, the responsible party has visibility on the current situation and can outline a mitigation plan for recourse for COVID-19-related risks in order to complete the project. Some key risks to consider include:
- Material and labor inflation
  - Availability of resources and social distancing guidelines
  - Number of cases rising due to lack of a vaccine
  - Limited productivity
  - Additional PPE and sanitizing requirements

- 4. Develop Plan:** The fourth step is developing a plan with visibility into how the rest of the project activities will be executed:
- Evaluating the forecast milestone dates from the impact of COVID-19 to meet the project's business objectives
  - Developing contingent requirements for the remaining work
  - Staffing resources and planning deployment
  - Fast-tracking the schedule as an opportunity that may include working some tasks in parallel to shorten the project's duration
- 5. Execute Plan:** The fifth step is directing and managing the project work by implementing the approved changes to meet the stakeholders' demands and achieve the project's objectives.
- 6. Communicate Plan:** Communication is one of the essential elements to ensure stakeholder satisfaction and buy-in on the approach going forward. In this step, a formal plan for notifications, tiers of notification and frequency should be established. The objective for a communication plan is to fulfill the requirements of the developed plan and communicate the effectiveness of execution.

In addition to the recovery road map, health and safety monitoring efforts will further strain the facility owners with testing and preventive measures to ensure that people working at or visiting the site are not exposed to any health risk. Some of the immediate accommodations that are being made are:

- Installing hand sanitizer stations
- Scheduling additional trash collection
- Mounting CDC posters emphasizing the importance of washing hands and covering faces with masks
- Mandating thermal screening for everyone entering and leaving the facility (i.e., temperature checks using a digital thermometer)
- Installing ventilation systems or UV lights for disinfecting

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