ALFA International
THE GLOBAL LEGAL NETWORK

2025 Construction Law Seminar

July 23-25, 2025

NAVIGATING THE TIDES OF CONSTRUCTION DISPUTE RESOLUTION

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Construction Dispute Resolution Strategies

The construction industry has often turned to Alternative Dispute Resolution (ADR) strategies over traditional litigation, and for good reason. However, litigation remains a viable strategy in many cases.

Introduction

Construction industry disputes are often complex and can involve a multitude of stakeholders. It is no surprise then that there are many strategies for approaching dispute resolution. Litigation in state or federal courts whether in a bench or jury trial has long been the traditional route for construction dispute resolution. However, for the last couple of decades at least, parties have utilized an array of ADR strategies in efforts to resolve disputes more efficiently, to maintain professional relationships, preserve confidentiality, and keep projects on track.

Common strategies include:

- Negotiation
- Mediation
- Adjudication
- Construction Arbitration
- Tiered Dispute Resolution
- Contract Implementation

Many construction contracts contain clauses that require some form of negotiation between the parties as a condition precedent to further steps. Unstructred negotiation is cost effective and can help the parties maintain ongoing business relationships. Mediation is also a common condition precedent. Mediation is confidential, relatively cost effective, non-binding, and can allow for creative solutions. There are several forms of adjudication commonly used as condition precedent to arbitration or litigation.

Mediation

Mediation can be highly cost-effective option. It is relatively inexpensive compared to litigation or arbitration. The cost consists of the mediator's fee and some attorney prep time. Because mediation aims to resolve the dispute early, it can save the expenses of prolonged discovery and expert preparation. Even if mediation does not fully resolve the case, it often narrows the issues, which reduces subsequent costs. The speed and economy of mediation are major by avoiding years of fighting. It's no surprise that mediation is now considered the most commonly used ADR method in the construction industry, precisely because it often resolves disputes efficiently and at far lower cost than other methods.

Mediation is a confidential process by and cannot be disclosed or used in court if the mediation fails. The setting is private often just a conference room avoiding public exposure of the dispute. This can shield reputations and sensitive information, similar to arbitration's privacy benefit. The absence of a binding decision imposer means parties are not fighting to "win" in the mediator's eyes but instead, try to find a mutually acceptable solution. The overall confidential, less confrontational nature of mediation often leads to more creative and amicable resolutions, with less bitterness. This is particularly valuable in construction, where disputes often arise between parties who have an ongoing project or may want to collaborate again.

Unlike a court or arbitrator, a mediator has no power to dictate terms, and the outcome of mediation lies entirely in the parties' hands. This gives the parties maximum control over the result. They can agree to solutions that a judge or arbitrator could never order. Mediation allows consideration of interests beyond the legal issues and those interests can be addressed in a settlement package. Parties often find more satisfaction in a solution they helped craft versus one imposed by a court. Mediation can also incorporate multiple parties' interests in creative ways. For example, an owner, general contractor, and a subcontractor might strike a three-way deal where the sub performs remedial work and the owner and contractor split the cost. These types of resolutions can save reputations and minimize loss all around. Mediation empowers the parties to resolve their dispute on their own terms, which can be more satisfying and sustainable than a third-party judgment.

Mediation in construction disputes has a strong track record of success. The common conception is that a large majority of mediated cases result in settlement, something close to 80 percent of the time. Even when a case doesn't settle at the mediation session itself, the process frequently leads to settlement following the mediation. A mediator's suggestions can lead to continued negotiations that gets the deal done. Because of this effectiveness, many contracts and even courts mandate or strongly encourage mediation before allowing the dispute to proceed. Given the high probability of a good outcome (and the relatively low downside), mediation is usually worth attempting. At worst, if it fails, the parties have only expended a small amount of time and cost, and they usually come away with a clearer understanding of the dispute. At best, they reach a settlement and avoid the need for arbitration/litigation entirely.

A downside of mediation is that it does not guarantee a result. The mediator cannot force an agreement therefore if the parties cannot agree, the dispute remains unresolved and may proceed to litigation or arbitration. Generally, all parties must agree to settle, so a single holdout or unreasonable stance can defeat the process. Especially if mediation is contractually mandatory, parties might go through the motions without genuine intent, just to "check the box" before arbitration. That can be frustrating and add transaction costs and unnecessary time.

While a settlement where each side compromises is often desirable, from another perspective, mediation usually means not getting 100% of what you believe you're entitled to. Thus, a con is that mediation, by design, gravitates toward a compromise. In some cases, parties worry that mediation rewards the side that is wrong by giving them a discount just to settle. This psychological con is real, though arguably it's often better to take a certain compromise than risk an uncertain fight.

If a settlement is reached, it typically is documented in a written settlement agreement signed by the parties. That agreement is a binding contract. Compared to a court judgment or arbitral award, which are immediately enforceable as such, a mediation settlement needs an additional step for enforcement. Most of the time this isn't an issue, but concerns about enforceability can arise if, say, a party has remorse the next day. Mediators usually ensure the deal is signed before everyone leaves to avoid this. Still, it's a consideration and the deal relies on the honor and contractual commitment of the parties. If one side later refuses to pay or perform, enforcement can be difficult and costly, particularly if the matter is pre-litigation.

Mediation's disadvantages are relatively modest compared to its advantages. The main downside is simply that it might not work, costing some time and money. But given its track record, most

construction attorneys will recommend mediation because the potential upside for quick, amicable settlement usually outweighs the limited downside. The key is ensuring both parties approach it in good faith and picking a mediator with the right expertise.

Arbitration

Perhaps the greatest draw of arbitration in construction is the ability to have disputes decided by an expert in construction law or the construction industry. Parties can mutually select an arbitrator (or a panel of three) who has specific experience relevant to the case. This means the factfinder is more likely to understand complex technical evidence and industry practices. In court a judge is assigned and it's rare to get one with construction experience, whereas arbitration lets the parties pick someone who understands construction. This expertise can increase the accuracy and credibility of the decision. It also streamlines the hearing. For complex commercial construction projects (e.g. disputes over a sophisticated industrial facility or a complicated delay claim), this expert adjudicator advantage is extremely valuable. Even residential homeowners and small contractors might prefer an arbitrator with home-building knowledge for a dispute about a house, rather than a general judge who might otherwise treat it like any contract case.

Arbitration proceedings are private and usually confidential, which is highly valued in the construction industry. Construction firms often have strong incentive to keep disputes out of the public eye. Protecting business reputation is explicitly cited as a reason many construction companies favor arbitration. Some trade associations and insurers also prefer arbitration to avoid setting public precedents that could attract copycat claims. Overall, arbitration's ability to keep disputes discreet and "behind closed doors" is a significant pro, especially in commercial construction.

Arbitration awards are generally final and binding, with extremely limited grounds for judicial review. Unlike a trial verdict, there is no broad right to appeal an arbitrator's decision for legal error. Under the Federal Arbitration Act (FAA), a court can vacate or refuse to confirm an award only for narrow reasons such as fraud, evident arbitrator bias, procedural misconduct, or the arbitrator exceeding his/her powers. This finality can be seen as a pro meaning the dispute truly ends with the arbitrator's decision, allowing parties to move on without years of appellate litigation. This is particularly attractive to contractors who need certainty and to avoid having payments tied up indefinitely. Once confirmed by a court (a usually straightforward process unless a narrow FAA exception applies), the award becomes a judgment. If international parties are involved, the New York Convention makes foreign arbitration awards enforceable in U.S. courts and vice versa, which is a huge advantage for cross-border construction projects. In summary, arbitration provides a one-and-done result with strong enforcement mechanisms, giving parties closure and certainty.

In some circumstances, arbitration's private and somewhat less confrontational setting can make it a bit more businesslike and cordial than courtroom litigation. The setting can help the parties communicate more directly. Arbitrators sometimes facilitate settlement talks or act in a more problem-solving capacity than judges, which can lead to compromises that allow the parties to continue their commercial relationship. For parties concerned about maintaining a working relationship or keeping a

dispute low-key, arbitration is viewed as more relationship-friendly than courtroom litigation.

The finality of arbitration, while good for closure, can be a problem if the arbitrator errs. If the arbitrator makes a legal or factual mistake, there is almost no recourse. Courts will not redo the merits of the case. Thus, a construction company on the losing end of an arbitral award has virtually no ability to get it reversed absent extraordinary circumstances. Parties entering arbitration must accept that the arbitrator's word is final, "period." Some arbitration providers (AAA, JAMS) have introduced optional appellate arbitration rules, but those must be agreed in the contract or by stipulation, and even then, the "appeal" is just to another arbitration panel with a limited scope of review. It's not the same as a full judicial appeal.

It is a misconception that arbitration is always inexpensive. In fact, arbitration can be very costly, sometimes rivaling or even exceeding litigation costs in large disputes. One reason is that parties must pay the arbitrator (or panel of arbitrators) for their time, as well as administrative fees to the arbitration provider (AAA, etc.). For a three-arbitrator panel in a complicated construction case, these fees can be enormous. Arbitrators often charge hundreds of dollars per hour each, and hearings can last many days or weeks. Thus, while the court provides a "free" judge, arbitration requires the parties to finance their private judges. Moreover, if a case is complex, arbitration may not actually curtail attorney hours. Lawyers might still conduct substantial discovery (especially since they fear the limited appeal means they must present every piece of evidence available), and they may engage in motion practice (some arbitrators permit motions akin to summary judgment). If arbitration ends up mimicking litigation procedure, the parties pay for all that attorney time plus arbitrator fees.

Litigation

Litigation offers a structured legal framework with formal pleadings, discovery, and rules of evidence. This ensures each party can obtain and present extensive evidence (documents, depositions, expert testimony) critical in complex construction cases where detailed technical proof (e.g. engineering analyses, schedule delay data, cost records) is necessary. The thorough discovery process and ability to compel evidence by subpoenas help uncover facts that may remain hidden in looser processes. A judge will enforce procedural rules to make sure neither side is ambushed by undisclosed evidence.

Courts can consolidate related claims and join necessary parties into one action. This is a significant advantage in construction disputes, which often involve intertwined responsibilities (for example, an owner, general contractor, multiple subcontractors, architects/engineers, and insurers). In litigation, all these parties can be brought into a single lawsuit if jurisdiction and claims allow. This avoids multiplicity of proceedings and inconsistent results. By contrast, arbitration relies on contract agreements a party who didn't sign the arbitration clause (e.g. a sub-subcontractor or a surety) generally cannot be forced into that arbitration, potentially leaving some disputes unresolved or requiring parallel proceedings. Litigation in a single forum can thus provide a more comprehensive resolution of multi-party construction controversies.

A court judgment comes with the power of the state. Judges can issue orders to compel compliance (e.g. orders to produce project documents or allow site inspections), and courts can join third parties or grant preliminary relief such as injunctions when urgently needed. Once a final judgment is

obtained, it is immediately enforceable and the winning party can use court enforcement mechanisms (writs, attachments, etc.) to collect money or enforce injunctions. This judicial authority is valuable in high-stakes construction cases and ensures that a court's decision will have teeth. The enforceability of court judgments is nationwide (under the Full Faith and Credit Clause) and not usually an issue; in contrast, an arbitration award must be confirmed by a court to have equivalent force, though confirmation is usually routine.

Court proceedings are public record. This transparency can be advantageous if a party seeks public vindication or needs to set a legal precedent. For example, a developer facing unfounded fraud allegations might prefer a public trial to clear its name, or a city involved in a construction dispute over a public project may require the accountability of an open court process. Litigation allows issues of law to be authoritatively decided and published, providing guidance for future projects. Especially in novel or widespread issues (such as a new interpretation of a construction statute or building code), litigation's ability to produce a precedent is valuable. No private ADR method can create binding legal precedent or provide the same degree of public scrutiny.

Unlike arbitration, litigation outcomes can be appealed to a higher court. If a trial court makes a legal error or misapplies construction law, the aggrieved party has an opportunity to have the decision corrected by an appellate court. This layer of review promotes consistency in the law and can be critical in cases where the result turned on a judge's interpretation of contract clauses or legal standards. The prospect of appeal also incentivizes judges to apply the law carefully. While appeals add time and cost, they provide comfort to litigants that egregiously wrong decisions can be overturned, a security not available in binding arbitration.

Some state and federal court systems have evolved to handle complex business and construction cases more efficiently in recent years. More than 20 states have dedicated business courts or complex civil divisions that often manage construction and commercial disputes. For instance, some states assign construction defect cases to judges with experience in construction law. These specialized courts (e.g. the Delaware Court of Chancery or other commercial courts) can reduce some drawbacks of litigation by providing expertise and quicker decisions. While even a specialized judge may not have the technical background of an engineer, these courts are familiar with construction law principles and can be more efficient than a general civil docket crowded with unrelated cases. Litigation's pros include robust procedures, broad joinder of parties, public/precedential value, appellate review, and the backing of judicial power, features that can be decisive advantages in the right circumstances.

Litigation in the construction arena is often expensive. The formal procedures that ensure thorough fact-finding also drive-up costs due to broad-ranging discovery, multiple depositions, and retaining expert witnesses all contribute to substantial legal fees. Court fights over discovery and extensive pre-trial motions add to the expense. A trial itself with its courtroom time, transcripts, and preparation is costly and disruptive. These expenses can quickly become prohibitive, especially for smaller firms or residential homeowners, effectively making litigation an economic war of attrition. By contrast, arbitration and mediation procedures aim to streamline or limit discovery. In short, the rigorous process in court, while fair, comes at a high price in attorney fees and time spent, which may outweigh the amount in dispute for smaller claims.

Construction lawsuits can stretch over years. Courts' dockets are crowded, and procedural timelines (for pleadings, discovery, motions, and trial setting) are long lasting. It is not uncommon for a complex construction case to take 2-5 years from filing to final judgment through trial, plus additional years if there are appeals. This delay can be devastating in construction disputes because a contractor waiting years for payment may face cash-flow crises or an owner dealing with an unfinished or defective project may suffer ongoing losses while litigation drags on. The extended duration of litigation not only increases legal fees but can also allow problems (like building defects) to worsen over time. In contrast, arbitration is often faster (e.g., one study found U.S. federal court cases averaged 24 months to resolve versus 11.6 months for arbitration), though speed is not guaranteed.

Litigation is inherently adversarial, putting parties against each other in a winner-takes-all battle. The formal atmosphere of court and aggressive tactics of litigation can destroy previously productive working relationships. In construction, the disputing parties often have ongoing or future business together. A hard-fought lawsuit can make collaboration impossible. The contentious environment of litigation, with motions accusing the other side of bad conduct and the public assignment of blame, often leads to personal animosity. Even within the course of a project, litigation can derail cooperation needed to get the job done. By contrast, mediation is explicitly designed to be collaborative, and even arbitration is noted for a slightly more cooperative tone that may preserve professional relationships better than courtroom battles.

While many judges are experienced in managing complex cases, they are generalists in terms of subject matter. In litigation, the case is decided by a judge assigned at random (or a jury, in certain construction cases like homeowner claims for negligence). There is no guarantee the fact-finder has construction expertise. Ultimately, decisions in court may boil down to a "battle of the experts," with a lay jury deciding which expert witness they believe. Some jurisdictions mitigate this by assigning certain cases to specialized dockets or appointing special masters with expertise, but these are not universal solutions.

Conclusion

When it comes to dispute resolution in the construction industry, there is no one solution, but there does not need to be. To the contrary, having an array of options available for unique projects and unique contractual arrangements gives parties the ability to customize the resolution process. What works for one project may not work for another. Knowing the features and strategies go a long way toward effective and efficient dispute resolution.