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## Article

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## MANAGEMENT | RESEARCH ARTICLE

# Institutional factors influencing institutionalised supplier development initiatives in the construction industry in Zambia

Shem Sikombe<sup>1\*</sup> and Maxwell A. Phiri<sup>1</sup>

**Abstract:** The study seeks to examine the institutional factors influencing institutionalised supplier development initiatives in the construction industry in Zambia. A qualitative strategy was used to capture expert perspectives using a semi-structured interview protocol. The implementation of the initiatives is strongly affected by political influence. The findings also show that corruption has contributed to unfair competition between local and foreign contractors. Furthermore, the criterion for engaging local contractors in the initiatives is not clear. Other factors include inadequate monitoring and evaluation systems due to the lack of a robust regulatory system. However, the findings reveal that information dissemination has been very effective. There is a consensus that the initiatives have relatively contributed to the empowerment objective and knowledge transfer. The study recommends enacting binding legislation on specific projects financed entirely by the government and local contractors as award criteria to encourage main contractors to ensure an ideal subcontracting environment for contractors. The study also proposes procuring entity ratings based on the successful application of the reservation and preferential schemes. Furthermore, contractors should take preliminary

## ABOUT THE AUTHORS

Shem Sikombe has over nine (9) years of teaching, administrative and research experience at the university level. His research interest is in Sustainable Procurement, Supply Chain Management, and SME oriented Public Procurement policies. He holds a Bachelor of Science in Production Management with distinction from the Copperbelt University, Zambia and a Master of Art's in Leadership and Organisation from the Malmo University, Sweden. He is a Fellow of the Chartered Institute of Procurement and Supply (FCIPS) and Zambia Institute of Purchasing and Supply (FZIPS).

Maxwell A. Phiri has over 32 years of industrial and academic experience. He is currently an academic leader in the Discipline of Supply Chain Management and Marketing Management in the School of Management, Information Technology and Governance at the University of Kwazulu-Natal-South Africa. His research interest is in marketing, supply chain management and entrepreneurship.

## PUBLIC INTEREST STATEMENT

Institutionalised supplier development initiatives are part of public procurement policies in the construction industry for supporting SME contractors' participation in the economy. The policies are implemented through preferential and reservation schemes, contractors' training, subcontracting, and finance access. The study explored institutional factors that influence the implementation and effectiveness of the initiatives from experts' perceptions. The research identified corruption, inadequate monitoring, and lack of a robust regulatory system as critical factors. The study also revealed that information dissemination was effective. There was a consensus that some initiatives have contributed to the empowerment objective and knowledge transfer. The study proposed enacting binding legislation on specific projects and introducing award criteria to encourage main contractors to ensure an ideal subcontracting environment for contractors.

qualification examinations to determine their capacity before bidding for contracts under the initiatives.

**Subjects:** Sustainable Development; Development Policy; Business; Management and Accounting

**Keywords:** institutional factors; institutionalised supplier development; small and medium-sized contractors; construction industry; Zambia

## 1. Introduction

Public procurement is the process of acquiring goods, services and works by public entities (OECD, 2017). There is increasing recognition of public procurement as a tool for socio-economic development (Cutcher et al., 2020). Consequently, this has led to more scholarly attention to supplier development research in the public procurement (Arráiz et al., 2013; David McKeivitt & Davis, 2015; Hawkins et al., 2018; Patil, 2017), commonly referred to as institutionalised supplier development (hereafter “ISDIs”) (Arráiz et al., 2013). ISDIs are coordinated programmes by central and state-owned enterprises through various public procurement policies to support the participation and subsequent integration of local contractors in the construction industry (GRZ, 2014). The main objective of such public interventions is to strengthen the management of indigenous suppliers and improve their capabilities, which in turn contributes to domestic productivity (Arráiz et al., 2013). This study explores the institutional factors that influence the implementation of ISDIs in the construction industry in Zambia. Supplier development generally involves any intentional effort by the purchasing organisation, be it a public, private or third party, to improve the performance and capabilities of the supplier or a local contractor in this case, to contribute to the short or long term supply needs of the buyer (Chen et al., 2018; DavidMark McKeivitt & Davis, 2014). In addition to research in the private sector, researchers have also begun to extend supplier development research in the public sector procurement, which represents about 12% of global Gross Domestic Product (GDP) and more than 20% for developing countries (Callens et al., 2021; OECD, 2017; Patil, 2017).

In terms of investment in ISDIs, Loader (2017) reports that governments spend considerable resources on public procurement, which varies across jurisdictions. For example, Hawkins et al. (2018) estimate that the United States of America (USA) spend about 2.7 USD trillion annually in public sector procurement, of this amount, for example, about 90.7 USD billion in the fiscal year 2015 was spent in supporting SME in public procurement. Similarly, Flynn (2018) add that the United Kingdom (UK) spends about £240 billion, and the European Union spends about €1900 billion in public procurement. Furthermore, OECD countries spend about 12% and Africa, about 20% of their GDP on public procurement (Cutcher et al., 2020; OECD, 2017). The expenditure reflects the policy attention that SMEs, in general, receive from policymakers and a significant market in public procurement.

SMEs such as local contractors’ access to public procurement can be pursued directly through specific legislative provisions or policies such as reservation schemes (set-asides), preferential schemes, subcontracting, training and easy access to finance (Flynn, 2018). However, there is still a paucity of research on how these specific legislative provisions or policies influence ISDIs, particularly for SME local contractors in the construction industry. For example, despite the critical role that public procurement plays, Grandia and Meehan (2017) argue that it remains under-researched as a policy tool for stimulating socio-economic development through various ISDIs.

### 1.1. ISDIs in Zambia

Predicated on public procurement policy as outlined in the above examples, Zambia, a Southern African country, has implemented some ISDIs to build local contractors’ capacity. These include reservation and preferential schemes meant to support targeted citizen-owned enterprises to help raise them to effectively participate in the national economy (Ministry of Commerce Trade and

Industry, 2018). The other category focuses on training local contractors by the National Council for Construction that also regulates Zambia's construction industry (National Council for Construction, 2017). In line with the National Council for Construction mandate, the Road Development Agency has developed the 20 per cent subcontracting policy for road construction projects. The subcontracting policy has made it a requirement that local contractors execute at least 20 per cent of all road contracts awarded by central, quasi and local governments as part of capacity building (Road Development Agency, 2016).

Another initiative in line with the 20 per cent subcontracting policy is the Road Development Agency's construction finance initiative. The construction finance initiative seeks to build supplier capacity by providing easy access to finance (Road Development Agency, 2016). These government-sponsored initiatives aim to encourage local contractors to break into the construction industry, which has, for many years, been dominated by foreign companies (National Council for Construction, 2017). Therefore, instead of relying on other organisations' willingness to implement its supplier development strategy, the government has developed ISDIs for local contractors to facilitate knowledge transfer and capacity building.

However, while the above policy initiatives are well intended, they do not reflect the sector's current practices. One area that remains underexplored is how institutional factors affect the implementation of ISDIs in the construction industry. For example, in the study of public procurement policy on SMEs, Patil (2017) acknowledges that the implementation of SME oriented public procurement policies require understanding the interplay among different factors such as legislation, technocrats and political players. However, this study did not further interrogate the influence of legislation, technocrats, and political players on public procurement policy implementation. DiMaggio and Powell (1983) characterise institutions as consisting of regulative, normative, and cognitive dimensions that provide stability and meaning to social behaviour. For example, the institution's regulative dimension comprises laws, regulation, and government policies that promote or constrain certain behaviours (Dharam & Singh, 2015; Mwelu et al., 2019).

In the current study, the legislation governing the implementation of ISDIs include the Citizen Economic Empowerment Act No. 9 of 2006 on preferential and reservation schemes (Ministry of Commerce Trade and Industry, 2018). The National Council for Construction Act No. 13 of 2003 on National Council for Construction training in the construction industry (National Council for Construction, 2017) and the 20 per cent subcontracting policy and construction finance initiative (Road Development Agency, 2016). However, despite the enactment of the preceding legislation and policies, there is less clarity of their influence on the implementation of ISDIs in the construction industry. For example, a report of the committee on Communications, Transport, Works and Supply of the National Assembly of Zambia related to the participation of local contractors in ISDIs found that lack of research in the construction industry was a significant challenge in the development of policy interventions (GRZ, 2014). Against this background, this study's main objective is to explore institutional factors influencing the implementation of ISDIs in the construction industry in Zambia. In particular, the study would like to address the following questions:

RQ1. What are the main institutional factors influencing the implementation of ISDIs in the construction industry in Zambia?

RQ2: How do experts perceive the effectiveness of ISDIs in the construction industry in Zambia?

## **2. Institutional factors in ISDIs**

Institutional factors are inherent in the operating business environment, making it difficult or easy to implement the ISDIs effectively. For example, in a study of government policy implementation in supply chains, Harland et al. (2019) acknowledge some of the institutional challenges that arise

due to information gaps between policymakers, implementers and the target groups. The gaps can emanate from different sources, such as regulatory compliance issues, government support, corruption, and funding. We now discuss a few institutional factors in the following sections.

### **2.1. Regulatory compliance**

Regulatory compliance includes compliance with the institutional environment's rules and policies governing a particular sector, such as contractual agreements and policies (Cai et al., 2010). In the context of public procurement and ISDIs, Ibrahim et al. (2017) argue that it is critical to comply with procurement laws and equally essential to ensure that compliance translates into procurement objectives. Through regulation and regulatory enforcement, governments help stakeholders in the construction industry to effectively implement ISDIs (Dapaah et al., 2016; Zhu & Sarkis, 2007). In Zambia, for example, the reservation and preferential schemes are affected by similar institutional factors. The Citizen Economic Empowerment Commission Act No. 9 of 2006 read together with the Citizen Economic Empowerment Commission (Preferential Procurement) Regulations, Statutory Instrument No. 36 of 2011 and Circular No. 3 of 2013 govern the implementation of both initiatives (GRZ, 2014; Ministry of Commerce Trade and Industry, 2018). This legislature is similar to the European code of best practices facilitating access of SMEs to public procurement contracts, Small Business Act in the USA and the Federal Acquisition Regulation (Kidalov, 2013). However, some areas of regulatory compliance, such as company registrations are susceptible to manipulation through fronting. Fronting is a scenario in which local people sign up as fictitious shareholders in virtually foreign companies (Shava, 2017). Fronting results in foreign companies gaining undue benefit from citizen targeted empowerment (Warikandwa & Osode, 2017).

### **2.2. Government support**

Government support includes communicating relevant information to the stakeholders concerned, providing the necessary resources, and supporting the effective implementation of initiatives (Cai et al., 2010). The role of the government is to promote the dissemination and exchange of information on local material availability, location and profile of local suppliers/contractors to enhance local suppliers' participation in government initiatives (Marion, 2007). Dissemination of information reduces search costs for large organisations that may either not be aware of potential local suppliers or find it too costly to find them (Arráiz et al., 2013; Harland et al., 2019).

### **2.3. Corruption and unfair competition**

There are many definitions and connotations of corruption; for example, it could be viewed from a moral, social, political, or economic point of view and criminal, civil or administrative law (Kalyongwe et al., 2018). The different meanings of corruption revolve around the abuse of public power for private gain, the violation of the Code of Ethics and the unlawful advancement of private interests over the interests of one's position (Kalyongwe et al., 2018; Rodriguez et al., 2005). Corruption undermines the effective implementation of public procurement initiatives and induces unfair competition in the procurement system (David McKevitt & Davis, 2015; Kalyongwe et al., 2018). Corruption is very prominent in the construction industry, particularly in public-funded projects. For example, Kalyongwe et al. (2018), in their study of contextual factors that aid corruption in the procurement cycle of construction projects, revealed that political interference ranks second among the top five contextual factors. The first was low accountability, the third was the failure to blacklist offenders, the fourth was bad governance, and the fifth was limited prosecution and weak regulation.

### **2.4. Monitoring and evaluation systems**

Implementation of supplier development initiatives requires systematic monitoring and evaluation systems to ensure appropriate tracking of progress (Luzzini et al., 2014). However, Kidalov (2013) notes that mere monitoring of the main contractors' subcontracting efforts does not align local contractors with government interest. Therefore, strict measures are needed to ensure greater binding or alignment of the interests of main contractors, governments, contracting entities, and public policymakers. Furthermore, Flynn (2018) argues that it is essential

**Table 1. Summary of institutional factors from literature**

Factor	Context	Source
Political interference	Public procurement of construction Projects	Kalyongwe et al. (2018); Mwelu et al. (2019)
Regulatory compliance	Contractor development programmes	Kidalov (2013); Dapaah et al. (2016);
Lack of policy-administrative capacity	Public procurement policy for SMEs	Patil (2017); Flynn (2018)
Government support	Information dissemination on supplier development initiatives in the public sector	Marion (2007); Harland et al. (2019)
Corruption and unfair competition	Public procurement	Rodriguez et al. (2005); Kalyongwe et al. (2018)
Monitoring and evaluation systems	Public procurement policies on SMEs	Davis and Brady (2015); Loader (2017); Flynn (2018)

to monitor policy implementation beyond government pronouncements to ascertain its effectiveness. Therefore, the legislation's impact should be monitored through established institutional oversight (Flynn, 2018), particularly in developing countries with relatively weak public procurement regulatory regimes (Davis & Brady, 2015).

Table 1 summarises the factors, which include the context in which the studies were conducted and the sources

### 3. Methods

#### 3.1. Respondents' profile and document review

A qualitative strategy was used to capture expert perspectives on the institutional factors influencing the implementation of ISDIs in the construction industry in Zambia. A total of nine face-to-face interviews were conducted on-site using a semi-structured interview protocol and audio recorded between December 2019 and January 2020. Participants were purposively selected based on their individual and organisational role in the development and implementation of ISDIs. Expert interviews were transcribed and analysed using NVivo 12. In addition to expert interviews, a review of legislation and policies governing ISDIs was conducted. These include the National Council for Construction Act No. 13 of 2003, Citizen Economic Empowerment Commission Act No. 9 of 2006, the Public Procurement Act No 12 of 2008 and the 20 per cent subcontracting policy (GRZ, 2014). The purpose of the review was to ascertain the objectives of legislation and policies regarding the implementation of ISDIs and enhance data source triangulation with expert interviews.

The participants' profiles are as follows: Expert 1 is the former procurement director and current President of a professional institution responsible for regulating purchasing and supply professionals in Zambia. Expert 2 is the government ministry director in a unit responsible for the public, private partnership (PPP) and former procurement director in the government agency responsible for road construction. Expert 3 is a representative of the National Association of Small and Medium-sized Contractors in Zambia. Expert 4 is a consulting engineer. Expert 4 is a consultant. Expert 5 is a seasoned procurement specialist with vast construction work experience in the private and public sectors. Expert 6 is a planner at a government ministry. Expert 7 is a consultant, researcher, and former board member of the Road Development Agency. Expert 8 is the director of the government statutory authority responsible for maintaining public roads in Zambia. Finally, expert 9 is the government statutory body manager mandated to monitor and regulate all country's construction activities.



### **3.2. Results and findings**

It is evident from the experts' responses that the most popular initiatives in the construction industry are the 20 per cent subcontracting policy followed by reservation and preferential schemes. The National Council for Construction training and Construction Finance Initiative were the least popular. Expert perceptions of the institutional factors influencing ISDIs are summarised in Table 2. For example, five experts (EP 1, 3, 4, 7 and 9) provided opinions of political influence in the implementation of initiatives.<sup>1</sup>

## **4. Discussion**

### **4.1. Institutional factors influencing the 20 per cent subcontracting policy**

Institutional factors affecting the implementation of the 20 per cent subcontracting policy in the construction industry in Zambia include political influence, criteria for participating in the initiative and dissemination of information. Others are corruption and unfair competition, monitoring and evaluation systems, the robustness of the regulatory system and institutional challenges.

#### **4.1.1. Political influence**

There was a consensus among experts that implementing the 20 per cent subcontracting policy is currently subjected to intense political influence. As a result, this affects the implementation of the initiative. The majority of experts have shown that the initiative is only being used as a political tool rather than an empowerment initiative, limiting access to prospective beneficiaries. Similar findings show that political interference is a significant driver of corruption in Zambia's construction industry (Kalyongwe et al., 2018). Below is a quote from one expert:

... ..at the end of the day, not every Zambian construction company benefit; it has become a political tool. Because many times, you find untrained contractors engaged, contractors who do not know anything about construction. You cannot call it an initiative that is working; as far as we are concerned, politicians have taken advantage of this initiative and allowed other Zambians not to participate fully. I think we need to change the way it is being implemented (EP3).

These findings are consistent with the institutional theory, which argues that institutional factors in the form of political influence are pervasive both within organisations and their environments and work to develop shared understandings of appropriate organisational behaviour through different mechanisms (Cai et al., 2010; Mwelu et al., 2019). Government politicians have an inevitable influence on government-initiated programmes because of the power and control they have over technocrats (Kalyongwe et al., 2018), which negatively affect the implementation of initiatives.

#### **4.1.2. Criteria for participating in the 20 per cent initiative**

The criteria for participating in ISDIs have a profound effect on who benefits from the initiatives. A supplier must meet specific sector requirements to participate in supplier development initiatives (Luzzini et al., 2014). One of the key institutional factors affecting the implementation of ISDIs cited by experts is the unclear criteria the National Council for Construction uses to engage local contractors. While some experts have acknowledged that the National Council for Construction six-tier grading system is being used, others have indicated that the criteria are not clear, confusing to who is eligible for a particular initiative. For example, one expert indicated as follows:

I think they are following the National Council for Construction grading. For one to access a particular kind of work, they must be in a certain grade. I think that is what they are following. The criteria are already there; it is just that you must be in that particular grade, say National Council for Construction 4 or 5, whatever the case may be. So National Council for Construction would have assessed you and put you in that grade, then you access work that members in that grade can access (EP4).



Table 2. Summary of interview findings												
Summary of interview findings		Expert IDs										
		EP1	EP2	EP3	EP4	EP5	EP6	EP7	EP8	EP9	Total	
Institutional factors influencing the implementation of ISDIs in the construction industry in Zambia?												
1	Institutional factors that are affecting the 20 % sub. policy											
	Political influence	✓		✓				✓			✓	5
	Criteria for participating in the 20% initiatives	✓		✓					✓		✓	5
	Information dissemination on the 20% initiative		✓	✓		✓		✓	✓		✓	8
	Corruption and unfair competition	✓	✓	✓		✓			✓		✓	7
	Monitoring and evaluation systems	✓	✓	✓		✓		✓	✓		✓	9
	Robustness of the regulatory system	✓	✓	✓		✓		✓	✓		✓	9
	Institutional challenges on 20% policy implementation	✓	✓	✓		✓		✓	✓		✓	9
2	Institutional factors affecting reservation and preferential schemes											
	Fronting	✓	✓	✓		✓		✓	✓		✓	8

(Continued)

(Continued)

Table 2. (Continued)		Expert IDs									
	Summary of interview findings	EP1	EP2	EP3	EP4	EP5	EP6	EP7	EP8	EP9	Total
			✓	✓	✓			✓	✓	✓	6
	Information dissemination on the reservation and preferential schemes										
	Corruption and unfair competition	✓		✓	✓			✓		✓	5
	Monitoring and evaluation systems	✓	✓	✓	✓				✓	✓	7
	Robustness of the regulatory system	✓	✓	✓	✓			✓	✓	✓	7
	Institutional challenges reservation and preferential schemes implementation	✓	✓	✓	✓	✓		✓	✓	✓	8
3	Training model for contractors			✓						✓	2
4	Financing model for contractors	✓	✓	✓					✓	✓	5

EP- means, the expert, interviewed

However, other experts opined that there are no clear criteria for local contractors to be engaged as subcontractors in the current 20 per cent subcontracting policy, which has contributed to the initiative's poor performance. One of the experts adds:

... For the 20 per cent subcontracting policy, there are no clear modalities to guide the main contractor who is supposed to engage you as a subcontractor and the criteria to help the subcontractor to pursue these opportunities (EP3).

A transparent and predictable criterion is fundamental to guide local contractors who wish to participate in ISDIs and can also be used to promote participation. For example, Kidalov (2013) argues that including local contractors' use as award criteria to encourage main contractors to subcontract specific works can significantly improve the subcontracting initiative's performance.

#### *4.1.3. Information dissemination for the 20 per cent subcontracting policy*

One of the critical roles of government institutions in the construction industry is disseminating information to prospective local contractors. Kidalov (2013) argues that accurate information on subcontracting must be made available and that subcontractors' legal status must be clearly defined to enhance their participation. There was a consensus among experts that information dissemination has been effective, and local contractors are aware of these initiatives. Some experts shared that information is disseminated to local contractors through websites, trade shows and workshops, as is indicated in the following excerpt:

... yes, information dissemination through our offices has been good. Citizen Economic Empowerment Commission has also contributed so much to disseminating various initiatives on what they are offering. I can confidently say that contractors who have been in operation for three or more years are aware of these initiatives. Perhaps the challenge could be for newcomers who may need to become more aware of the various initiatives that are available in the construction sector (EP9).

Harland et al. (2019) observe that information dissemination through different media is crucial to implementing any initiative for SMEs. However, most SMEs see more value in direct and indirect financial mechanisms that improve their capacity to engage in public procurement than mere information advice. While information is valuable, if contractors lack the resources and capacity to bid for contracts, the information will not add value to local contractors (Harland et al., 2019).

#### *4.1.4. Corruption and unfair competition*

There was a consensus among experts that corruption and unfair competition were prominent in Zambia's construction industry. Experts felt that tenders for construction projects were not awarded competitively, and those who were awarded contracts were somehow linked to some politicians or other influential people. Some experts lamented that, despite renewing their National Council for Construction registration for more than five years, some local contractors have never won a contract from the government, yet some newcomers quickly got contracts. Experts agree that corruption has negatively impacted the implementation of the 20 per cent subcontracting policy, as highlighted in the excerpt below by one expert.

Although you cannot see corruption, the perception is there that there is corruption because of the way things are done. Why I say you cannot see it is that those that are benefiting from corruption cannot tell you that 'I corruptly got this contract', and those who are saying there is corruption cannot say that 'this is how it is happening'. Nevertheless, the perception itself is too huge to ignore. So, there is corruption that inhibits the participation of some Zambians because those with money can easily access these opportunities (EP3).

Furthermore, the complexity of the construction industry makes it even more vulnerable to bribery and corruption. In addition, corruption facilitates unfair competition in the industry, especially between local and foreign contractors (Kalyongwe et al., 2018). Experts indicated that some

foreign contractors who compete with financially constrained local contractors are state-owned enterprises with access to cheap finance from their governments. Experts further lamented that the procurement system is not robust enough to detect unfair competition between local and foreign contractors, as indicated in the quote below:

The procurement system is not capable of detecting unfair competition because it is too mechanical; it is the application of the rules. It does not take that into account. I have never seen an advertisement that says that state-funded contractors should never tender. No, I have never seen that this is why procurement does not address unfair competition. They assume that everything is on a level playing field (EP4).

#### 4.1.5. *Monitoring and evaluation systems*

One of the significant issues affecting the implementation of ISDIs is the lack of proper monitoring and evaluation systems. Supplier prequalification and performance rating are critical to ensuring that supplier development initiatives succeed (Luzzini et al., 2014). Some experts indicated that they were not even aware of any monitoring systems on the implementation of initiatives, as quoted below from one of the experts:

I am not aware of any institution monitoring what is being done to see whether this is being done properly or if the empowerment of locals and technology transfer is being achieved. I am afraid to say there is no record anywhere to show you that this has been achieved through the initiatives because the implementation has been haphazard, and that is the problem. Another reason for this is lack of modalities for the 20 per cent subcontracting policy (EP3).

Scholars have suggested different interventions to ensure effective systems for monitoring and evaluating subcontracting policies. For example, Kidalov (2013) recommends side-by-side reviews of the main contractors to ensure compliance with the subcontracting policy. Besides, some experts suggested the need for proper subcontractor monitoring through a shared database to know the size of projects and the value of the contracts subcontracted annually.

#### 4.1.6. *Robustness of the regulatory system*

The robustness of the regulatory system is one of the fundamental mechanisms that guide government empowerment initiatives (Kidalov, 2013). Experts felt that it was difficult for contractors to disclose the volume of work contracted and the rate used for subcontractors due to the regulatory system's weakness. Experts attributed this to the lack of legislation concerning the 20 per cent subcontracting policy. Experts submitted that there is an urgent need to formulate legislation to guide the 20 per cent subcontracting policy implementation, as highlighted in the following quote:

You see, for example, there are cases we have experienced. Here is a foreign company that has been given work to do, then what they have done now, they have got a company from abroad that is registered in Zambia. As far as the law is concerned, or rather the subcontracting policy, it is a local company. When you look at the law, it defines a local company as a company registered in Zambia. So, what they are doing is starting to give contracts to the same companies, to themselves. So, they subcontract 20 per cent to fellow companies, because they are the same, they even subcontract more than 20 per cent, sometimes and as much as 40 per cent (EP5).

The review of legislation and policies governing the implementation of ISDIs also revealed that the current 20 per cent subcontracting policy lacks a legal framework and relies so much on Road Development Agency intervention for its implementation. The absence of the legal framework has made it challenging to implement the 20 per cent subcontracting because it relies on the main contractor's willingness to engage subcontractors. This finding is also echoed by Phiri (2016), who researched the efficacy of the 20 per cent subcontracting policy in Zambia and found that lack of legislation adversely affected the 20 per cent subcontracting policy implementation. Furthermore,

Kidalov (2013) argues that subcontracting deserves a legal certainty concerning participation in large government-funded projects, in particular, if the main contractor is a foreigner.

The regulatory system's effectiveness also impacts how the various initiatives are coordinated to achieve contractor capacity building and empowerment in general. One expert provided the following insight into the current coordination of the 20 per cent subcontracting policy.

... I am not satisfied with the coordination. In the first place, the approach must be holistic for it to work, but it is not holistic; it is too focused on procurement. In addition, because of this, the emphasis is on how many contracts have been awarded. I would like this programme to be viewed holistically in a diagnostic way. We need to look at the contractor in Zambia and say, what do they need to succeed? What obstacles will they face in the execution of their work? How do we address these problems? We must design a programme that addresses these issues. Furthermore, there is a need to have a monitoring mechanism. (EP4).

#### *4.1.7. Institutional challenges on 20 per cent policy implementation*

Experts also discussed institutional challenges in the form of administrative, human, and business-related issues. One expert felt that contract management issues at the institutional level need to be strengthened. Moreover, business factors arise because subcontracting is not included in the solicitation document and the contract; it is not retained until the contract has been awarded.

One expert noted that *"it is like forcing a marriage that was not wanted with the main contractor"* EP1.

Experts indicated that subcontracting works better if the parties agree to work together before tendering and awarding the contract. As indicated in the excerpt below:

... because it is not part of the solicitation document, a subcontracting decision is made after the contract has been awarded. So, someone already has a contract, and when you talk to them, less like trying to negotiate with them to give some work to the locals. We find it very problematic in two ways; first of all, there is no relationship between that subcontractor and the client because it came after the contract award. Moreover, these subcontractors are normally given terrible deals which makes the execution of the contract unsustainable (EP1).

Furthermore, untimely and non-payment of contractors are also hindering the implementation of the 20 per cent subcontracting policy. Experts felt that these challenges have contributed to the abandonment of work and poor-quality projects by contractors.

#### **4.2. Institutional factors affecting reservation and preferential schemes**

Reservation and preferential schemes are affected by similar institutional factors like the 20 per cent subcontracting policy, including corruption and unfair competition, dissemination of information, monitoring and evaluation systems, regulatory systems, and institutional challenges. However, one factor called fronting is more prominent in the implementation of reservation and preferential schemes. The following section discusses the prominent factors in detail.

##### *4.2.1. Fronting*

Fronting is a business activity in which an individual or a group passes on as shareholders of a company for the sole purpose of benefiting from a specific transaction or empowerment initiative (Warikandwa & Osode, 2017). Fronting includes fictitious companies and fronts in joint ventures that may not exist (Emuze & Adlam, 2013). Fronting directly or indirectly undermines the achievement of ISDIs. Experts acknowledge that fronting is a serious challenge in the implementation of reservation and preferential schemes in the construction industry, as highlighted in the following excerpt from one expert:

Fronting is one of the critical institutional challenges facing the construction sector in implementing various government initiatives because it is difficult to prove. Most foreigners know the system, and they can circumvent it with the help of Zambians. As a regulatory body in the industry, we are trying our best to ensure that it is detected and dealt with at the earliest possible stage. However, if contractors comply with the requirements of the law, even if we suspect that they may be fronted, it is difficult to deal with it, and this has been made even more difficult by Zambians who are being used as fronts (EP9).

#### **4.2.2. Robustness of the regulatory system**

Experts felt that most of the advertisements that include the application of preferential procurement do not include them in the solicitation document, making it difficult for them to be used at the evaluation stage. These weaknesses make the application of preferential schemes vulnerable to manipulation as observed by one expert:

The problem is the capacity on the procurement side; the procurement officers themselves do not know how to apply them. I have been in procurement, I know exactly, I can tell you that 70 per cent of the procurement officers do not know how to apply those provisions in the way they are calculated in the way they are applied from the solicitation document. Do not expect to attend an evaluation meeting, and based on that fact, you say 'hey guys,' there is Citizen Economic Empowerment Commission preferential treatment that needs to be applied. You must capture them in the solicitation document, and you must show how they are going to apply in the solicitation document, and then how they are going to be calculated (EP2).

A few gaps have been identified on the adequacy of regulations and policies to ensure the effective implementation of ISDIs. For example, experts have noted that the implementation of reservation and preferential schemes is adversely affected by the loopholes in the legislation governing the initiatives that experts feel require refinement and harmonisation with the public procurement law, as indicated in the quote below.

As nation and government, we need to see results, I think we need to harmonise these laws, the National Council for Construction Act No. 13 of 2003, Citizen Economic Empowerment Commission Act No. 9 of 2006, Company's Act No. 10 of 2017 and the Public Procurement Act No 12 of 2008, all these laws need to speak to each other. Legislation should be clear about how empowerment will be done for the Zambians and how technology, skills transfer will be transferred to the Zambians. You see, there is also a skills levy; it is also talking about the empowerment of Zambians. All these things have to be brought together so that we have a clear line of thinking, and it will even help us monitor progress and see where we are not performing well. However, at the moment, the laws are not clear (EP3).

Finding from the review of legislation and policies governing the implementation of ISDIs indicate that there is no clear distinction between a citizen-owned and local supplier. Ideally, a citizen supplier is a company that is wholly (100%) owned by Zambians. However, the Citizen Economic Empowerment Commission Act No 9 of 2006, statutory instrument number 36 of 2011, and circular number 3 of 2013 only provides for citizen influenced, empowered, and owned company with equity stakes ranging from 5–25%, 25–50% and 50.1% respectively. This limitation is also echoed in the Public Procurement Act No 12 of 2008. These thresholds have been abused by foreign companies through fronting and have adversely affected the implementation of ISDIs in the construction industry.

#### **4.3. Training model for contractors**

Experts indicated that the current National Council for Construction training model is not responsive to industry needs and that the cost of accessing training is prohibitive for most local contractors. In addition, there was a general feeling among experts that there was no connection between the National Council for Construction training and winning a contract. Experts argued that contractors who have been trained and returned on the National Council for Construction register consistently had not been awarded a single contract for years, and National Council for Construction does not follow up to know how they are applying the skills they learned as indicated in the quote below:

... .. you find that the contractor who registers with National Council for Construction today is the one who gets a contract. The contractor who has been there for five or even ten years has nothing, no contract whatsoever. So, it is chaotic, the arrangement has been chaotic, we have good initiatives if only we have a proper system, we would implement, but without a proper system, I doubt if we will see the results. I think that is where we need to work on linking the training to contracts being awarded (EP3).

#### **4.4. Financing model for contractors**

The finance construction initiative was initiated to run away from collateral demand because most local contractors have no collateral to access finance. Expert perceptions of the financing model indicate that it has not worked, and therefore contractors have reverted to the traditional financing model. Experts have revealed that the banks are unwilling to support this initiative; they are still stuck with the traditional way of doing business. As a result, the initiative has not produced any results. Furthermore, the financing model was not supported by any legal framework as it fell outside the mandate of the Road Development Agency. The lack of a legal framework has, therefore, negatively affected the implementation of the initiative.

#### **5. Perception of the effectiveness of ISDIs**

The effectiveness of institutionalised supplier development was assessed based on the achievement of empowerment objectives and knowledge transfer to local contractors. The effectiveness of ISDIs was assessed based on the achievement of empowerment objectives and knowledge transfer from larger to small local contractors. Table 3 summarises expert perceptions on the effectiveness of ISDIs in the construction industry in Zambia.

Few experts (three out of nine) agreed that the initiatives are working in knowledge transfer to local contractors, particularly in the road sector. They indicated that some contractors who have been involved in similar projects through the same initiatives had been well trained. Furthermore, one expert revealed that, through the 20 per cent subcontracting policy, about 1359 local contractors had been attached to major contractors. The following excerpts highlight the expert opinion on the effectiveness of ISDIs.

... .. right now, most of the road infrastructure being done around Lusaka and the Copperbelt involves Zambian subcontractors, most the works they are doing, the paving, the drainages and things like that, I see what they are doing, and they are doing good quality works which they have learned from the same subcontracting initiative. So, there has been a transfer of knowledge there. I have spoken to some of them, and I interact with them quite often, and I think there has been a good level of knowledge transfer (EP2).

Another expert adds that stakeholders have begun to see some benefits realised by contractors due to the 20 per cent subcontracting policy. Although he was quick to mention that there is still room for improvement, as highlighted in the following quote:

I think in the current state, I would say yes, they are working, and we are trying to increase the scope of work, not necessarily focusing on the minor works but also the major scope of work. For instance, I would give you an example of the Lusaka decongestion project. Instead of local contractors focusing on the road marking and signs, they are now working on actual portions of roads. Hence, there is knowledge transfer where you are given a stretch of a kilometre as a local contractor to work on (EP6).

On the other hand, some experts felt that the initiatives had not achieved the current state's empowerment objectives. Some argued that it is difficult to evaluate them because there are no set targets and milestones. In addition, there are no criteria that can be used to measure whether or not the initiatives have been successful, which is consistent with previous literature arguments (Davis & Brady, 2015; Flynn, 2018).



Summary of interview findings		Expert IDs									
		EP1	EP2	EP3	EP4	EP5	EP6	EP7	EP8	EP9	Total
How effective are the ISDIs in the construction industry in Zambia?											
1	Institutional factors that are affecting the 20 % sub. policy										
	Achievement of empowerment objectives	✓	✓	✓	✓	✓	✓	✓	✓		9
	Knowledge transfer	✓	✓							✓	3
2	Institutional factors affecting the preferential reservation scheme										
	Achievement of empowerment objectives	✓		✓	✓	✓		✓	✓		7
	Knowledge transfer		✓		✓			✓			3
3	Training model for contractors										
	Knowledge transfer		✓	✓						✓	3

## 6. Conclusion and recommendations

This study sought to explore the institutional factors influencing the implementation of ISDIs in the construction industry in Zambia using expert interviews. The findings show that the 20 per cent subcontracting policy's implementation suffers from a strong political influence. While corruption is a common feature of the construction industry, the findings indicate that it has also contributed to unfair competition as local contractors are forced to compete with foreign contractors who have access to cheap financing. In addition, inadequate monitoring and evaluation systems have been exacerbated by the lack of a regulatory system to implement and monitor its progress. However, the findings reveal that information dissemination has been effective and that local contractors are aware of these initiatives. The findings also reveal that reservation and preferential schemes are affected by similar institutional factors like the 20 per cent subcontracting and fronting.

Furthermore, the study found that other initiatives, such as the National Council for Construction training and the construction finance initiative, did not respond adequately to local contractors' needs. For example, it is evident from the findings that the current National Council for Construction training is not linked to winning future contracts. The construction finance initiative has not materialised due to critical stakeholders' failure to develop a customised financing model responsive to local contractors' needs. Interestingly, there is consensus among experts that the initiatives, particularly the 20 per cent subcontracting policy, have contributed to the empowerment objectives. Approximately 1359 local contractors have been attached to major contractors.

### 6.1. Implications and recommendations of the study

The study implies that the implementation of ISDIs is indeed significantly influenced by institutional factors. The factors include political influence, corruption unfair competition between local and foreign contractors. Furthermore, the criterion for engaging local contractors in the initiatives is not clear. Other factors include inadequate monitoring and evaluation systems due to the lack of a robust regulatory system. However, the findings reveal that information dissemination has been very effective. Against these implications of institutional factors on the implementation of ISDIs, the study makes the following recommendations.

The study makes the following recommendations to the government and statutory institutions responsible for implementing the ISDIs.

- (1) It is necessary to enact binding legislation on projects financed entirely by the government to guide the 20 per cent subcontracting policy implementation.
- (2) Notwithstanding the current practice, local contractors' use as award criteria should encourage main contractors to ensure an ideal subcontracting environment for local contractors.
- (3) In order to improve the effective implementation of preferential and reservation schemes, the study proposes a clear distinction of citizen contractor (wholly owned by citizens) and local contractor (partnerships with citizens) to be considered in future revised legislation and policies.
- (4) To ensure that only qualified local contractors are empowered, the study recommends that contractors should take mandatory preliminary qualification examinations to determine their capacity before bidding for any contract under the initiatives.

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