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Aktis, Greece

- Type of restructuring:
Business expansion
- Employees before restructuring:
10-49
- Employees after restructuring:
10-49
- Nace/Sector:
Construction
- Country:
Greece
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Abstract

Employees of the Greek firm Aktis have been strongly involved in the process of setting up a joint venture with a Romanian partner. As their expertise was a crucial asset while the new production unit was set up in Romania, three or four employees had to move there in order to monitor the process and train their Romanian colleagues.

Organisational profile

Aktis S.A. is a company that has been in the construction industry for more than 20 years. Its main operations involve the development and application of new technologies in the field of road construction and maintenance, both in Greece and in the Balkans. The company's headquarters are located in Thessaloniki (northern Greece), while its production unit is in Romania. Another branch (administrative offices) of Aktis S.A. is also located in Romania, in the capital city Bucharest, in order to enable better monitoring of the local market (construction projects). The company operates a subsidiary firm in Bulgaria, with Aktis engaged in projects there since 1992, hence exhibiting a strong orientation to international activities during the last 20 years.

Since its foundation, the company has continuously diversified its activities, based on a commitment to invest in research and technological development and in quality assurance systems. Aktis has established effective cooperation with universities and research centres in Greece, which have driven the expansion of its scope so as to include the following activities/fields:

- Maintenance and improvement of roadpavement
- Traffic management and Intelligent Traffic Solutions(ITS)
- Routine Maintenance Management System (RMMS) usingdigital video
- Ground Radar Applications for non-destructivedetermination of the various layers of thickness of the pavement or rail base.

The company's history dates back to 1975 when the company Vitoumina S.A. was founded by Aktis' current managing director's father and partners. Vitoumina was initially engaged in asphalt, chemical and oil products processing and trading. In 1984, the owners decided to develop the technical department, and Aktis was founded as a subsidiary. The primary aim was to operate in the construction industry, particularly road construction, by utilising a core product that the parent firm was producing: a specialised emulsion. Since then, Aktis has focused on an innovative technique for road construction and maintenance – 'slurry-sealing' or 'micro-surfacing' – becoming the only company in Greece capable of performing this technique (now widespread in several European countries including Germany, France and Spain). This competitive advantage enabled the company to participate in numerous public construction projects in Greece (for example, 'Macedonia' airport's runway maintenance in 2010 and the construction of slurry seal micro-surfacing on the Alexandroupoli–Kipoi section of the Egnatia Odos motorway) and in the Balkan region (for example, the maintenance of the national road network of Romania during the last 25 years).

In 1991 the founder of the company decided to sell his shares in Vitoumina but retained ownership (together with four other owners) and the position of General Manager in Aktis, which continued to operate autonomously, even though it still constituted one of Vitoumina's main clients until 2007–8. In the meantime, his son entered the business and replaced him (as the new General Manager) in 2006, while the founder still holds a position in the company's managing board, together with the four other owners. His son holds a PhD in economics in the field of economics of innovation and knowledge and worked in Brussels from 1998 to 2003 in the European Commission's Directorate-General for Science, Research and Development, before returning to Greece as Managing Director of Aktis S.A.

The company has shown stable growth over the last 20 years, with annual turnover during the last five years of €3 million. Almost 30 people are employed in Greece, with up to 50 when projects require it, especially during the summer period. However, this number was recently reduced significantly, as company performance was severely affected by the ongoing economic recession in Greece. There is no collective employee representation; the majority of employees are highly specialised and well-experienced engineers.

Background to restructuring events

Aktis S.A.'s innovative technique for road construction and maintenance is based on the utilisation of a specialised emulsion that constitutes the major raw material. This emulsion was exclusively produced by Vitoumina S.A. until 2007. Since then, however, Vitoumina experienced poor financial performance and extended debts, and discontinued its operations after 2009. The current manager of Aktis was aware of this situation by 2004–5 and started worrying about the main supplier's ability to produce this emulsion. Aktis examined alternative solutions to overcome this barrier – which could constitute an extremely significant problem in the near future, since more than 1,000 tonnes were needed on an annual basis. At the same time, the company had acquired the knowledge and the skills required to produce this emulsion.

During 2008, the company undertook the completion of large-scale construction projects in Romania, where the particular technique of 'micro-surfacing' is also known and used, after tendering the lowest bid. The company's collaborators in Romania had also informed the manager of Aktis that several other projects were to be put out to tender, as there were some ongoing discussions and preparations regarding the public assignment of construction projects to the lowest tenders.

It was then obvious that Aktis should fully ensure access to the specialised emulsion if it was to participate in these tenders, given that the company's intention was to expand further in the Balkan region. The performance of the main supplier was a major barrier and, thus, the managing board decided that the best solution was to expand production of the emulsion through a vertical integration strategy. This decision was taken in 2008 during a meeting of the managing board, in which alternative options were discussed. The company acquired the specialised mechanical equipment needed to produce the emulsion. There remained the problem of where to install it.

Alternatives were assessed, as the managing board initially decided to install the equipment on land the company owns in the neighbouring Thessaloniki area (35 km from Aktis' headquarters). However, previous participation in numerous projects in Romania has shown that transportation costs could significantly raise total costs and in this case transportation of the emulsion to Romania would represent an additional cost of 75%, which the company could not bear. Given the emerging opportunities in Romania, as well as the extensive experience gained through participation in several projects there, it was decided that installing the production unit there would constitute the most suitable solution, since the business environment in Greece was deteriorating and prospects were less encouraging compared with Romania. Thus, the company presents an example of a combination of restructuring events, namely internal restructuring (that is insourcing and vertical integration), as well as business expansion.

Restructuring processes

The restructuring decision was taken in 2008, and it was further advanced after Aktis made the lowest bid for another construction project in Romania in April 2009. As soon as the owners realised the extremely positive prospects in the Romanian market and calculated the costs of the emulsion's transportation there, the managing board decided to install the recently acquired equipment, which was a transportable production unit, close to Bucharest, where Aktis had located a type of office premises in early 2009.

The plan was to set up the production unit there in the next four months (April–July 2009), since the company had to complete a project in August 2009. The managing board decided that the production unit should be fully operational by that time, in order to enable the company to fully take advantage of it for this specific project and avoid additional (transportation) costs. Then the managing board decided that it was in the company's interests to establish this production unit as a 'separate' company and different options were assessed.

The company soon reached an agreement with a Romanian partner, long engaged in subcontracting assignments and familiar to the managing director and his father since the early years of Aktis' operations in this market. Thus, a type of 'consortium' or 'joint venture' was founded, in which Aktis and the Romanian partner contributed 50%. Aktis' know-how, as well as the recently acquired mechanical equipment, formed the new company's main assets, while the Romanian partner offered land and the containers needed to produce the specialised emulsion.

This decision proved to be extremely helpful, according to the Managing Director, since the existence of the Romanian partner ensured that legal procedures would be followed without any problems, while the two partners shared a common understanding owing to their extensive collaboration in the past, enhancing trust between the two sides.

As soon as the decision was taken, the managing director informed all employees about the process. There were no reactions from employees, as most were used to travelling back and forth quite often during projects in Greece and abroad and the majority of employees were aware of the emerging opportunities in the Romanian market. As a result, no significant problems were reported, since there would be no reductions in employment. On the contrary, employees were extremely active participants during the implementation of the restructuring event, since their expertise was a crucial asset during the period April–July 2009 when the new production unit was set up in Romania. During this period, some 3–4 employees had to move to Romania, in order to monitor the whole process and train their Romanian colleagues in the production of the specialised emulsion.

Challenges and constraints of restructuring

Despite extensive experience of operating in a foreign market, there were some important challenges and constraints evident during the restructuring process. The first one was time – given that the production unit had to be set up in less than four months, due to the company's obligation to start working there in August 2009. As the managing director stated, this constituted a significant source of pressure for everyone, including the Romanian partner, given the increased workload imposed by the tight time schedule.

Apart from the legal procedures that were necessary in order to form this joint venture in Romania, which in the end did not constitute a problem, given the involvement of the Romanian partner, Aktis also had to ensure that the production unit and related equipment would be fully operational from the outset, a fact that constituted a form of technical constraint. This was a major challenge, since the Romanian partner lacked the skills and knowledge regarding the setting up and use of the acquired equipment. As a result, several employees from Greece, mainly technical staff, had to visit the new production unit, in order to monitor the process and train their Romanian colleagues. As one employee involved in this process stated, this was not an easy task to perform, since it required different skills and adaptation to a different working mentality for both parties. However, their expertise proved to be a critical success factor since, as the managing director admits, the procedure would pose several additional barriers if there was no valuable support from personnel employed in Greece.

Moreover, a financial constraint was also apparent, since the company already had extended loan debts, owing to the recent acquisition of other specialised equipment necessary to participate in projects outside Greece. However, the managing board reached an agreement with a Greek bank to finance the investment through an equipment leasing scheme; this proved to be extremely helpful during the restructuring process and the general manager reported it to be a rather smooth process, since the Greek banks were more supportive back then, compared to the current situation, in which a general reluctance to finance Greek SMEs is evident.

Restructuring advice and support

The case study findings confirm the informal and internal character of restructuring events in Greek SMEs. The whole planning and execution process mainly involved the managing board, the managing director and the employees. No external support was received in this case for two reasons: first, public support instruments are not able to cover the needs of most Greek SMEs, especially when a company decides to delocalise (parts of) its activities abroad. On the contrary, this decision is considered a negative form of exit from the country, as it usually results in decreasing employment. Second, both the members of the managing board as well as the company's employees (including those in Greece and the Romanian partner) have extensive experience through an active engagement in the sector in recent past years. As a result, taking up private external assistance was not considered at all, at least in the sense of consulting services.

Financial support received through the banking sector, involving the equipment leasing agreement, was an extremely significant factor for the successful implementation of restructuring. Despite that, though, the managing director holds a negative view of the banking sector's functioning in Greece, especially nowadays, during the ongoing financial crisis. The agreement his company was able to reach in 2009 would not have been possible today, owing to the banks' reluctance to support Greek SMEs even though they have received valuable financial support from the Greek government.

The company managed to implement restructuring successfully by relying primarily on employees. This involved Greek employees commuting and training staff employed in Romania, and reliance on employees whose expertise proved to be of crucial importance during the whole period of restructuring. An indicative example refers to a person previously employed on a contractual basis in Romania, who is a chemical engineer and was actively involved in the process of setting up the production unit there. As the managing director of Aktis reported, even though this collaboration pre-existed, it was significantly intensified during the implementation period, in terms of workload and payment levels. The expertise of this chemical engineer was essential in order to complete the installation of the new mechanical equipment in Romania.

Outcomes of restructuring

The outcomes of restructuring are evaluated positively by both the managing director and by a representative of the employees, since the number of employees remained the same in Greece and some 10 jobs have been created in Romania. Even though Aktis was not able to implement restructuring during the scheduled period, this did not affect the evaluation of the process as a whole. The company was forced to continue with the transport of the specialised emulsion during the first half of the project in Romania, while the remaining part was completed by using emulsion produced there. Obviously, this has increased the total costs of the project, but, as the general manager stated, this shift proved to be of crucial importance for the company's growth in the long run. Thus, these costs were covered by the savings achieved through the projects that followed.

This shift proved to be of crucial importance, since turnover enhanced financial performance and allowed the company to remain active and competitive. As the managing director argued, the company would not have been able to survive in the current economic recession if it had not been for the internationalisation of the production process to Romania. Indicatively, some 50% of turnover during 2011 was produced in this market, while achieving 30% reductions in total operating costs. These facts illustrate the successful implementation of restructuring and its positive outcomes for company performance.

Future prospects in Romania create a certain level of optimism among the managing board of Aktis, given that market opportunities are far less promising in Greece. The existence of the production unit in Romania, and the establishment of the company's branch there, are likely to enhance future growth, given their participation in several construction projects there. As a result, the company can reap the benefits of specific competitive advantages in the neighbouring market, a goal less achievable in Greece, since Aktis' techniques are not always considered to form an advantage in the national market.

A significant employment impact was recorded in Greece. On the one hand, Greek workers were able to enjoy higher wage incomes, given additional pay for working abroad. Added to that, the company's restructuring created some positive outcomes as far as skills and expertise are concerned. As one employee interviewed noted, they had to turn themselves into trainers overnight in order to help their colleagues in Romania. This was a major challenge, but one in which they proved to be successful, thus representing a form of workforce upgrading.

Equally important are the experiences gained and the managerial lessons learned throughout the whole process. Specifically, the managing director argued that, despite extensive experience from working and collaborating with international companies, the experience gained through restructuring is valuable. He is now aware of the legal procedures regarding the preparation of consolidated balance sheets, and he is also able to monitor the operation of a branch located in another country. The outcomes of the process are extremely positive for company operations and on a personal level as well.

Commentary

The case of Aktis illustrates a successful instance of vertical integration and expansion by Greek SMEs. This company has managed to fully implement the planned restructuring activities mostly owing to its extensive experience from operating in international markets, the skills and abilities of employees, and by exploiting its competitive advantage in a foreign market, namely specialisation in an innovative technique. Hence, this case seems to highlight that SMEs with a (previous) international orientation are more likely to establish their presence abroad through foreign direct investment, due to the extensive networks of collaborators. Moreover, a high educational level and expertise of the owner/managing director and employees seem to form another critical success factor for companies that wish to expand their activities in international markets.

The main reasons behind the decision to restructure were mostly associated with market specificities, such as restricted access to raw materials, and the lower operational costs of Balkan countries, compared to Greece. Hence, these findings confirm the motivating role of cost differences in internationalisation.

Added to that, this case study highlights, once more, the informal and internal nature of restructuring among Greek SMEs. Most firms that implement a restructuring event rely primarily on their own strengths, while the whole process is usually managed without a detailed plan, as small firms are forced to seize any emerging opportunity. Receiving external assistance to reorganise an SME's activity is rather unusual among Greek firms, since, as this case also illustrates, the role of the owner and employees are central in this process.

Finally, even though Aktis has managed to implement these radical changes successfully in a very short time and despite the fact that the main goals have been achieved, the company faces difficulties accessing finance. This fact, mainly due to the current economic crisis in Greece, confirms that financing constitutes one of the most significant barriers to growth in Greek SMEs. Restructuring cannot always succeed if this barrier is not removed.

Authors

Lois Labrianidis and Nikos Vogiatzis, University of Macedonia

Information sources

Interviews

Managing director and an employee from the technical division, Aktis S.A.

Company website

<http://www.aktis-sa.gr/en>

- [European Monitoring Centre on Change - EMCC](#)
 - [About EMCC](#)
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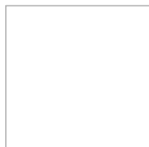
Contact us

Eurofound, Wyattville Road, Loughlinstown, Co. Dublin, D18 KP65, Ireland

Phone: (00) 353 1 2043100

E-Mail: information@eurofound.europa.eu

Press: media@eurofound.europa.eu



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