

By

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## **Abstract**

A number of PPP projects have been announced recently in Greece introducing a new procurement method in the projects covering public needs. The aim of the present report is to present the strategy adopted by the majority of medium sized companies foreseeing in bidding such projects. The risks and the uncertainty of the PPPs led the firms to hesitate on participating on alone bidders and strategic alliances came as the solution. Moreover, the absence of knowledge on past infrastructure projects under the umbrella of PPPs was a subject of significant importance. Therefore, the strategy should be used as the mean to surpass the unfamiliarity with the PPPs while the rest of the bidders have already had experience. The partners in the strategic alliances were chosen carefully by the participating firms with the main characteristic being the repeated ties between them. So, they introduced the implementation of trust as their mean to overcome the barriers for entry in the field of the PPPs. Relational contracting is the concept that the firms used as their criterion for choosing partners.

Key words: PPPs, medium sized companies, strategic alliances, relational contracting, trust

Word Count: 10,436

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## **Introduction**

### ***1.1 Identification of problem and problem owner***

**Public-Private Partnerships (PPPs)** can be considered as an alternative procurement method suitable for public infrastructure projects without burdening the public budget. Just recently PPPs have been established by a legal framework (Law 3389/2005) in Greece, where will be the research place. In fact, 34 projects under this procurement method have been announced at a quick pace from the Greek government covering the needs of the following sectors: culture, defence and education, environment, health, ports infrastructure and public sector accommodation.

As a result many expectations in the broad construction industry have been created and many construction firms have expressed their interest. Other than the large construction companies, which have been already involved in past PPP projects under a different legal scheme, medium sized companies foresee their entrance in this new market. The value of this paper is to examine strategies that can be applied by the medium sized companies in order to become equal players in this new sector. The basis of this paper will be the strategies that the Greek firms participating in such tenders have practiced. The analysis will be based on the network of relationships between the involved parts in the corporate strategy. Therefore, the strategy will be analyzed for the reasons that have been chosen and recommendations will follow.

Although the government has placed many hopes and expectations in the implementation of the PPPs, the companies have expressed their hesitation and there is a great uncertainty due to the unfamiliarity of the stakeholders. The fact that PPP projects under the Law 3389/2005 have never been accomplished can be considered as a limitation because there are no research examples of the implementation of the procurement method in Greece. In addition, the present unstable economic environment both in a national and an international aspect affects the reactions of the investors.

## ***1.2 Research objectives***

The report will concentrate on the study of the type of strategy adopted by a medium sized company functioning in Greece and aiming to enter in the new field of the PPPs. Through the examination of the strategy of a typical medium sized company, the possible outcomes are going to be discussed. Furthermore, comments are going to be made in order for the most successful implementation of the strategy to be achieved. In fact, the aim will be to examine the way a group of companies can be involved in the PPPs from a practical and managerial point of view.

## ***1.3 The Intended Audience***

This paper aims at medium sized companies involved in the construction industry, which have no expert knowledge and past experience in the field of PPPs, but they are interested in becoming active members in the demanding and developing new procurement method. In addition, the purpose of this research paper is to propose and examine methods and strategies from a managerial point of view for medium firms. It is clear that this report has practical applications and it has no interest in presenting the fundamental and theoretical principles of PPPs. The introduction of such a procurement method is expected to form a different status in the broad construction industry. So, the results can be used and analyzed additionally from the viewpoint of other professional groups that enter the field of PPP, such as legal, financial and technical partners. Furthermore, firms of facility management and maintenance can be benefited by the outcomes of this paper as parts of joint ventures participating in such tenders.

## **Definitions and comments on fundamental concepts**

### ***2.1 The PPP context in general and in Greece***

Public Private Partnerships is a term that describes a method of public procurement of contractual arrangements between public entities and private sector aiming at the provision of infrastructure projects and services. Generally speaking, PPPs can be considered as a part of a ‘**privatisation**’ policy that is adopted on behalf of each country’s government in order to reduce the public costs. Through this procurement method the public entity has the role of supervising the quality standards of the project while the private entity is mainly involved in the construction and maintenance part. The private sector holds the main responsibility for the stages of the design, construction, operation, maintenance and financing.

From a historic view, PPP was firstly introduced in late 1992 in the UK and they were known as **Private Finance Initiative (PFI)**. In fact, it was 1997 that the term Public Private Partnerships was used as the general idea that it was included such kind of procurement processes. It was introduced as a mean to provide buildings and services for the public sector without the involvement of the latter in the capital employment (Yule, 2001). The duration of a PFI scheme could be up to 60 years, but commonly 25-30 years (Carillo et al, 2006). Furthermore, the stages comprising the procedure are the establishment of a business need, a tendering and negotiation phase where the public sector examines each proposal, contract negotiation with the lowest “responsible” bidder, construction and supply of services as agreed between the public and private entity (Grout, 1997).

Under the title of the PPP, in Greece significant infrastructure projects have been constructed since the late 90’s such as: Attiki Odos, Rio-Antirion Bridge and Eleftherios Venizelos Airport. However, there was no legislative framework for the implementation and the development of PPPs until recently. The above mentioned major projects have their own special legislative framework that was voted and approved from the Greek Parliament independently for each one. The main characteristics of the above mentioned projects were their high budget as well as the fact that they were important for the public welfare. Law 3389/2005 covered the gap for the establishment of the PPPs as a procurement method of the Greek legal order, while it has entered a wider range of public projects under the umbrella of the PPPs.



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### Main Characteristics of the **Projects under the Law 3389/2005**:

- This procurement method of public projects and services includes contracts between the Public and Private Partner. Private Partner should establish a **Special Purpose Company (SPC)** which can be defined as a company limited by shares and with one and only purpose the object of the PPP.
- Projects that **serve a public need** can be the object of a PPP project. However, there are some limitations such as projects exclusively reserved to the State (for example national, defence, police, administration of justice etc.)
- The total project's cost should **not exceed 200 million Euros** exclusive of VAT. However, it should be noted that projects that exceed the above mentioned limit may apply to the law under certain conditions and unanimous decision of the competent Authority of PPPs. The Private Partner is the main responsible for the design, construction, maintenance and finance of the project while he receives a payment, from the Public Partner or the end user. As far as the PPP projects under the Law 3389/2005 are concerned, it is more likely to be received payment such as rent from the public entity due to the low budget of the projects that exclude major infrastructure such as highways or bridges. (Georgiades A., 2007)

There is an analytical table of the approved projects under the Law 3389/2005 in the Appendix in order the reader to have more unified view of the projects included in this legal framework.

It appears to me vital to describe briefly how the government views the introduction and development of the PPP scheme. The Greek government views PPPs as a valuable tool in order the following goals to be achieved:

- ✓ Higher rates of economic growth and decrease of unemployment index.
- ✓ Reduction of the public participation in the construction of any kind of project.
- ✓ Higher participation of the private sector to construct, finance, maintain and operate public infrastructure projects according to financial models adopted in the majority of European developed countries.
- ✓ Introduction of innovation and expert knowledge from private sector to public services.

- ✓ Improvement of everyday life through the supply of improved services.(Alogoskoufis, 2007)

There has been a lot of controversy not only in a national but in a global environment about the **advantages** and **disadvantages** of the PPPs. It is a common belief that PPP projects give the opportunity and the incentive to PPP Company to minimize the whole-life cost within the construction procurement. As a result, PPPs are used as a mean to urge the bidders to view projects as a series of interdependent parts, where the company holds the full responsibility for the construction, finance, maintenance and operation. By contrast, capital constrained governments try to lower the construction costs at the expense of higher costs of maintenance and operation (Parker & Hartley, 2002). Other expected advantages of the implementation of PPPs can be considered the need for more accurate project management in order cost over-runs to be avoided, complexity of the projects to be managed and greater transparency for the selection of the Special Purpose Company (Parker & Hartley, 2002). Furthermore, each consortium participating in the bidding process would seek to present innovative approach to the project in order the client to be impressed (Akintoye, et al. 2003). In addition, the private sector can provide whole-life benefits to the projects through the innovation that will be introduced.

On the other hand, there has been lot of criticism especially in countries where the PPPs have been implemented and the outcomes of this procurement method can be judged. For example, a study in the NHS conclude that the implementation of the PPPs have increased the cost of infrastructure development (Gaffney and Pollock, 1999). In addition, Financial Times have mentioned as a criticism to the government that PPPs may hide the real amount of the public future liabilities when not included in the national debt and therefore has pinpointed the danger for the government of adopting “techniques of which WorldCom and Enron would be proud” (Financial Times, 2002).

Generally, the Greek legal framework has received positive criticism because it adopts the new European Union (EU) directives on public procurement and complies with EUROSTAT regulations. Furthermore, it provides flexibility and enhances bankability (Lykourazos, 2006). On the other hand, in the Greek PPP market, there has been lots of criticism to the relationship between the public and the private sector. As many project managers of international firms working in Greece in major projects have pointed, there is a dictatorial relationship lacking flexibility between the government and the firms.

## ***2.2 Medium-Sized Companies: Definition and Comments***

### **2.2.1 Classification Criteria for construction companies in Greece**

The **criteria for the classification** of each company as medium or large have been set as it is described in the table below. After the extensive study of the construction industry in Greece I regard that these criteria can be considered accurate enough. The criteria are a combination of the classification of the Athens Chamber of Commerce and Industry (A.C.C.I.) and the Technical Chamber of Greece

<b>Large Companies</b>	<b>Medium Companies</b>	<b>Small Companies</b>
>250 employees	50< employees<249	<50 employees
>50 million € turnover	10 million €<turnover<50 million €	<10 million € turnover
6 <sup>th</sup> or 7 <sup>th</sup> class*	6 <sup>th</sup> class*	The rest classes*

**Table 1:** Classification criteria

\*the classification of the companies is about what kind of projects the companies can participate in the tenders and it is set by the Technical Chamber of Greece. The largest scale is the 7<sup>th</sup> class.

### **2.2.2 The construction industry and the medium sized company in Greece**

After the completion of the Olympic Games in Athens 2004 the small and medium sized companies have experienced a continuous decrease in their profits. The lack of liquidity causes further problems and there are worries about the future of this size of the firms. For example many companies of the construction industry admitted in the Athens Stock Exchange Market have shown a decline in their share's price. In addition, the large companies, which can be counted in the fingers of one hand, are groups of companies consisting of smaller firms of every class. This gives them the chance to bid for projects of every budget. In fact, as senior managers of medium companies have admitted, the large groups participate even in tenders of low-budget projects leaving for them just a small part of the "pie". So, the medium companies appear to have low profit margins due to the lower volume of projects during the last years.

The year 1994 was very important for the construction industry. In fact, a medium sized company of construction sector was entering the Athens Exchange Stock Market even every week during this year. But, as analysts suggest there is a great gap between this extremely optimistic period and today. The turning point came in 1996, when investors in this field have suffered significant losses and the

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shareholders had realized that it was a “bubble”. Many factors have driven the situation in the edge. The new entered firms have misled the shareholders with inaccurate public announcements and false rumors. The announcement of the undertaking of the Olympic Games of 2004 and the general stock market “bubble” during 1999-2000 gave a significant boost in the construction sector. Thus, the Olympic Games and the legal framework that was set by the government led to a boom on mergers. The firms, in order to have the chance to bid for major infrastructure projects, should be larger than they used to be in the past. So, the large construction firms in Greece such as the ENWSI ELLINIKI TEXNODOMIKI TEB S.A., J&P ABAX S.A. and GEK S.A. had made numerous acquisitions in order to be the leading players in the construction of major infrastructure projects. Nowadays, the medium and small firms are facing significant financial problems due to the above mentioned factors that have harmed the sector. In this pessimistic environment, PPPs have come as a hope to this group of companies. To sum up, the construction sector in Greece can be characterized as a volatile field, which during the last 15 years has experienced two full “business cycles”.

## **Description of the present situation**

It is vital for the purpose of this paper to describe the steps that have been made and the present situation in which the PPPs are going to function. Firstly, it should be pointed that there are no projects under this procurement method under construction in present. Thus, the objective of the research is the latest available stage, which is the phase when the candidates submit expression of interest of the restricted procedure. The next stages are the selection of 5 of the candidates who will be invited to submit offers and after that the selection of the **lowest “responsible” bidder (LRB)** for the project. The LRB is defined as the one that gives the best **Value for Money** and offers the optimum combination of whole-life cost and quality according to the public sector requirements (OCG, 2003). The projects and the candidates that have expressed interest are presented. At this point, it should be mentioned that there is a project (International Conference Center) where the candidates are five. In such case there is no phase of selection of the 5 candidates and the submission of their offers. So, the selection of the LRB for the project is the next stage.

- ❖ Design, Financing, Construction and Facility Management of **14 School Buildings** in the Region of Attica through a Public Private Partnership

The seven (7) candidates that submitted Expression of Interest at the first phase of the restricted procedure are the following:

1. HOCHTIEF PPP SOLUTIONS GMBH - AKTOR CONCESSIONS S.A.
2. ATESE S.A. - DOMIKI KRITIS S.A.
3. BIOTER S.A.
4. INTERSERVE PFI HOLDING LTD - J&P AVAX S.A.
5. ANASTILOTIKI ATE - THEMELI S.A.
6. ENTEXNOS S.A. - GANTZOULAS A.T.E.E. - KOURTIDIS S.A.
7. AGRICULTURAL BANK OF GREECE S.A. - EDRASI PSALIDAS S.A. - EKTER S.A.-  
ELERGO S.A. - ERETBO S.A.- KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.

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- ❖ Design, Financing, Construction, Facility Management and Maintenance of **3 new prisons** through a Public Private Partnership

The six (6) candidates that submitted Expression of Interest at the first phase of the restricted procedure are the following:

1. J&P AVAX S.A.
2. GEK S.A. - HOCHTIEF PPP SOLUTIONS GMBH
3. ELLISDON CONSTRUCTION INC. - ANASTILOTIKI ATE - THEMELI S.A.
4. AKTOR CONCESSIONS S.A. - VINCI CONCESSIONS S.A.
5. AGRICULTURAL BANK OF GREECE S.A. - EDRASI PSALIDAS S.A. - EKTER S.A.-  
ELERGO S.A. - ERETBO S.A.- KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.
6. BIOTER S.A. - GANTZOULAS ATEE

- ❖ Design, Construction, Financing and Facility Management of **2 new Government Houses** in Trikala and Korinthia through a Public Private Partnership

The candidates that submitted Expression of Interest at the first phase of the restricted procedure are the following:

1. J & P AVAX S.A.
2. AKMI A.T.E. - NEOTECHNIKI S.A. - TEKA S.A.
3. AGRICULTURAL BANK OF GREECE S.A. - EDRASI PSALIDAS S.A. - EKTER S.A. -  
ELERGO S.A. - ERETBO S.A.- KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.
4. AKTOR CONCESSIONS S.A.
5. GEK S.A.
6. ELLISDON CONSTRUCTION INC. - ANASTILOTIKI A.T.E. - THEMELI S.A.

- ❖ Design, Construction, Financing and Facility Management of the **Police Directorate Building** in Piraeus through a PPP

The candidates that submitted Expression are the following:

1. AKROPOL CHARAGIONIS S.A. - INTRACOM CONSTRUCTIONS S.A. TECHNICAL  
AND STEEL CONSTRUCTIONS (INTRAKAT) - ELTER ATE

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2. AKTOR CONCESSIONS S.A.
3. ELLISDON CONSTRUCTION INC. - ANASTILOTIKI ATE - THEMELI S.A.
4. BIOTER S.A.
5. HOCHTIEF PPP SOLUTIONS GMBH - J&P AVAX S.A.
6. GEK S.A.
7. AGRICULTURAL BANK OF GREECE S.A. - EDRASI PSALIDAS S.A. - EKTER S.A. - ELERGO S.A. - ERETBO S.A. - KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.
8. GANTZOULAS ATEE - ENTEXNOS S.A. - KOURTIDIS S.A.

- ❖ Financing, design, reconstruction, restoration and facility management of an **International Conference Center**, and of its landscape, on the existing infrastructure of the Faliro Pavilion via PPP

The parties that submitted Expression of Interest at the first phase of the restricted procedure are the following:

1. HOCHTIEF PPP SOLUTIONS GMBH - J&P AVAX S.A. - BIOTER S.A.
2. ATE BANK S.A. - ANASTILOTIKI ATE - THEMELI S.A.
3. ELLINIKI TEXNODOMIKI TEB S.A.
4. INNISFREE - EDRASI PSALIDAS S.A. - EKTER S.A. - ELERGO S.A. - ERETBO S.A. - KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.
5. GEK S.A.

- ❖ Design, Financing, Construction and Facility Management of Administration and School buildings – **University of Peloponnesse**- through a Public Private Partnership

The candidates that submitted Expression of Interest at the first phase of the restricted procedure are the following:

1. ELLISDON CONSTRUCTION INC. - ANASTILOTIKI ATE - THEMELI S.A.
2. AKTOR CONCESSIONS S.A.
3. HOCHTIEF PPP SOLUTIONS GMBH - J&P AVAX S.A.
4. AGRICULTURAL BANK OF GREECE S.A. - EDRASI PSALIDAS S.A. - EKTER S.A. - ELERGO S.A. - ERETBO S.A. - KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.

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5. BIOTER S.A.
6. GEK S.A.
7. GANTZOULAS ATEE - ENTEXNOS S.A. - KOURTIDIS S.A.

### ❖ Design, Construction, Financing and Facility Management of Six (6) Agencies and One (1) Station of The Hellenic Fire Service Via PPP

The parties that submitted Interest Expressions at the first phase of the restricted procedure are the following:

1. BIOTER S.A.
2. ENWSI ELLINIKI TEXNODOMIKI TEB S.A. - VINCI CONCESSIONS S.A.
3. J&P ABAX S.A.
4. DIM-ER S.A.
5. GANTZOULAS ATEE - KOURTIDIS S.A.
6. ENWSI INNISFREE - EDRASI PSALIDAS S.A. - ELERGO S.A. - ERETBO S.A. - KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.

Source: Special Secretariat of PPPs

From the above data, it can be concluded that there are companies that have taken seriously the PPPs and are determined to be a part of PPPs in Greece. Bioter S.A., ENWSI ELLINIKI TEXNODOMIKI TEB S.A. (parent firm) or Aktor Concessions (subsidiary), J&P ABAX S.A., the alliance of GANTZOULAS ATEE - KOURTIDIS S.A., GEK S.A., the alliance of EDRASI PSALIDAS S.A. - ELERGO S.A. - ERETBO S.A. - KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A. and the alliance of ANASTILOTIKI ATE - THEMELI S.A. participate in this phase of the procurement method in almost every approved project. It can be concluded from the above that the medium sized companies that expressed interest from the beginning of the tenders are present in every PPP project announced. A decision that it might be interesting but it involves high risk. Of course, this can be characterized as an extremely costly strategy, but it definitely depicts the importance that they pay in their maintenance in this field. In fact, their efforts and their proposals of the tenders are the mean of the medium sized companies to gain knowledge in this field and to overcome the obstacle of the lack of their experience. Through their continuous participation they increase their chances to be the LRB of the projects.



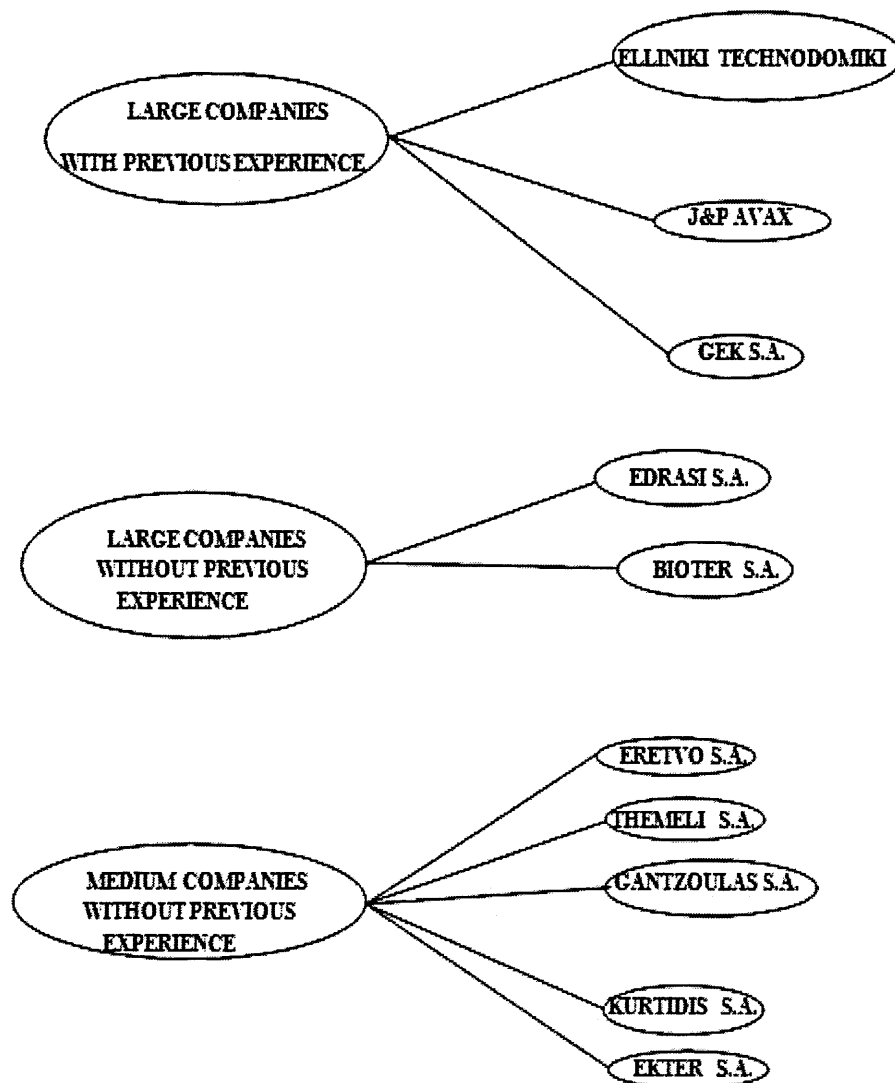
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		Turnover in thousand €**	Total assets**	Labour**	Experience in PPP	Classific ation*	
1	Elliniki technodomi ki – Aktor Concession s	914,678	3,275,428	2,909	Yes	7 <sup>th</sup>	Large Compan ies
2	GEK S.A.	446,139	1,436,609	950	Yes	7 <sup>th</sup>	
3	J&P AVAX S.A.	683,341	954,038	fixed: 1134 - seasonal: 686	Yes	7 <sup>th</sup>	
4	Edrasi- Psalidas	121,646	219,744	581	No	6 <sup>th</sup>	
5	Vioter S.A.	72,548	204,573	fixed: 230 - seasonal: 174	No	7 <sup>th</sup>	
6	EKTER S.A.	7,513.60	40,743	33	No	6 <sup>th</sup>	Medium compani es
7	Themeli S.A.	28,577	38,780	400	No	6 <sup>th</sup>	
8	Gantzoulas	56,545	150,200	65	No	6 <sup>th</sup>	
9	ERETVO S.A.	42,780	67,800	Fixed:80- seasonal: 250	No	6 <sup>th</sup>	
10	Anastilotiki S.A.	11,422	32,888	34	No	6 <sup>th</sup>	
11	Kurtidis	45,112	87,678	45	No	6 <sup>th</sup>	Small compani es
12	TEKA	4,238	33,890	14	No	5 <sup>th</sup>	
13	Routsis S.A.	9,350	32,249	12	No	5 <sup>th</sup>	
14	DIMER	5,294	29,784	14	No	4 <sup>th</sup>	
15	ELERGO	6,783	34,777	16	No	4 <sup>th</sup>	
16	NOSTOS S.A.	2,456	16,890	10	No	3 <sup>rd</sup>	

**Table 2: Fundamentals of the companies participating in PPPs**

\*the classification of the companies is about what kind of projects the companies can participate in the tenders and it is set by the Technical Chamber of Greece. The largest scale is the 7<sup>th</sup> class.

\*\*the above financial data have been derived by the Athens Stock Exchange Market for the admitted companies and the rest after communication with the companies



**Figure 1:** Classification of the companies involved in PPPs

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**Elliniki Technodomiki S.A.** is considered to be one of the leaders in Greece in the field of concessions. The participation of the firm in the major PPP projects such as the Attiki Odos (59.30%) and Rio-Antirrio Bridge (20.7%) is the proof. ELLINIKI TECHNODOMIKI TEB and its subsidiaries participate in the bids usually alone due to the fact that they cover the whole range of activities deriving from a PPP contract: financing (investment), lending, construction, maintenance, operation and exploitation.

**J&P S.A.** is one of the leading companies in the PPP markets and it has participated in all the major infrastructure PPP projects in Greece such as Attiki Odos (30,83%) and Rio-Antirrio Bridge (11,2%) and in car parks in Athens, Thessaloniki and Piraeus. Furthermore, it bids for all the tendered PPP projects in Greece and several projects abroad.

**Gek S.A.** hasn't participated in the major infrastructure projects that have been already mentioned, but it has experience in car parks under this procurement method such as Athens Parking Stations S.A., Old Parking Stations S.A., Hellenic Autopistas S.A., Heron S.A., Salonika Parking S.A., Quil Parks S.A.

The above mentioned companies appear to be determined in being established as a major force in PPP projects. Even if the approved projects under the Law 3389/2005 are of low present value compared to the already constructed major projects, the large companies focus on PPP projects because they are interested in the know-how of the PPPs. In addition, they are companies that have spread their activities in the broader **South-Eastern Europe** and they aim in maintaining their position through the implementation of PPPs in this region. So, it can be considered that they are interested from a knowledge management view. Their experience in the Greek market can be transformed to their key to establish their power in this market share.

The large construction firms have shown a vivid interest in investing to **knowledge management**. As a result, they foresee in the exploitation of their expertise through the **external provision of knowledge** to inexperienced companies that will aim to enter in this new market. In other words, they aim to become the gatekeepers of this new field not only in Greece but in the broader region. Other than this, it is prestigious target to be the first to participate in PPP projects. In fact, the high caliber companies are keen to implement the innovations that are introduced especially for marketing reasons.

What about the medium sized companies that will be the main focus of this research paper? Medium sized construction firms have entered the field of PPPs aiming to maintain their established collaboration with the Public Partner. In order to keep pace with the changes in the construction industry and to

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generate profits many of them have expressed interest. Taking into consideration the fact that the majority of the public projects was under the title of PPP, their entrance in this market was a matter of survival.

## **Theory and Definitions**

### ***4.1 Strategic Alliances-definitions***

**Strategic alliances** are common strategies adopted by the Greek medium sized company as a mean to push the barriers and enter in a market. Strategic alliances can be defined as interfirm cooperative arrangements between two or more companies, which all have a common goal to achieve specific strategic objectives (Das and Teng, 1998). According to Arino (1997), key element comprising the strategic alliance is the interfirm cooperation, while the importance of the uncertainty commonly known as **relational risk** (Das and Teng, 1996) is a variable that cannot be ignored. In the case of a strategic alliance the partner cooperation has significant importance because it describes the willingness of a company that is part of the alliance to pursue the alliance's interest rather than behaving in an opportunistic way (Das and Teng, 1998).

Alliances can be divided to **equity and nonequity alliances**. Equity arrangements are organized as equity **joint ventures**, which involves the establishment of a new and independent organizational entity, or they are created when one of the partners takes a minority equity position in the alliance (Gulati, 1995). Non-equity alliances don't involve the sharing of equity, nor the establishment of a new jointly owned company (Gulati, 1995). Furthermore, a **new jointly owned company** is usually created that is responsible for each project that they target, with Chief Executive Officer (CEO), board of directors and staff, that includes technical, legal and management advisors, all of them usually participating in meetings and having strong cooperation with each other. This mechanism is the way that partners can practise their residual rights of control (Grossman and Hart, 1986).

On the other hand, the **disadvantages of the equity alliances** should be weighted against their advantages. In order a successful alliance to be created, the partners should invest in money and time. The negotiation and the organization of an alliance take a long time to come to an end, while the exit costs of the alliance are significantly high (Gulati, 1995). The implementation of a successful alliance is a process, which can be characterized as a complex project with important obstacles. The collaboration of the staff that participates in the joint venture should overcome the competitive behavior and focus on the common

goal, the corporate task. In fact, the issue of communication can be considered as a potential hazard of the alliance because through this procedure an environment of trust and respect should be developed. Lastly, the selection of appropriate set of partners is a time-consuming procedure because variables such as culture and strategy of the partner-firms should be considered.

#### ***4.2 Alliances and Transaction Costs Economics***

**Opportunism** is a potential hazard that an alliance may face. It is a concept that is often referred to **transaction costs economics** and describes self-interest characterized by guile (Williamson, 1975). In fact, it is a concept closely linked to the idea of asymmetrical information which exists when during a transaction there is information that is known to the one party but not to the other (Himmelweit, Simonetti and Trigg 2001). As far as transaction cost economics are concerned, equity alliances can be described as an arrangement on the grounds that “a direct equity investment by one firm into another essentially creates an equity joint venture between one firm’s existing shareholders and the new corporate investor” (Pisano 1989, p.111). Moreover, alliances are not a fertile ground for opportunistic behavior, because of the shared gains and profits between the set of partners.

From another point of view, transaction costs are closely related to the field of PPPs and the theory can be used in order to comprehend and clarify the advantages and the disadvantages of arrangements under this procurement method. Opportunism and the world of imperfect information can be used in order to describe the relationships between the stakeholders of a PPP project. For example, the relationship between the public and the private sector, which suffers by lack of communication as I have already mentioned, can be described by the concepts of transaction cost economics and economics of contracting. But the above theories can be used as a tool to understand the inter and intra-firm networks participating in the PPPs. As a result, companies participating in complex and demanding projects turn their interest in ethical issues in order to reduce the risks that transaction cost economics involve.

The **repeated business** between the firms can play an important role in the establishment and maintenance of the interfirm trust. For example, it is false to consider opportunistic behavior as having a high possibility to happen in this kind of alliance. Furthermore, it obliges the set of the partners to act with loyalty and this is a security against the risks an alliance involves. In addition, the past successful cooperations between the partners influence the type of contracts the companies choose (Gulati, 1995). This phenomenon is known in the literature with many concepts such as “**relational contracting**” or

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**“obligational contracting”** (Williamson 1975), **“quasi-firm arrangements”**(Eccles 1981) or **“value-added partnerships”** (Jonhston and Lawrence 1988).

The term of **“knowledge-based trust”** introduced by (Shapiro, Sheppard and Cheraskin 1992) fits perfect to the alliance that the examined company participates. In fact, this can be considered as a competitive advantage against the large companies because the confidence and the trust achieved between the members adds value to the joint venture. Furthermore, these variables move the learning curve in a fastest pace thanks to close personal ties. Lastly, the governance structure is characterized by informal contracts in the case of overlapping relationships as the above described and the one is examined (Macaulay, 1963). In the alliance described, each member participating is interested in reducing the costs of this cooperation. As a result, they use informal contracts due to their past corporate relationships as a mean to avoid waste of money and time.

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## **Review of data collected**

### ***5.1 Methodology***

The analysis of this paper has focused in a medium sized company **ERETVO S.A.** that aims to enter the PPP field in Greece. My data set included information on all publicly announced tenders and the participating companies and alliances to this procedure. The data concerning the tenders, the projects and their phases came from the Special Secretariat of PPP. The data concerning the strategic issues that are the main interest of this report have come from the semi-structured interviews with the junior and senior staff of the company.

The primary research questions are:

1. What does ERETVO aim with its participation in the PPP projects?
2. How (strategy) does ERETVO plan to participate in the PPP tenders?
3. How were the partners chosen?

The interviewed members of the company are the following:

- ✓ **Mr. Papaioannou I.** member of the board of directors and partner of the company
- ✓ **Miss Romosiou A.** customer relationship manager (CRM) responsible for the communication and relationship with the public sector and the partners of the firm.
- ✓ **Mr. Foutsis P.** project manager (PM) responsible for the PPP tenders from ERETVO's side

During the interviews I had the chance to ask about the strategy that the firm has, potential hazards and reasons for choosing this strategy. After that, the interviewees explained how their firm views the PPPs and their participation. An interesting aspect of the interviews was to be clarified whether or not ERETVO S.A. and generally if the medium sized company was aware of the difficulties and the uncertainties the PPP sector has. Through my interviews, it was clear to me that my fears of their possible lack of knowledge in this field was mistaken. The selected company has set accurate goals with well



chosen strategy, that is going to be analyzed further. Furthermore, the interviews with junior and senior staff helped me to create a more unified picture for the goals of the company. In fact, the presentation of their views surprised me because it was a clear message that the whole staff shared the same vision.

## ***5.2 Brief description of ERETVO S.A. - Interviews' findings***

ERETVO S.A. is a typical example of a medium sized company operating in Greece. It is a firm with a long experience in public infrastructure projects. It has shown a vivid interest since the announcement of the tender of PPP projects and it was ERETVO's initiative to create a group of companies in order to enter that unknown field. It appears to participate in every tender that it had been announced. It has been chosen as my research objective because of its leading role in the participating alliances and of its typical characteristics as a medium sized company. After a number of semi-structured interviews with the senior and junior staff the following points describe the approach of the firm towards its participation to PPPs:

- ***Vital need to enter PPP projects.*** Taking into consideration the fact that the Greek government has announced the construction of 34 projects under the Law 3389/2005, the projects under the traditional procurement method have been eliminated significantly. It is clear that the entrance of PPP market was a way the generated profits of the company to be maintained or even to be increased. It is a general truth that after the completion of the Olympic Games in Athens 2004 the medium and small sized companies have suffered important profit losses. ERETVO S.A. was an important contractor during this period and it generated significant profits leading to its expansion. Thus, the introduction of this new procurement method has created new options to the construction industry.
- ***Attractive projects due to their size and relatively low present value.*** ERETVO views the PPPs that have been just recently established from a legal framework attractive for their type of company due to their size and budget. The company has experience in the construction of public projects such as hospitals, public buildings, etc. Such projects that used to be involved in the recent past are of similar size but under the PPP scheme they include unknown parameters such as the finance and the maintenance of the projects. This is the reason that they didn't participate in the construction of the major BOT infrastructure but they appear to have a dynamic strategy as far as such projects are concerned. They view that the tendered projects fit with their experience

and their size. In addition, they have a well established and long-term relationship with the public sector.

- **Alliance as the most appropriate strategy.** The strategy is to create a strong alliance in order to be combined each company's competitive advantage. The motivations of ERETVO S.A. to enter to the corporate formulation of an alliance are the following: sharing uncertainty, sharing costs, entering unknown market of PPPs, learning tacit technologies (ex. Knowledge of schools' construction from ELERGO S.A.). ERETVO S.A. participates in an **equity alliance**, where the construction firms hold an equal percentage from 4.17% to 10% and the financial partner holds a larger percentage which ranges from 35% to 75% (Table 3).
- **Trust and relational contracting.** The most important variables of this alliance are the trust and the relational contracting according to the manager of the firm. Examining the implementation of this alliance, it would be mistaken to judge it as an independent event. In fact, it is a series of repeatedly transactions between the ERETVO S.A., EDRASI S.A., EKTER S.A. and ROUTSIS S.A. Thus, during the interviews, the members of the alliance clearly expressed the importance of **repeated business** as a factor that ensures successful outcomes and as a tool of risk management. Through their established cooperation with their partners they view in the reduction of the PPP's uncertainty and riskiness.

During the interviews I discussed with the interviewed parts the possible ways that are common for medium companies aiming to their entrance in a new field. The merger or acquisition with a large firm, the alliance and alone bidding are the most common ways. These options of a medium sized company in order to enter the PPP projects were commented by the interviewed persons. The conclusions are presented as following:

1. **Merger or acquisition** with a large construction firm. This would be an ideal option especially for the inexperienced large company VIOTER. However, this corporate strategy as the manager of the company had pinpointed is not their goal.
2. **Bid alone** and specialize in a type of projects such as schools or prisons. Even if, this is a common strategy in many European countries, it couldn't be applied easily in the Greek market because of its size and the way the tenders are made. For example each school does not constitute an independent PPP project but 31 schools in the region of Macedonia are approved as one PPP project.

3. **Alliance** with other construction firms inexperienced in the PPPs. As it has been already mentioned this is the strategy that the majority of the medium sized companies have chosen as most appropriate in order to enter and maintain their position in PPP market.

I expected the alliance to be the most appropriate strategy for a medium company considering the existing situation in the majority of public infrastructure projects. In fact, strategic alliances based in past repeated business are a common way for the medium firm to participate in major public projects. As the next step the alliances are presented that ERETVO S.A. participates and the percentage of participation to each project. Furthermore, a brief description of the participating firms follows according to their size and the previous cooperation with ERETVO S.A.

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<b>Description of the Project</b>	<b>Budget in million Euros</b>	<b>Alliances-Participating Companies</b>	<b>Percentage of participation</b>
Design, Construction, Financing and Facility Management of Six (6) Agencies and One (1) Station of The Hellenic Fire Service Via PPP	31,500,000	Alliance consisting of the following: INNISFREE Limited - EDRASI PSALIDAS S.A. - ELERGO S.A. - ERETBO S.A. - KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.	75% 5% 5% 5% 5% 5%
Financing, design, reconstruction, restoration and facility management of an International Conference Center, and of its landscape, on the existing infrastructure of the Faliro Pavilion via PPP	54,500,000	Alliance consisting of the following: INNISFREE Limited - EDRASI PSALIDAS S.A. - EKTER S.A. ELERGO S.A. - ERETBO S.A.- KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.	75% 4.17% 4.17% 4.17% 4.17% 4.17% 4.16%
Design, Construction, Financing and Facility Management of the Police Directorate Building in Piraeus through a PPP	62,000,000	Alliance consisting of the following: AGRICULTURAL BANK OF GREECE S.A. - EDRASI PSALIDAS S.A. - EKTER S.A. ELERGO S.A. - ERETBO S.A.- KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.	40% 10% 10% 10% 10% 10% 10%
Design, Financing, Construction and Facility Management of Administration and School buildings - University of Peloponnese - through a Public Private Partnership	74,000,000	Alliance consisting of the following: AGRICULTURAL BANK OF GREECE S.A. - EDRASI PSALIDAS S.A. - EKTER S.A. ELERGO S.A. - ERETBO S.A.- KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.	40% 10% 10% 10% 10% 10% 10%
Design, Construction, Financing and Facility Management of 2 new	22,800,000 25,200,000	Alliance consisting of the following: AGRICULTURAL BANK OF GREECE S.A. -	40%

## Entrance of medium sized companies in PPP projects in Greece

Government Houses in Trikala and Korinthia through a Public Private Partnership		EDRASI PSALIDAS S.A. - EKTER S.A. ELERGO S.A. - ERETBO S.A.- KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.	10% 10% 10% 10% 10% 10%
Design, Financing, Construction, Facility Management and Maintenance of 3 new prisons through a Public Private Partnership	198,000,000	Alliance consisting of the following: INTERSERVE Investments Ltd. AGRICULTURAL BANK OF GREECE S.A. - EDRASI PSALIDAS S.A. - EKTER S.A. ELERGO S.A. - ERETBO S.A.- KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.	35% 35% 5% 5% 5% 5% 5% 5%
Design, Financing, Construction and Facility Management of 14 School Buildings in the Region of Attica through a Public Private Partnership	86,000,000	Alliance consisting of the following: AGRICULTURAL BANK OF GREECE S.A. - EDRASI PSALIDAS S.A. - EKTER S.A. ELERGO S.A. - ERETBO S.A.- KLEARXOS G. ROUTSIS S.A. - NOSTOS S.A.	40% 10% 10% 10% 10% 10% 10%

**Table 3:** Participating companies to each alliance and percentage of participation- Source: ERETVO S.A.

### 5.3 About the Alliance-The participated parts

As the next step, the brief presentation of the participating companies follows. My target is to clarify their size and their relationships with ERETVO S.A. My focus is on the construction companies, because the network that they create is going to determine the fundamentals of the alliance. In addition, their reputation and position in the market are crucial factors for choosing each other. The participating financial institutions are not in my prior interest and this is the reason I am presenting them very briefly.

**EDRASI S.A.** is considered as a large construction company that is specialized in the sector of geotechnical engineering. Its labor is 581 employees and its turnover is approximately 121,600,000 € according to 2007 balance sheet. The shares of EDRA S.A. are admitted to the Main Market of the Athens Stock Exchange since 1994. Today, the company's performance in the stock market and its share's price developments are completely in line with variations in the construction industry. Its share capital amounts to €37.067.263,04 and is divided into 29.186.822 shares. The share's nominal price is at €1.27. As far as the PPP projects are concerned the company constantly participates in all major foundation and lateral support projects such as the Rion Antirio Bridge, Attiki Odos, but only in a technical basis. So it cannot be considered as an experienced in PPPs construction companies. It is a respectable company in the construction industry and it has participated in almost every large infrastructure in Greece. These are its strongest advantages for entering this alliance. Lastly, it should be pointed that it has past collaboration with ERETVO.

**EKTER S.A.** can be considered as a medium sized company that is involved in public and private projects. Its labor force counts 33 fixed employees but seasonal 200. Its turnover is approximately 7,500,000 € according to 2007 balance sheet. I propose to be considered as a medium sized company though, because even if it doesn't fit the conditions for the year 2007, the last year's performance is not its typical one. In addition, it was listed in the Parallel Market of Athens Stock Exchange since 1994 The Company's share capital amounts to Euro six million three hundred thousand (€ 6,300,000), divided into 11,250,000 common registered shares of a face value of Euro 0.56 each. It has a well established relationship with ERETVO S.A. that is based in successful past alliances.

**ELERGO S.A.** It is involved mainly in school buildings and has a well established relationship with the public Organization of School Buildings. This is a strong advantage of the company to enter the alliance despite its small size. In addition, it is the only company that has no previous collaboration with ERETVO S.A. in any projects and is a part of the alliance as previously collaborated with Klearchos Routsis S.A.

**KLEARCHOS ROUTSIS S.A.** is a small company that is mainly a subcontractor in public infrastructure projects. Its labor force counts fixed 12 employees. It as a well established relationship with the public sector and it is the only company that has cooperated with all the companies participating in the alliance. It is considered as one of the most trustful collaborators with ERETVO S.A.

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**NOSTOS S.A.** is a small company that is mainly a project management and real estate and development firm. It was established in 2002 and during its short history it was involved in private projects. Its labor force counts seasonally 20 employees. It should be pointed that the project manager of the alliances for the tenders of the PPPs is a member of this firm Mr. Theodoros Lazarakis, who has experience in such projects due to his previous working experience in UK companies. Nostos S.A. has set a successful and trustful relationship with ERETVO S.A. since its establishment.

**INISFREE** is a UK investment group that is specialized in the PFI and PPP infrastructure projects. In addition, it is interested in overseas projects and it is involved in PPPs in institutional investors from Sweden, Germany, Switzerland, USA, Canada and Japan. It has shown its interest in Greek market recently without having any previous experience in the country.

**Agricultural Bank of Greece** views in its establishment as a strong financial institution entering new markets. Up until the early 1990s, it operated as a specialized financial institution on behalf of the Greek state to support the development of the country's agricultural sector.

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## **Recommendations for implementation of the strategy**

### ***6.1 Trust and its application***

Exploring the horizons of this alliance, I would like to present the concept of trust that can be suggested as a competitive advantage of ERETVO S.A. Even if, it is not usual to Greek medium sized firms to invest money and time to **intangible abilities**, trust can be implemented in a more systematic and conscious way. Applying such management approaches, they are going to have the chance to use the results of their **well established professional relationships**. The outcome is the establishment of a trust-based relationship that adds value to their alliance. Moreover, the uncertainty of the PPPs is limited by the certainty of the cooperation's success. The alliance has already tested the involved partners through their long-lasting experience. Through the presentation of the basic definitions of trust, the fundamental relationships will be described between the firms over the years and in the future.

In alliances fair play and honesty are significant principles. However, this can be described as the ideal situation, while in reality it is possible a firm participating in an alliance to try to hurt the partner-company's interests. As Teece (1992) had described the key for a successful alliance is a balance to be kept between the **competetive** and the **cooperative elements** of a company. Each company participating in a alliance should overcome its competetive nature and place first the alliance's interests in order to pursue its own interests. It is obvious that the members of an alliance feel uncertainty of the future behavior of their partners because the outcomes of this cooperation cannot be easily predicted. In fact, the beginning of such a corporate strategy involves high risk because the company should trust its partner without having the intra-firm control that it used to have. However, long-term cooperations are very common because they are based in the **confidence** that the past experience has created. Thus, trust and the confidence derived by it, can be considered as significant concepts in the field of strategic alliances. As the next step, trust is going to be described and commented as far as its applicability is concerned in the case of medium sized companies.

“**Trust** is a disposition and attitude concerning the willingness to rely upon the actions of or be vulnerable towards another party, under circumstances of contractual and social obligation, with the potential for collaboration”. (Edkins & Smyth, 2006, p.234) However, the world of business is by definition a



competitive one, where each company tries to gain competitive advantage over its rivals. Of course, there is a long road to follow when establishing and maintaining a successful alliance.

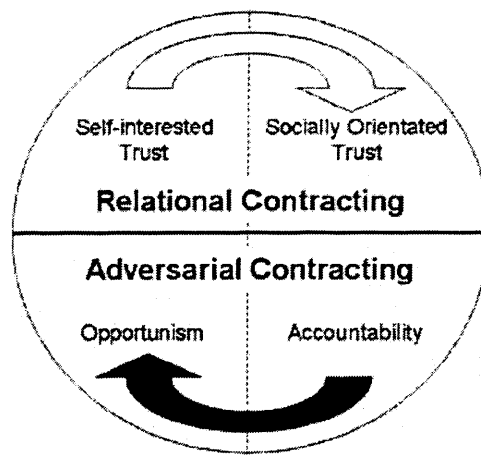
Smyth (2006) suggests that there are three main building blocks of trust summarized as:

- ❖ **Characteristics of trust**
- ❖ **Components of trust**
- ❖ **Conditions of trust**

The **characteristics of trust** are the two stages of trust of self-interested trust and socially oriented trust as Lyons and Mehta (1997) suggest:

- ✓ **Self-interested trust** is characterized the willingness to take the risk to trust the other party without having any confirmation and evidence for this action. In the case of strategic alliances, self-interested trust can flourish in order partners-trust to be developed. It describes a classic 'win-win' situation that is based upon the question "What can the other party do for me?" (Smyth, 2005)
- ✓ **Socially oriented trust** is the trust generated by a sacrificial and philanthropic behavior because is related with obligations in a social network and the terms of reputation and advocacy. In the case of PPPs, the repeated business or long term relationships are fertile conditions to create an environment of trust. In fact, the extra miles have already been made in order socially oriented trust to be achieved in practice for the companies that are examined. Through the interviews all the interviewed parts have expressed vividly not only their certainty for what the other parties can offer them but what can they all offer to the common task. That is why it goes beyond the simple 'win-win' approach of self interested trust. As Lyons and Mehta (1997) suggest, it is fragile relationship because it can be lost quickly through opportunism.

**Relational contracting** has a strong connection with the terms of self-interested trust and socially oriented trust. The simple win-win relationship is represented by the self-interest trust, while the socially oriented trust pushes the relationships between the members beyond this approach. (Edkins and Smyth, 2006). In **Figure 2** the above described concepts are important elements of relational contracting.



**Figure 2:** Conceptualisation of Approaches to Contracting (adapted from Edkins & Smyth, 2006)

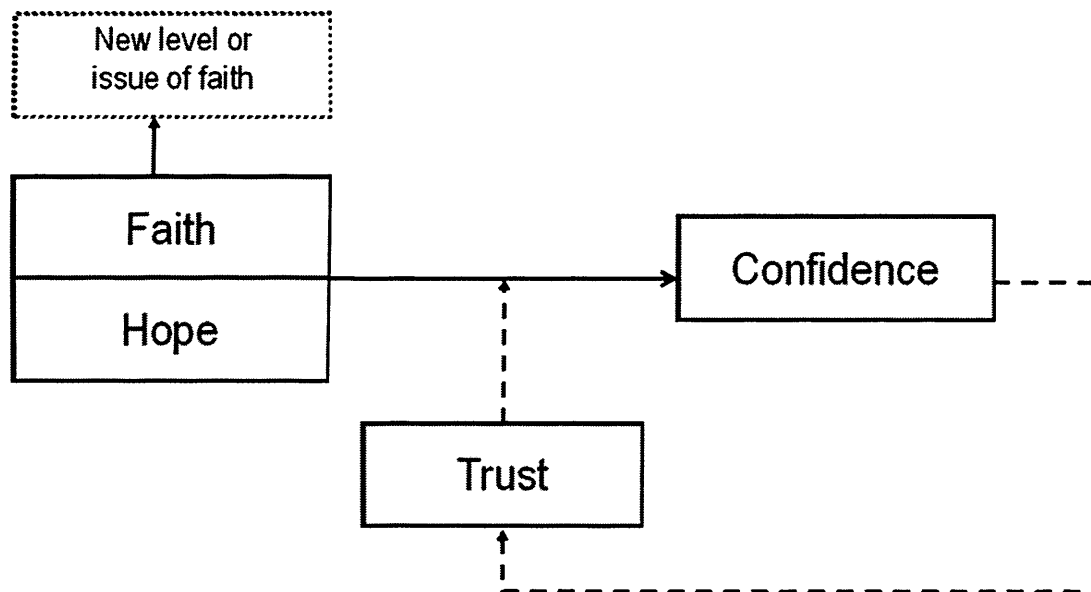
In addition, there is presented the relationship between the accountability, which can be transformed to opportunism in adversarial contracting. Accountability can be considered as a mean that improves relationship performance and therefore project performance in an environment of trust (Smyth and Thompson, 2005). As Edkins and Smyth (2006) suggest, accountability hides a message of lack of trust between the involved parties. Key Performance Indicators (KPI) standards influence the individual's behavior and trust may be undermined. In fact, there is a view suggesting that a new accountability becomes stronger in the networks of working relationships and effects negatively to professionals' pride and integrity. An extensive hunt of performance indicators from the employees' side increases the possibility of opportunistic behaviors. While the control is appeared in inter and intra-firm relationship as a mean of measuring performance, mistrust is reported more often than ever. When the environment where the employees perform is characterized by perfect accountability, a culture of suspicion and low morality is created (O'Neill, 2002).

The **components of trust** are a group of related terms that when they are combined, they can lead to a successful outcome and are described as following (Smyth, 2005):

- **Expectations** as a feeling describing how each member of the alliance views the performance of other parties and arise in two forms:
  - **Faith** is based on the unseen capabilities of the other parties.

- **Hope** is formed through the seen capabilities.
- **Trust** as the willingness to depend and therefore to be vulnerable towards the other parties participating in the alliance.
- **Confidence** for the performance and the positive and successful outcomes of the cooperation based on the past experience of the collaboration between the parties of the alliance.

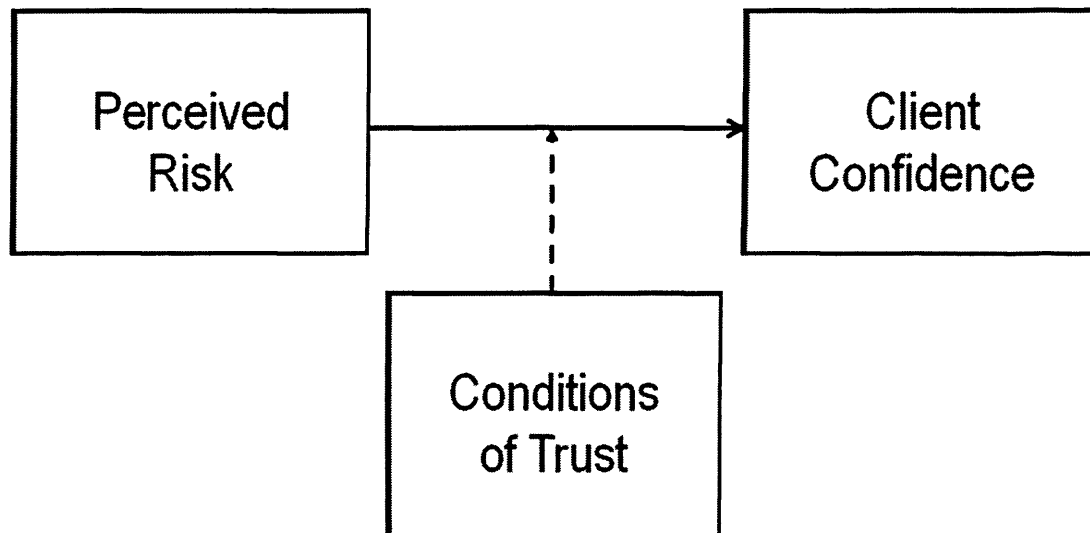
The mechanics of this evolutionary procedure are described in **Figure 3** and depicts how the involved parties move from self-interested trust to socially oriented trust. Through the willingness of the members to give for the alliance's success, value is added to product and service and the expectations of each party are fulfilled. In our case, faith and hope are created due to the successful previous cooperation of the members of the alliance. Trust enforces the established relationship and confidence is derived and adds value to the joint venture.



**Figure 3:** Components of Trust (adapted from Edkins & Smyth, 2006)

PPPs are considered as complex projects involving high uncertainty and risk. Trust is used as a tool of risk management because risk is reduced, when the set of partners cooperates within this environment. The term **conditions of trust** is used to describe the atmosphere that is developed among the members of an alliance and is based on their specific behavior. The parties depend on their experience and the belief

that solutions will be forthcoming because confidence drives its behavior as presented in **Figure 4**. So confidence as a condition of trust supports the components of trust. (Smyth, 2006)



**Figure 4:** Effect of conditions of trust upon perceived project risk (adapted from Smyth, 2006)

## ***6.2 Relationship Management Approach and Trust***

Integrity, honesty, trust, respect and dignity are some of the fundamental characteristics of morality and they are strongly linked to strategic alliances. In addition, they are considered to be successful tools in reducing the opportunistic behavior between the set of partners. Through the introduction of moral values in an alliance's structure, its operation and economic performance are benefited. Morality is reflected in **moral economy**, which is commonly regarded as having a foundational role in the operation and performance of market economy (Pryke and Smyth, 2006). The moral economy is the linking part between the production or intrafirm relationships – the way the firm functions, and the exchange or interfirm relations – the behavior between the set of partners in our case (Reichheld, 1996). Through the implementation of intangible abilities as the above mentioned, core competencies depend on the individual. To conclude, individual is the element that can add value to the services and projects provided. The **social capital** following the concepts of moral economy performs and generates core competencies for the alliance based on repeated business ties.

ERETVO S.A. has applied in its relationships the concept of trust through relational contracting. Thus, it is a component of its success during its long history. Through, the introduction of a more human-based management approach in its culture, the firm can become a beginner in the construction industry in

Greece. In fact, it has already done the extra “miles” because it has understood the importance of the investment in intangible assets and abilities, such as trust. So, the implementation of relationship management approach could be considered an innovative approach for the medium Greek construction firm, which has underestimated the importance of the human. In fact, this could be an interesting topic for further research.

Considering the above described concepts, it can be easily understood that each company that participates in an alliance should work cooperatively in order successful performance to be achieved. The cooperation between the parties depends on the trust that it is introduced within the established joint venture. It is argued that trust is an important tool within conceptual competencies such as relationship management, emotional intelligence and it can be regarded as a standalone competency as well (Smyth, 2005). The way trust relates to the theory of relational contracting has been already analyzed, but relationship management will be introduced as a proposed field for further research. Relationship management (RM2) is a core competency which has a strong connection with the term of relationship marketing (RM1). The relationship marketing is developed to relationship management which is a proactive management approach. RM2 can be defined as Gummesson suggests:

“Relationship management involves analysis, investment in relationships and a clear view of the wider value that can be gained from each relationship and which extends beyond the straightforward features of the product that is exchanged.” (Edkins and Smyth, 2007, p.234)

RM2 as a part of relationship approach introduces the meaning of the relationships to the way people work and interact with each other and its effects. Through the successful collaboration of the members of the described alliance, value is added to their service while future projects are more likely to succeed due to the developed confidence between the parties. In fact, the PPPs are a field, where innovative thinking in construction can flourish and complexity of projects should be managed. The latter described features are closely linked to the performance of the alliance. To sum up, I view this approach as the core competency of the alliance, which will add value to its projects and services in the future.

## **Conclusions-Recommendations for further research**

### ***7.1 Conclusions***

The implementation of PPPs in Greece is an issue of major interest for the broad construction industry. The large and the medium sized companies foresee to their entrance and maintenance in the field of this newly introduced procurement method. Of course, each one has different reasons for expressing interest in such projects. The large companies focus on this field viewing in their East Europe expansion and in gaining the relevant know-how. The medium companies want to participate in PPP projects because they have experienced low profit margins and major profit losses over the last 3-4 years. So, while for the “big fish” the PPPs are a matter of extra profits, for medium firms are a matter of survival.

The aim of this report was to examine the most common strategy for a Greek medium company to participate in PPP projects. Taking into consideration the firms that expressed interest in the tenders I chose a typical medium company (according to its financial data and the constructed projects), ERETVO S.A., as the object of my research. Semi-structured interviews had taken place with senior and junior members of the staff in order to explore how the company views its participation and maintenance in this field. The strategic alliance organized as a joint venture was the strategy that they have chosen. ERETVO participates in an equity alliance, where the construction companies involved hold equal percentages and the financial institutions hold a major one. In fact, my hypothesis of ERETVO S.A. as a typical firm was proven right because the rest of the medium companies participating in the tenders are parts of joint ventures too. Strategic alliances can be considered as a suitable chosen strategy because they ensure the independency, which many medium sized companies want, opposing to being acquired by large companies. Furthermore, the announced projects, due to their size are not a fertile ground, for alone bidders. So, the conclusions and my analysis are not restricted just for the examined firm, but they can be applied as the strategy adopted from the typical medium sized company.

The interviewees regard their participation in PPPs as a vital need. The undertaking of the Olympic Games and the general Stock Market “bubble” led to a period of high profit margins during 1999-2000. The construction sector experienced a flourishing economic era that lasted until 2004. Furthermore, the creation of large groups of companies leads steadily to the shrinkage of the volume of medium and small

firms. In fact, during the last years, there have been numerous acquisitions by the large firms. Nowadays, the medium and small companies are facing financial problems due to the above mentioned reasons. The introduction of an innovation as the PPPs leaves promises for more optimistic predictions for the future of medium companies.

There are two factors that should have been taken into consideration and been analyzed. Firstly, the PPPs are an unknown field for the majority of construction firms and it is a variable increasing the risks that a company takes. Secondly, participating in an alliance adds extra risk due to the unpredictability of the behavior of the alliance's members. Examining the above mentioned factors, the cooperation between the partners could be managed in a more effective way because of the experience the company has in the field of strategic alliances. In fact, trust is a mean that reduces the potential risks of the PPPs.

The potential risk that might harm an alliance is the opportunism as a partner's behavior. In the case of a joint venture, the competitive characteristics should be replaced by the cooperative elements between the partners. Of course, this approach expects from the parties involved to be vulnerable and trust the set of partners. In fact, the extra "miles" have been already made in the examined firm. The familiarity and the repeated business between them breed trust. In fact, the alliance cannot be judged as a dependent event, but it is a business choice based on past successful outcomes of cooperation. They avoid reinventing relationships and risking to be cheated by their partners. The interviewees were conscious on applying in their interfirm-networks a relational contracting approach. Furthermore, the PPPs are a fertile ground for the implementation of relational contracting because they are based on a huge network of relationships.

Trust can be considered as a hidden value that the medium sized company can use in order to achieve its goals. In addition, it can become a competitive advantage adding value to the services and projects provided. Through the application of trust, the corporate relationships go beyond the simple win-win approach. The socially orientated trust is the key for the successful implementation of relational contracting. It is surprising how the components of trust create a family of concepts that function as parts of a chain. The application of trust in the members of an alliance leads the involved parties to move from self-interested trust to socially oriented trust. The alliance's success is linked to the willingness of the members to trust. The parties depend on their past experience and their actions are driven by the belief that solutions will be forthcoming. Confidence is received as a condition with high relevance to trust and they operate complementary to each other.

The application of a relationship management approach in the culture of a medium sized Greek firm could be proposed as a topic of future research. In fact, the trust that the firm has applied to its business relationships and the commitment that the interviewees showed to the vision of the company are the components for the implementation of this approach. The implementation of the relationship management approach is considered as a more proactive method of management compared to relational contracting. In fact, social capital is a concept that has been introduced in order to place the focus of management approach to human. Therefore, a modern aspect of managing complex projects places relationship management to core competences. How these intangible abilities based on the individual can be implemented in the Greek construction sector could be an interesting future topic.



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## Appendix

Approved PPP projects under Law 3389/2005				
	Contracting Authority	Project	Budget	Status of the project
1.	Ministry of Internal Affairs, Public Management and Decentralisation - Prefecture of Imathia	Construction and maintenance of a Government House in the Prefecture of Imathia - Prefecture of Imathia	24 million euros (+20% insurance and heavy maintenance costs) *	The Contracting Authority is currently preparing the tender documents for the selection of advisors
2.	Ministry of Education and Religious Affairs - University of Thrace (Dimokritio)	Implementation of students' residence halls for the University of Thrace - University of Thrace (Dimokritio)	74,5 million euros (+20% insurance cost and heavy maintenance cost) *	An international tender for the selection of technical, legal and financial advisors is in progress. All interested parties may submit their proposals until 4.06.2008
3.	Ministry of Education and Religious Affairs - University of Peloponnese	Implementation of students' residence halls for the University of Peloponnese - University of Peloponnese	61 million euros (+20% insurance cost and heavy maintenance cost) *	An international tender for the selection of technical, legal and financial advisors is in progress. All interested parties may submit their proposals until 4.06.2008
4.	Ministry Of Culture - General Secretariat for the Olympic Utilization	Implementation of 5 sports centers and 2 swimming centers - General Secretariat for the Olympic Utilization	55,5 million euros (+20% insurance costs and heavy maintenance cost) *	The Contracting Authority is currently preparing the tender documents for the selection of advisors
5.	Ministry of Internal Affairs, Public Management and Decentralisation - Union of Municipalities of the major Salonica area	Implementation of an integrated waste-management system in the Prefecture of Salonica - Union of Municipalities of the major Salonica area	242 million euros (+20% insurance cost and heavy maintenance cost) *	An international tender for the selection of technical, legal and financial advisors is in progress. All interested parties may submit their proposals until 23.06.2008

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6.	- Ministry of Defence	Implementation and exploitation of a new hotel facility at Methana - Ministry of Defence	N / A - repaid by the end users *	An international tender for the selection of technical, legal and financial advisors is in progress. All interested parties may submit their proposals until 27.06.2008
7.	- Ministry of Defence	Facility Management of the "Evelpidon" military school - Ministry of Defence	46,5 million euros *	An international tender for the selection of technical, legal and financial advisors is in progress. All interested parties may submit their proposals until 27.06.2008
8.	- Ministry of Defence	Implementation of a flight simulators centre - Ministry of Defence	65 million euros *	The Contracting Authority is currently preparing the tender documents for the selection of advisors
9.	- Ministry of Defence	Installation and operation of security systems in 23 ammunition dumps - Ministry of Defence	30 million euros *	The Contracting Authority is currently preparing the tender documents for the selection of advisors
10.	- Ministry of Defence	Implementation of residences, nursery schools and sports facilities for the Army and the Air Force - Ministry of Defence	130 million euros (+20% insurance cost and heavy maintenance cost) *	An international tender for the selection of technical, legal and financial advisors is in progress. All interested parties may submit their proposals until 27.06.2008
11.	Ministry of Internal Affairs, Public Management and Decentralisation - Prefecture of Evros	Construction and maintenance of the Administration Park buildings in the city of Alexandroupolis - Prefecture of Evros	22 million euros (+20% insurance cost and heavy maintenance cost) *	The Contracting Authority is currently evaluating the bids for the selection of Advisors.
12.	Ministry of Internal Affairs, Public Management and Decentralisation - Municipality of Rafina	Implementation of sewerage networks and sewage treatment unit in the Municipality of Rafina - Municipality of Rafina	40 million euros (+20% insurance cost and heavy maintenance cost) *	The tender for the selection of Financial, Legal and Technical Advisors will soon be launched.

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13.	Ministry of Internal Affairs, Public Management and Decentralisation - DIADYMA S.A.	Implementation of infrastructure for the Integrated Waste Management System in the Region of Western Macedonia - DIADYMA S.A.	97 million euros (+20% insurance cost and heavy maintenance cost) *	Bid evaluation procedure for the selection of Advisors in progress
14.	Ministry of Health and Social Solidarity - AEMY SA	Implementation of the Rehabilitation and Recovery Centre of Northern Greece - AEMY SA	103 million euros (+20% insurance and heavy maintenance costs) *	The Contracting Authority is currently evaluating the bids for the selection of Advisors.
15.	Ministry of Economy and Finance - Hellenic Public Real Estate Corporation	Construction and maintenance of the new buildings of the Ministry of Economy and Finance, of sports infrastructure and animation park of the Chalandri Municipality, and construction of buildings for the accommodation of services of the Chalandri Municipality - Hellenic Public Real Estate Corporation	212 million euros (+20% insurance cost and heavy maintenance cost) *	The Contracting Authority along with its Advisors are working on the preparation of the tender documents for the selection of the SPV that will undertake this project
16.	Ministry of Mercantile Marine - Ministry of Mercantile Marine	Installation and operation of security systems in twelve (12) Greek ports - Ministry of Mercantile Marine	342 million euros (+20% insurance cost and heavy maintenance cost) *	The Contracting Authority along with its Advisors are working on the preparation of the tender documents for the selection of the SPV that will undertake this project.
17.	Ministry of Education and Religious Affairs - Organisation of School Buildings S.A. (OSK)	Construction and maintenance of 23 new school buildings in the Regions of East Macedonia and Thrace, West Macedonia, Epirus and Ionian islands. - Organisation of School Buildings S.A. (OSK)	63 million euros (+20% insurance cost and heavy maintenance cost) *	The Contracting Authority is currently evaluating the bids for the selection of Advisors.
18.	Ministry of Internal Affairs, Public Management and Decentralisation - Region	Reconstruction of the Domboli building complex for the accommodation of the	16 million euros (+20% insurance cost and heavy maintenance cost)	The Contracting Authority is currently evaluating the bids for the selection

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	of Epirus	services of the Region of Epirus - Region of Epirus	*	of Advisors.
19.	Ministry of Internal Affairs, Public Management and Decentralisation - Prefecture of Corinth	<b>Construction and maintenance of a Government House for the Prefecture of Corinth</b> - Prefecture of Corinth	<b>21 million euros</b> (+20% insurance cost and heavy maintenance cost) *	An international tender for the selection of the Private Entity is in progress. Six (6) candidates submitted expressions of interest and <b>five (5) candidates will be invited to submit offers at the second phase of the International Tender</b>
20.	Ministry of Internal Affairs, Public Management and Decentralisation - Prefecture of Trikala	<b>Construction and maintenance of a Government House for the Prefecture of Trikala</b> - Prefecture of Trikala	<b>19 million euros</b> (+20% insurance and heavy maintenance costs) *	An international tender for the selection of the Private Entity is in progress. Six (6) candidates submitted expressions of interest and <b>five (5) candidates will be invited to submit offers at the second phase of the International Tender</b>
21.	Ministry of Internal Affairs, Public Management and Decentralisation - Prefecture of Achaia	Construction and maintenance of a Government House for the Prefecture of Achaia - Prefecture of Achaia	30 million euros (+20% insurance and heavy maintenance costs) *	An international tender for the selection of the Private Entity that will undertake the implementation of the project is in progress. Closing date for the submission of Expressions of Interest: 30/06/2008
22.	Ministry of Internal Affairs, Public Management and Decentralisation - Prefecture of Fthiotida	Construction and maintenance of a Government House for the Prefecture of Fthiotida - Prefecture of Fthiotida	28 million euros (+20% insurance and heavy maintenance costs) *	An international tender for the selection of the Private Entity that will undertake the implementation of the project is in progress. Closing date for the submission of Expressions of Interest: 30/06/2008
23.	Ministry of Public Order - Hellenic Public Real	<b>Construction and maintenance of 14 new</b>	<b>151 million euros</b> (+20% insurance	An international tender for the selection of the

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	Estate Company (KED)	<b>buildings of the Hellenic Police - Hellenic Public Real Estate Company (KED)</b>	and heavy maintenance costs) *	Private Entity that will undertake the implementation of the <b>Piraeus Police Directorate is in progress: 8 Candidates submitted Expressions of Interest and the Contacting Authority is currently evaluating the bids.</b>  Moreover, an international tender for the selection of the Private Entity that will undertake the implementation of 13 building infrastructures for the Hellenic Police is in progress and closing date for the submission of Expressions of Interest is: 10/7/2008.
24.	Ministry of Health and Social Solidarity - DEPANOM S.A.	Construction and maintenance of the Paediatric Hospital of Thessaloniki - DEPANOM S.A.	324 million euros (+20% insurance and heavy maintenance costs) *	The Contracting Authority along with its Advisors are working on the preparation of the tender documents for the selection of the SPV that will undertake this project.
25.	Ministry of Health and Social Solidarity - DEPANOM S.A.	Construction and maintenance of the new Oncological Hospital of Thessaloniki - DEPANOM S.A.	330 million euros (+20% insurance and heavy maintenance costs) *	The Contracting Authority along with its Advisors are working on the preparation of the tender documents for the selection of the SPV that will undertake this project.
26.	Ministry of Health and Social Solidarity - DEPANOM S.A.	Construction and maintenance of the new General Hospital of Preveza - DEPANOM S.A.	109 million euros (+20% insurance and heavy maintenance costs) *	The Contracting Authority is currently evaluating the bids for the selection of Advisors.



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27.	Ministry of Education and Religious Affairs - Organization of School Buildings (OSB)	Construction and maintenance of 31 new school buildings in the Region of Macedonia - Organization of School Buildings (OSB)	116 million euros (+20% insurance cost and heavy maintenance cost) *	The Contracting Authority along with its financial, technical and legal advisors are working on the preparation of the tender documents for the selection of the SPV that will undertake this project
28.	Ministry of Education and Religious Affairs - University of Peloponnese	<b>Construction and maintenance of new buildings for the University of the Peloponnese - University of Peloponnese</b>	<b>74 million euros</b> (+20% insurance cost and heavy maintenance cost) *	An international tender for the selection of the Private Entity is in progress. Seven <b>(7) candidates</b> submitted expressions of interest and <b>five (5) candidates will be invited to submit offers at the second phase of the International Tender</b>
29.	Ministry of Justice - Themis Kataskeuastiki S.A.	<b>Construction and maintenance of 3 new prisons - Themis Kataskeuastiki S.A.</b>	<b>198 million euros</b> (+20% insurance and heavy maintenance costs) *	An international tender for the selection of the Private Entity is in progress. Six <b>(6) candidates</b> submitted expressions of interest and <b>five (5) candidates will be invited to submit offers at the second phase of the International Tender</b>
30.	Ministry of Justice - Themis Kataskeuastiki S.A.	Construction and maintenance of two new Courts of Justice - Themis Kataskeuastiki S.A.	100 million euros (+20% insurance cost and heavy maintenance cost) *	The Contracting Authority along with its Advisors are working on the preparation of the tender documents for the selection of the SPV that will undertake this project.

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31.	Ministry of Public Order - Hellenic Police Force - Hellenic Public Real Estate Corporation	Facility management of 4 buildings of the Hellenic Police - Hellenic Public Real Estate Corporation	36 million euros *	The Hellenic Public Real Estate Corporation along with its Advisors is working on the preparation of the tender documents for the selection of the SPV that will undertake this project.
32.	Ministry of Public Order - Hellenic Fire Brigade - Hellenic Public Real Estate Corporation	<b>Construction and maintenance of 7 new Fire Stations</b> - Hellenic Public Real Estate Corporation	<b>31,5 million euros</b> (+20% insurance cost and heavy maintenance cost) *	An international tender for the selection of the Private Entity is in progress. <b>Six candidates (6)</b> submitted expressions of interest <b>and five (5) candidates will be invited to submit offers at the second phase of the International Tender</b>
33.	Ministry Of Culture - General Secretariat for the Olympic Utilization	<b>Construction of an International Conference Center in the Faliro Pavilion</b> (Tae Kwon Do stadium) - General Secretariat for the Olympic Utilization	<b>54 million euros</b> (+20% insurance costs and heavy maintenance cost) *	An international tender for the selection of the Private Entity is in progress. <b>Five candidates (5) submitted expressions of interest</b>
34.	Ministry of Education and Religious Affairs - Organization of School Buildings (OSB)	Construction, renovation and maintenance of 27 new school buildings in Attica - Organization of School Buildings (OSB)	150 million euros (+20% insurance cost and heavy maintenance cost) *	An international tender for the selection of the Private Entity that will undertake the implementation of the project is in progress. Closing date for the submission of Expressions of Interest: 18/06/2008

\* : Indicative Budget

Source: Special PPP Secretariat 06/05/2008