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## Nobilis, Hungary

- Type of restructuring:  
Business expansion
- Employees before restructuring:  
50-249
- Employees after restructuring:  
50-249
- Nace/Sector:  
Manufacturing
- Country:  
Hungary
- Date:  
17/11/2011

## Abstract

This multigenerational family business in the food production sector is seeking to establish business succession within the family. At the same time, due to the interests and skills of the younger generation, exports have become a much more important aspect of the business. The process has not been finalised yet.

## Organisational profile

Nobilis Zrt. is a traditional family-run company, the leading producer and exporter of dried apple and sour cherry products in Hungary. The factory is in the county of Szabolcs-Szatmár-Bereg, on the edge of South Nyírség and Szatmár, a world-renowned, fertile agricultural region, noted for the excellent flavour and quality of its fruit produce. The company's main products are: apple crisps, apple sticks, dried sour cherries, dried apricot, dried cranberries, chocolate coated products, nuts and food ingredients. The firm has patented delicate drying processes, to retain important minerals and vitamins as well as smell and flavour, and a quality assurance system to ensure that their food products are of the highest quality and support a healthy life-style.

Tibor Novák, the sole owner of the company, founded the company in 1993, but active management has been transferred to his daughters and the managing director who is considered as part of the family. The Novák family plays a major role in senior management, with elder daughter, Mariam responsible for sales, marketing and PR, younger daughter Éva responsible for innovation and quality assurance and her partner Lorand director of production and technology. The managing director is Krisztina Konecz, who is general manager and responsible for finance.

The company employs approximately 70 people, with up to 110 during the apple and sour cherry processing season. Employment has increased from 55 at the start of the restructuring process in 2007. Labour turnover is very low at both management and operator level. Most managers have worked at Nobilis Zrt. for six to 12 years. Many employees come from the same families. Often whole families (mother, father, and children) work at the company. Men and women are equally represented in management; men comprise the majority at operator level. The management team is young and dynamic; the average age is 33. Operators are slightly older (average age 40-45). There is no trade union or works council at the

company.

The company shows continuous steady growth. Sales growth is due to expansion of the product range and the significant increase in export sales. Management believes in continuous innovation: every year, 25% of net income is reinvested into technical and product development. Development is supported by EU tenders which means HUF 100–200 million (€ 345,000–€ 690,000) extra financial resource to the company every year. Clients include Nestlé, Danone, Dr. Oetker and Cerbona and every hypermarket chain in Hungary (Metro, Tesco, Auchan, Cora, and Spar). In 2011, 30% of revenue came from export (due to restructuring) while in 2006, exports accounted for only 5%. The company exports to 13 European countries (the biggest markets are Germany and Italy) plus Japan, South Korea and Taiwan.

## Background to restructuring event

In Hungary, due to its particular history, only a few multi-generational family businesses exist. Most businesses in Hungary were established after the transition from communism to a market economy, so few Hungarian family businesses have business and management experience. Business transfer is a particular problem; unplanned, half-baked succession processes can damage families as well as businesses.

Nobilis Zrt. has always operated as a family business. Both managing daughters have extensive experience of working in it – at operator level and above. Both worked for the company during school summer vacations and while they were students at university, Mariann undertook import purchasing responsibilities. She also took a one-year traineeship at a Rotterdam-based dried fruit and nuts merchant company. After graduation Mariann worked at Nobilis Zrt. in export and import sales while her father was the driving force behind the whole company. Eva proved her commitment to the family business during her university studies, writing a thesis on the company's chocolate-coated apple crisps.

For the owner, it was natural his daughters would join the company. They proved their competence and commitment but the active involvement of the second generation often takes a lot of time and requires patience.

## Restructuring processes

In a family business is not easy to identify the start and end date of succession. The involvement of the second generation is often so natural that even family members cannot remember when and how the process started. However, for Nobilis Zrt. the internal restructuring process/succession has three phases.

Table 1: Phases of restructuring at Nobilis Zrt.

| Phases   | Date             | Description  |
|--|------------------|--|
| <b>Phase 1: Two generations work together</b>                                      | 2000–2007        | The second generation already joined the company but the founder is the main decision maker.                 |
| <b>Phase 2: The younger generation comes to the front</b>                          | 2007–present     | The second generation takes over the management of the company under the overall supervision of the founder. |
| <b>Phase 3: The founder totally steps aside from the management of the company</b> | To be determined | The second generation is fully responsible for the management of the company and obtains ownership.          |

*Source: author's own compilation*

In Phase 1, the owner's daughters successfully worked for the company but their father dominated its management. Furthermore, family members always worked with him but only one at a time. Although he was ready to transfer management roles to his children, they were not ready to take over full control.

In Phase 2, all family members and a trusted managing director were given responsible roles. Although management is committed to planning succession, a transfer plan had not been prepared. The non-family financial director was appointed as managing director. Tibor Novák stepped aside from an active operational management role. He now concentrates his efforts on strategic planning, organisational development and product innovation.

No formal announcement was made to employees, clients or suppliers about the change in management. Employees were informed in staff meetings about changes which affected them. However, Tibor Novák made a point of formally introducing his new management team members to key clients and suppliers. They were already well known to each other due to their long-term working experience at the company and family ties, which meant the second generation managers were easily accepted by the partners.

The exact date of Phase 3 has not been fixed. Although the transfer process seems to be very successful, the last phase could be challenging for the family and the business. Generally this phase can throw up ownership issues, and the new team have to prove they can manage the company successfully without the founder present.

At Nobilis Zrt. the internal restructuring process has facilitated expansion. Exports soared from 5% of sales in 2006, to 30% in 2011, after Mariann, who is responsible for export-import activity, took on her new role.

## Challenges and constraints of restructuring

Although the succession process was trouble-free due to good communication among family members, the management of the company faced two challenges. First, they had to appoint a managing director. In a family business, one might expect a family member to take up this post. But neither of the two daughters wanted to do so. Mariann thinks she is not a top manager type and Éva is committed to product development and innovation. Personnel consultants, internet and newspaper postings, and informal networks were used to find the right person to take up the managing director role. Their efforts proved futile as applicants did not match the family's high professional and personality expectations. Subsequently, they realised that the current financial director Krisztina Koncz was suitable. She became managing director in 2007 after a career in banking. Unfortunately, her successor as finance director turned out to be unsuitable and so she also takes responsibility for this role too. The management team continues to look for a financial director or a managing director. Finding a suitable person to work in a company in a small town 300km from Budapest (Mátészalka), able to make a long-term commitment to a family business, is not easy. Potential candidates often lack the sensitivities required in a family business environment.

Second, both Mariann and Eva live in Budapest and this has constrained the restructuring process too. Éva and her partner Lorand commute every week between Budapest and Mátészalka. They spend the weekdays in Mátészalka and the weekends in Budapest. Mariann also used to commute but following the birth to her son now works from Budapest. In the early stages of restructuring, the distance made collaboration difficult. With the development of information and communications technologies, working together across large distances is now much easier. Bi-weekly management meetings – where all top management is present – are held in Mátészalka and Budapest. These sessions provide the needed personal contact among directors. With Skype and remote access to company systems, the directors are able to manage the company over long distances.

The top management team overcame the problems caused by distance but have not yet managed to find the right person to be their worthy associate in the management of the company.

## Restructuring advice and support

The restructuring process was not planned, although managers prepared themselves for the forthcoming changes. Tibor Novák is committed to organisational development and continuous learning. Managers regularly participated in management training activities where they discussed the owners' new role and responsibilities and management tasks. Éva and Lorand undertook MBA studies which also helped the restructuring process. They learnt how to use a project approach in their work which improved efficiency.

Nobilis Zrt. used personnel consultants to try to find a suitable managing director.

Automation of processes and IT developments are considered very important for the successful restructuring process. The company has benefited from EU subsidies for updating IT and machinery and for training in subjects including LEAN, English, management, and IT. The company benefited from EU subsidies under several operational programmes. These included the ones for economic competitiveness, agricultural and rural development, developing the economy and social renewal.

At Nobilis Zrt. the management relies on feedback from members of their immediate work circle, and everybody has dedicated goals.

Management books are also frequently read and often directors put into practice on a Monday what they have read at the weekend.

## Outcomes of restructuring

The restructuring process has had many positive effects including:

- new working practices, including strategy and planning;
- better product innovation;
- increased production;
- better marketing.

The company has developed a new strategy, focusing on using fruits and vegetables of the South Nyírség and Szatmár area and reducing imports. The company will focus its self-developed, unique, premium products such as apple crisps, apple sticks, dried cherries and chocolate coated products in which the largest profits are made. The company also plans to introduce a new product line based on dried vegetables.

Automation and IT developments are considered very important. The company gets HUF 100–200 million (€ 345,000–€ 690,000) in EU grants every year for new machinery. Production capacity has been enlarged; 65% of this is unused will be activated as part of a planned expansion into the US. The decision was made by the top management team to reach the company strategic goals and was financed by own sources, bank loans and EU subsidy.

Éva learnt about lean management during a study tour in Japan and has now put this into place at Nobilis. Managers aim to develop the

organisation to such a high level that they will be able to manage the company with one notebook from any point in the world.

Restructuring has increased participation in international food trade fairs, exhibiting products with a view to increasing exports. The company has achieved rapidly increasing export sales, up from 5% to 30% of total sales. The firm's conquest of Asian markets is considered a great success, especially in Japan where strict food safety regulations meant that only high quality food imports are permitted. The company has formed various relationships with foreign distributors to reach export customers.

During restructuring the number of employees has grown steadily, at a rate of about two to four new people every year.

## Commentary

A family business can be a mixed blessing. International statistics report that many family firms fail during the succession process due to family conflicts, inadequate communication and poor planning. Making a family business work is a hard job and there is no single success formula. Nobilis Zrt. shows that with preparation, empathy, tolerance and openness, family members can get excellent results, while the company profits from the family unique commitment and long-term orientation. The second generation management is a good team, They have no conflicts because they are working for the same goals, they are perfectionists and their belief in the company's products gives them a strong bond.

## Authors

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## Information sources

### Interviews

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