

# A Postmodern Employment Model on the Peripheries

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## SUMMARY

*A new employment model has been evolving in the advanced economies since the 1980s. A change in labour and labour force management has led to an extreme rise in unemployment and, hence, social exclusion. In order for labour to retain its function as a value driver, a societal organiser and an engine of individual development a new (let us say “postmodern”) employment model should be developed and strengthened.*

*In Hungary, the most marked change to the employment model is an increase in the importance of the role of the state and local governments as employers and a growing reliance on public work as a means of employment. The question is how public work can be incorporated into a sustainable postmodern employment model and channelled towards for- and non-profit undertakings. While seeking to find an answer to this question, we also provide an outline of the characteristics of the employment situation in Hungary.*

*Keywords: postmodern employment model, public work employment, social economy*

*Journal of Economic Literature (JEL) codes: J21, L31*

*DOI: <http://dx.doi.org/10.18096/TMP.2016.02.04>*

## INTRODUCTION

A global increase in unemployment cannot be deemed a transient crisis phenomenon. Taking the form of mostly hired labour, employment based on a slow return on physical capital and the irreversibility of capital investments used to be stable in industrial societies – so much so that besides being a value driver, it was also a fundamental pillar of societal organisation. A radical change in that situation started to materialise in Europe in the 1980s, when mass production based on extensive growth and economies of scale and its related employment first encountered barriers. Technological development has also altered demand for labour, which has, in turn, reduced direct human contribution. Accordingly, for many paid work could no longer be a means of social integration, recognition and acceptance. Traditional employment in capitalist economies in the traditional sense functioned properly. In new economies, however, employment of a new kind, different from the traditional type, needs to be developed and adopted widely.

One option is atypical employment.<sup>1</sup> In today's globalised world the actual performance of work in a number of jobs is independent of time and space; thanks to the rapid spread of information communication technologies, services can be provided from any part of the world. The above triggering factors not only encourage, but also require atypical employment such as part-time, fixed term or self-employment. It is inevitable that companies intending to hold ground in an increasingly tough competitive environment should manage their labour force flexibly, which also brings with it a sharp rise in temporary employment, another atypical form of employment (Ékes 2009).

Nevertheless, the emergence and functioning alongside each other of the new (atypical) forms of employment is not sufficient for ending of joblessness or resolving the resulting social problems. The practice of confining work to paid work should also be abandoned. According to Offe (1998), when employees think of work as an opportunity to earn money, their personal attitude to work changes. As a result, work ceases to function as an organiser of society. Robertson's model (1985) includes voluntary work, as opposed to paid work, performed of

<sup>1</sup> *Atypical employment is a special form of employment different from traditional full-time employment; it differs from the well-known model in terms of the time, location and time schedule of work (De Grip et al. 1997).*

one's own free will, for the satisfaction of personal needs. Rimler (1999) proposes that changing working conditions also suggest that work plays a more important role in individual development than in social integration.

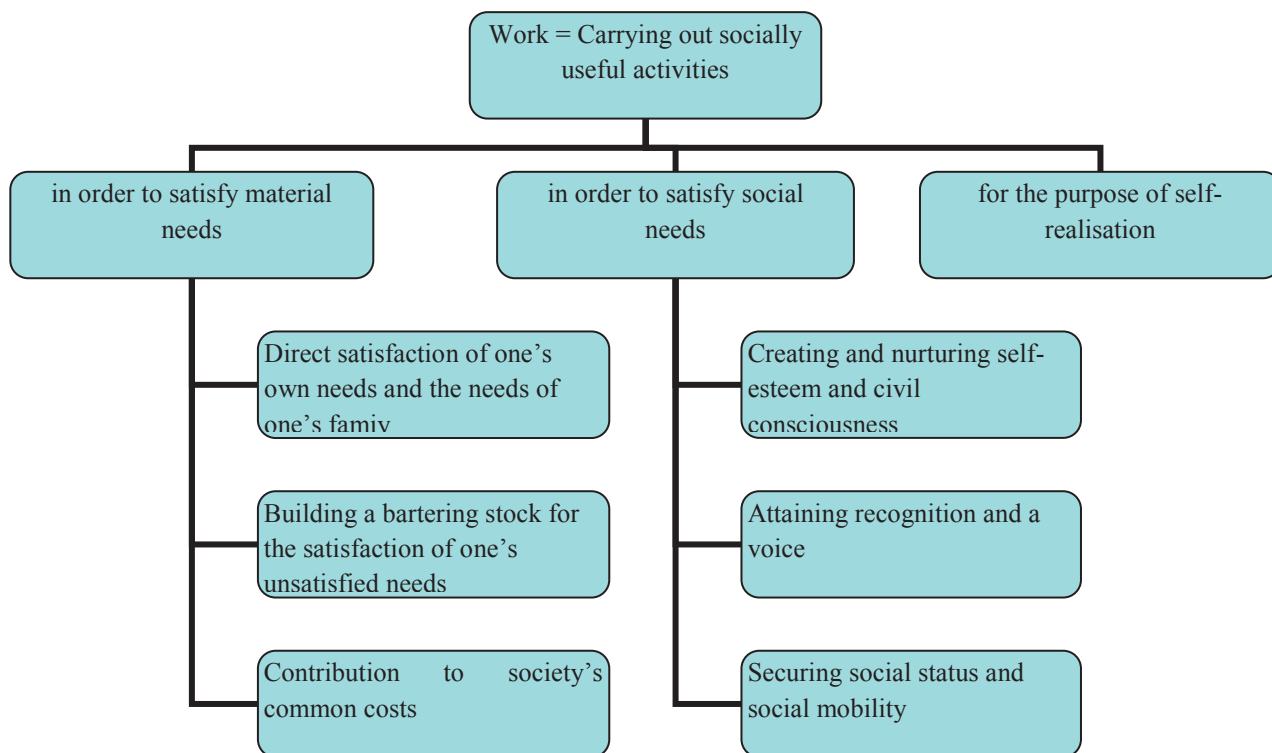
Although full employment in profit-oriented capitalist economies has turned out to be an illusion, work and its related achievements continue to have (or rather, we would like them to continue to have) a determining role in the hierarchy of society, the redistribution of goods, social integration and perception by others. This contradiction can be resolved in two different ways. We either find a new foundation other than work on which to base society, and thus share in goods and be perceived by others along distinctly different values (e.g. property, abilities, relationships and need) or – and this is what we prefer – change the concept of work, confined to hired labour since the industrial revolution, and expand it to include the ability to play its role as a value driver, an organiser of society and developer of individuals again. The re-evaluation of the concept of work will lead to the emergence of new goals, new contents and new types of employers, which will further fine-tune the post-industrial/postmodern employment model. (If, however, the concept of work remains unchanged, we will likely to be able to speak of work-based societies only if we factor in further social polarisation and a more extreme variant of social exclusion, which will, sooner or later, lead unstoppably to a new social era.)

This special issue includes papers presenting research carried out on similar issues: sustainable enterprise models (Illés 2016); sustainable accounting (Demény & Musinszky 2016); the SLEM model created to measure the market potential of local goods supplied by the entrepreneurs of the Cserehát region (Bartha & Molnár 2016); establishing and operating social enterprises (Várkonyi 2016); and route-based tourism product development (Nagy & Piskóti 2016).

## A MODEL OF POSTMODERN EMPLOYMENT WITH SPECIAL REGARD TO PERIPHERIES

The most important characteristic of the employment model of post-industrial societies is that it comprises building blocks that are hierarchically structured and reinforce each other (Szabó & Négyesi 2004). I wish to highlight five fundamental characteristics of the model:

(1) *It is based on a changed concept of work:* contrary to the paradigm under which work is closely linked to the place where it is actually performed, work under the new concept is not restricted to hired labour, rather, it is a socially useful activity that contributes to the satisfaction of both material and social needs as well as self-realisation. (Török 2006) (Figure 1).



Source: drawn by the author

Figure 1. A broader-based concept of work from the perspective of the private individual

In order to keep the role of work as an organiser of society, the new concept shifts focus from the place of work to work and income. This change in paradigm is an especially pressing issue in regions where employment is unusually low and where there are only limited opportunities for the business sector to expand. The capacity of the business sector to create jobs varies within these regions: the for-profit sector is more likely to create jobs in some sectors than in others. However, this does not mean that there are no job opportunities or socially useful activities to be performed in the latter regions. On the contrary, there is more to be done there than elsewhere on account of the very backwardness of these regions. There is no denying, however, that the workforce the workforce lacks the skills and education for performing the above activities only to a limited extent, or only if their abilities are developed.

(2) *Its fundamental assumption is mixed economies:* mixed employment and income-earning models may be able to offer a solution particularly in areas of permanently high unemployment and with low business potential (G. Fekete 2011b).

Likely sources of income under a mixed economy model:

1. *Full-time employment (hired labour) under a contract of indefinite duration:* jobs in the traditional sense of the work in the primary labour market. Only excessive underpayment can justify its combination with other forms of employment.
  2. *Employment (hired labour) under a fixed-term contract:* a great drawback to it is unpredictability. Unless there are other sources of income, it leads to permanent “ups and downs”, i.e. periods of sudden uncertainties in income security alternate with better-off periods.
  3. *Part-time employment (hired labour):* its advantages are predictability and adaptability to the abilities of workers and employers, while its disadvantage is lower available income. It should be combined with other types of income in order to ensure a livelihood and an adequate pension in old age.
  4. *Seasonal employment (hired labour):* unpredictable and highly uncertain, it is often offered in the grey or black economies. Although under applicable laws the informal economy can be transformed into a formal one without any punitive measures taken against those involved, the relevant procedure is still rather convoluted, and prohibitive social taxes and contributions and the fear of becoming ineligible for steady and predictable social security benefits hold employee and employer back from going legal. The administrative burden on employee and employer is likely to be reduced if non-profit organisations operating as temporary employment agencies could enter the market. Such organisations could also bring currently hidden labour demand into the open. Guaranteed basic benefits up to a certain level of income and lower social taxes and contributions could facilitate the transformation of a shadow economy
- into a formal one and help identify new opportunities for work.
5. *Social benefits conditional on the performance of work:* it is not a social allowance proper but, rather, it is a social security benefit which, though granted on the basis of intrinsic eligibility, is conditional on the performance of a socially useful activity if total income is permanently below a certain level. Work is performed for a fixed number of hours and in jobs specified in the employment plan of local councils.
  6. *Self-subsistence:* this means production mainly of food for personal consumption, but this category also includes e.g. sewing one’s clothing, performing traditional cottage industry activities and producing goods which would otherwise have to be purchased to satisfy one’s personal needs. Consumer societies have long forgotten about this solution, which – for this very reason – many find archaic. On the other hand, however, faltering trust in food safety, allergies, the need for self-realisation and, of course, the lack of pecuniary income all boost efforts at self-subsistence. Self-subsistence is not full-scale from the perspective of the individual or his family; nevertheless, the re-evaluation of the concept of work has also led to a rise in the social usefulness of self-subsistence-related activities.
  7. *Gratuitous services (bartering):* a higher level of self-subsistence where one can satisfy an even higher proportion of one’s needs through an exchange of the goods and services produced by oneself without earning pecuniary income. In order for the exchange to work, a person co-ordinating the exchanges is needed. If the scheme is transparent, the turnover (the income earned) by gratuity service providers or voluntary co-operative workers can also be measured. Imposing VAT on turnover, however, stifles the very idea of the whole scheme because in order for VAT payment liability to be fulfilled, pecuniary income is required, which frightens off the users of the services or confronts them with an impossible task.
  8. *Monetary income of households:* this stems from the utilisation of the surplus capacity of households, e.g. village tourism (accommodation in private homes), family homes providing day care for children or the elderly, village “home restaurants”, repairs with one’s own tools, and personal care services. In fact, the goods or services produced or provided on a scale lower than that of commodity production, i.e. produced or provided for self-subsistence, but not consumed or used by the family, are “marketed”. Households earning non-monetary income cannot afford the current statutory taxes, social contributions, administrative charges, accounting fees, “expected” taxes, etc. payable on the minimum wage because they are not businesses proper. Their aim is not profit-generation but, rather, the supplementation of the income needed for livelihood with what is received in return for goods and services. Currently, only self-sufficient farmers and, under the most recent statutory regulations, small-scale producers can engage in such

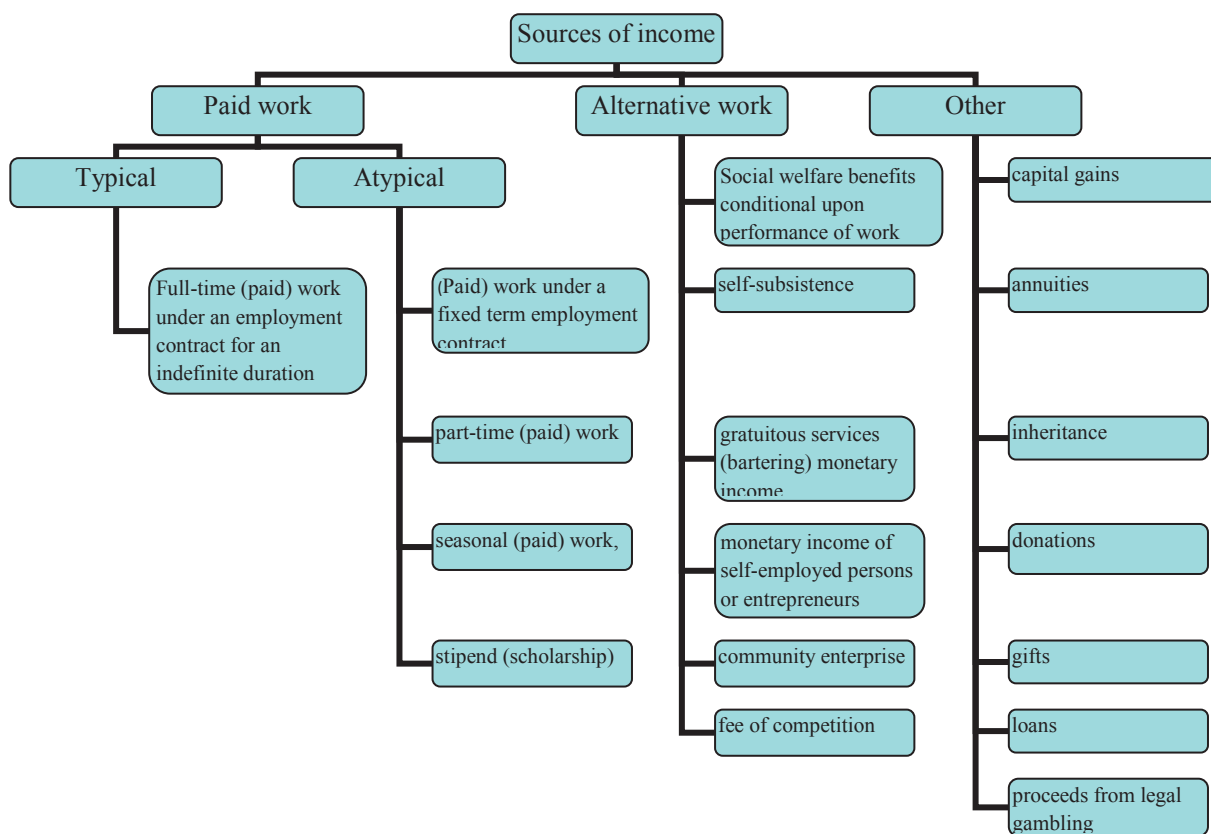
activities legally. This category does not include personal services or cottage industry and maintenance activities.

9. *Monetary income of self-employed persons:* commodity production at a scale that is higher than that of households, but whose aim is not profit generation but, rather, income for farmers, craftsmen and professionals earning their own wages. The reasons for the creation of and lower taxes and social security contributions for this separate category of employment are the self-employment function and national employment objectives.
10. *Social enterprises:* non-profit enterprises striving to satisfy the needs of local communities offer not only work. Employees are often owners and also consumers of the goods produced, which reinforces the sense of security. Wages that are in general lower than in the for-profit sector are likely to be counteracted by in-kind benefits and responsibility for one another. Participation in social enterprises is also possible through voluntary work. Although no wage

income is generated, the reimbursement of costs, available benefits and the hope of gaining social capital generated by being part of a network can still make work under this scheme attractive.

11. *Capital gains and annuities:* return on savings inherited or put aside – for the purpose of self-reliance – during active employment helps in survival during “workless” periods. However, savings can be made only if income is not capped, i.e. there is no ceiling over which the unemployed lose eligibility for social benefits.

Although most of the above options are still available, they rarely feature as parallel sources of income. In fact, such a scenario is often not possible. For the unemployed, the greatest obstacle is the threat of losing eligibility for regular benefits and, hence, a cap on income “allowed” to be earned. The cap on earnable income nullifies motivation for work or even nips it in the bud, even if the combination of sources of income is legitimate.



Source: drawn by the author

Figure 2. Sources of income under the mixed economy model

(3) *It comprises multiple sectors and actors:* all three sectors of the economy are present, which follows from the very existence of a mixed economy. Besides the actors of the business sector, those of the public sector and civil society have also emerged as employers and co-ordinators of employment. Compared with the situation earlier, the social economy has gained in importance.

The primary labour market operated by business enterprises is characterised by the productivity needed for remaining competitive, which is maintained by a reduction in the numbers of those employed who are replaceable by technology and by efforts to increase skills and competences.

In parallel with a reduction in public finances, the public sector is also compelled to cut down on the numbers employed and can become a large-scale employer in public work programmes only rarely and temporarily in areas outside of traditional public administration and public services. Rather, it facilitates access to work and income indirectly with regulatory means, assistance and co-ordination.

The social (civic) sector entered the economy in the 1980s. Civil sector organisations bridged the unfilled gap of the other two sectors in order to satisfy the basic needs of citizens (e.g. healthy food, housing, preservation of health, social care, education, leisure, access to information, assertion of human rights and interest advocacy). In order to provide the funds needed for their operation, they are also engaged in commercial activities; in addition, they also rely on voluntary work and fund raising. Their operation is based on the principles of democracy (Kuti & Marshall 1991). The fundamental value cherished by social economy is that it operates in the interest of a community rather than its individual members and it strives to promote the establishment of communities on a territorial basis or along shared interests. Persons active in the social economy work in co-operation in the interest of shared benefits. Social ventures serve communities. Their aim is not to maximise profit. Rather, they are aimed at the permanently unemployed as their target group. In Hungary, the social land scheme is one of the wellsprings of social ventures (G. Fekete & Solymári 2004; Bartal 1998). Social ventures prioritising social goals over earning profit are employers themselves while they also participate in co-ordination between the individual forms of social ventures and in setting up a local model of employment.

(4) *It is territorially differentiated.* Based on the varying employment capacities of the regions, a map can be drawn showing the regions relying on the business sector, those relying on the public sector and the ones relying on the social sector. The mixed employment model with its components arranged in different configurations is likely to be desirable in areas with differing capabilities. The components focused on by employment policy related to territorially differentiated employment also vary from one region or settlement to the next.

- A. Strengthening for-profit and non-profit enterprises creating jobs (for hired labour), facilitating the spread of the alternative forms of employment and supporting related labour market services are likely to be key considerations in settlements with strong employment potential in the primary labour market. The tools used so far are likely to be successful, as there are already the institutions necessary for their application.
- B. Strengthening the idea of having more than one source of income, supporting individual non-viable sources of income and co-ordinating them seem to be the most important tasks for settlements with medium to high employment potential in both the primary labour market and in public work employment. Willingness and motivation are likely to be available for this locally.
- C. The main tasks in settlements with weak employment potential in the primary labour market, but strong employment potential in public work employment (an employment scheme of the Hungarian government within which authorities – e.g. local councils or government bureaus – create jobs for the unemployed) and some track record in the social economy include improving employment potential in the public sector and the social economy and strengthening alternative sources of income as soon as reasonably possible.
- D. Settlements with weak employment potential in both the primary labour market and public work employment are likely to lack conditions (e.g. motivation and institutions) for organising employment locally. The main task there is to establish the entire system and to increase the local skill base.

(5) *Strong local determination:* A mixed economy, territorially differentiated employment and the co-ordination of the various sources of income require well-thought out, deliberate actions on the part of all the parties involved, such as employees, employers, local councils, civil society actors in employment and labour organisations. Accordingly, one can plainly see that attention must also be focused on, and tasks must be carried out at, a local/small regional level in employment policy. Whether new jobs and new sources of income will be created depends on the successful development of local economies (Birkhölzer 2000).

## AN “ACHIEVEMENT” OF OUR AGE: PUBLIC WORK EMPLOYMENT

The central government and local councils may use public funds to create – mostly temporary – job opportunities for the unemployed. One established method is public work, which is a compromise between welfare benefits and jobs proper (G. Fekete 2011a). Originally, public work employment was a scheme for substituting with work the tasks and development to be

carried out by the state and local councils and related shared costs serving the interest of the public. Employment through public work, which dates back to the Middle Ages in Europe, has undergone a number of major changes. It gained in importance when the earlier forms of economies and employment were undergoing transformation and the state had to intervene due to a lack of equilibrium between labour market demand and labour market supply and the resultant scarcity of income. One of its functions is to reinforce the rules governing the distribution of goods in work-centred systems, remind members of a community of their obligations associated with belonging to the community, and create a scheme under which public work has to be done for eligibility for social security benefits. A second function is to reduce the loss of income faced by those no longer in the labour market in a fashion that spares public finances, i.e. by limiting the number of individuals drawing social security benefits and the amount of benefits. A third function remains social control over the poor and transforming the societal causes of poverty into individual causes (Csoba 2010b).

In modern Hungary, public works was rediscovered before the regime change. All the usual purposes of public works employment featured among the objectives of public benefit employment<sup>2</sup> launched in 1987, public works<sup>3</sup> re-introduced into employment policy in 1996 and public purpose work<sup>4</sup>, the third pillar of employment through public works. Following a slow take-off, public purpose employment has been dominant among active employment policy tools since 2000<sup>5</sup>. The underlying reason for this is an amendment to the law pursuant to which local councils have to provide employment for the means-tested unemployed from among those who are beyond the period of eligibility for unemployment

benefits, and only individuals agreeing to do public works will receive regular social benefits.<sup>6</sup> In the years to come, the funds earmarked for employment and the capacity of local councils to organise and provide work were a barrier to mandatory work by the individuals on benefit. In 2006, the regular social benefit was transformed into family benefit, which, however, turned out to be less motivating for working age recipients of benefits in terms of job-seeking. As a result, the amount of the family benefit was capped in 2007, and recipients were required to co-operate with labour offices.<sup>7</sup> 2008 saw the commencement of the development of the “Road to Work” Programme. In that same year legislative preparation began.<sup>8</sup> The programme launched in 2009 “made a series of complex measures in order to enable permanently unemployed individuals capable of work to participate in some form of public work employment in order that they may earn a steady income.”<sup>9</sup> The objectives of the programme included helping the groups concerned re-enter the labour market, increasing the number of projects supporting job creation and, concurrently with this, curbing employment in the black economy. All this was aimed at reducing reliance on benefits and its detrimental impacts. The target groups of the programme were the economically inactive population, registered job-seekers and recipients of social security benefits. The programme was operational for nearly two years.

In 2011 the system of public work employment changed again. Pursuant to a new government decree<sup>10</sup> on support available for public work employment and the Act<sup>11</sup> on the amendment of acts on social, child protection, family support, disability and employment issues, the system of public work employment as it had been until 2011 was replaced by the Programme of

<sup>2</sup> Joint communication no. 8.001/1987. (MUK.15.) ABMH-PM on public benefit work: local councils and the institutions thereof and civil society organisations can provide employment for “individuals who cannot find employment for reasons beyond their control”.

<sup>3</sup> Minister of Labour Decree no. 6/1996. (VII.6.) on support available for the promotion of employment and on support funded by the Labour Market Fund for the management of crisis situations: the goal is to invigorate the government’s employment policy to prioritise active means of employment over social security benefits as a passive means of employment. Individuals eligible for participation in the scheme are permanent job-seekers and working age individuals no longer eligible for job-seeking benefits, who are employed - for a fixed period of time - in jobs realising community objectives or the goals of the settlement concerned.

<sup>4</sup> Act XXII of 1996 on the amendment of acts related to the individual social security benefits: the Act enables local councils to require – in a scheme regulated by them – individuals drawing social security benefits to co-operate with organisations providing services and participate in work.

<sup>5</sup> In addition there is public benefit work, which is one of the three main forms of punishment specified in the Criminal Code, also features in Hungarian practice. Offenders sentenced to perform public benefit work serve their sentence by working for an economic entity appointed by penitentiary institutions. No employment relationship is established with the appointed place of work for the term of public interest employment (Article 61(1) of Act on Prison Service) despite the fact that convicts do work.

<sup>6</sup> Act CXXII of 1999 on the amendment of certain employment and social legislation

<sup>7</sup> Act CXXVI of 2006 on the amendment of certain acts on social issues. Amendment of Act III of 1993 on social administration and social security benefits.

<sup>8</sup> Act CII of 2008 on the amendment of certain acts on social issues. Amendment of Act III of 1993 on social administration and social security benefits.

<sup>9</sup> State Employment Services, 2009

<sup>10</sup> Government Decree no. 375/2010 (XII. 31.) on the support available for public work employment

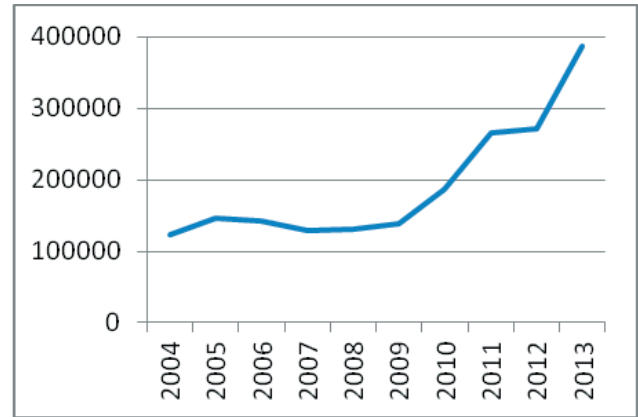
<sup>11</sup> Act CLXXI of 2010 on the amendment of acts on social, child protection, family support, disability and employment issues.

National Public Work Employment. The focus was shifted from social considerations onto the labour market integration of an increasingly large proportion of inactive groups. The Hungarian Labour Plan set as its main goal to provide state-subsidised employment rather than social security benefits for individuals for whom the open labour market does not offer any realistic employment opportunities.<sup>12</sup>

With the forms of public work employment having been transformed, taking effect from 1 January 2011, public purpose employment, public benefit employment and traditional centrally-organised public work programmes were terminated and stand-by support available for working age unemployed individuals was replaced with wage substitute benefits. The START Public Work Employment Programme was launched in 2011 as part of the system in predominantly rural settlements in the most disadvantaged position from a labour market perspective. (Altogether 980 pilot programmes were launched in 13 of 19 counties, 28 small regions and 493 settlements.) In 2012, small regional START programmes were launched in another 66 disadvantaged regions. The number of settlements participating in the programme rose to over 1,500, which means that approximately half of the Hungarian settlements are involved in the programme.

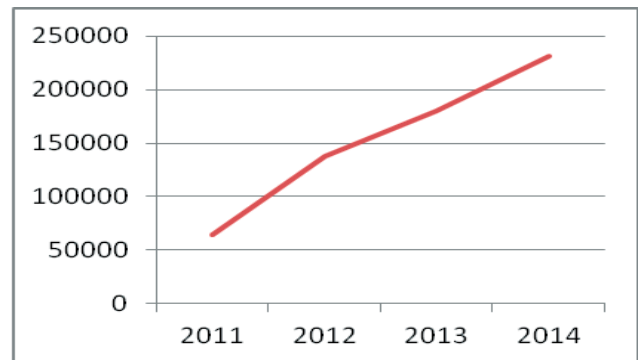
A quantitative change in the number of the participants in the public work employment and public expenses on public work employment aptly illustrate the changes illustrated above. The number of participants involved in public work employment varied between 270,000 and 300,000 in 2003 and started to rise steeply in 2009 (Figure 3). The monthly average headcount in public work employment was significantly lower. Nevertheless, based on 10 to 11 months' employment, it exceeded 250,000, accounting for 6- 7% of the total numbers employed.

There was also a sharp rise in money spent on public work employment (Figure 4). Public expenses set aside for this purpose have nearly doubled over the past three years. Approximately HUF 500,000 is spent from public money on a public work employee annually, translating into 9-month employment in 2012 and 11-month employment for 2014.



Source: Edited by the author, based on data of Map of Resources, HAS (2001-2010); State Audit Report (2011); vg.hu (2012-2013)

Figure 3. Trends in the numbers employed in the public work programme (2004-2013, persons)



Source: Edited by the author, based on data of Map of Resources, HAS (2001-2010); State Audit Report (2011); vg.hu (2012-2013)

Figure 4. Public expenses on public work employment (2011-2014, HUF million)

The aim of the programmes were to to create value, satisfy real needs, provide for the possibility of continuous work, be feasible in all areas of the country and reach out to several target groups (BM 2013). Along with employment, other objectives also feature. They include (1) the protection of the natural and built environment, (2) the improvement of the quality of mass catering by using local produce and, in connection with this, the establishment of self-sustaining and self-sufficient settlements, (3) the establishment of tidy community spaces and liveable settlements through heavier reliance on the co-operation of civil society organisations and (4) increased involvement of those in public work employment in water regulation, flood damage prevention and water utilisation for agricultural

<sup>12</sup> Approved by the Government on 19 May 2011.

purposes.<sup>13</sup> Accordingly, the main areas of activities include agricultural projects, drainage of excess water, repairs to agricultural roads, bio and renewable energy production, repairs to public roads, clearing of illegal waste dump sites and the winter employment of those in public work employment, complemented with programme elements based on local characteristics in 2013. The most common small regional START pilot programme type is agricultural pilot programmes.

Under a theoretical approach, public work employment is a system regulated in detail which offers a wide range of opportunities and responds to local characteristics and individual differences without affecting market competition and with its viability proven by daily practice.

Public work employment may be useful for both communities and their members. Firstly, in addition to efficient organisation, settlements become tidier, healthier and more liveable, supporting stable employees and, hence, community morale. Secondly, the benefits that those employed enjoy is that they can receive wages that are higher than social security benefits, acquire work experience that improves their chances of re-entering the primary labour market, set an example to their children, and consider themselves as useful members of society, which boosts self-esteem and helps them rise in public esteem as well.

The importance of public work employment from the perspective of the labour market is that, without it the financial crisis would have affected employment more adversely. The rate of employment, which peaked in autumn 2013, is also attributable to the high numbers and rates employed under this scheme. The government intends to transform public work employment in a way that turns it from a social policy pool into an economic policy tool.

That said, expert analyses (Bass 2010) and our own case studies reveal that public work employment is a trap with no way out. If poorly organised, it fails to create value or improve recognition at the level of both local communities and individuals. It may even fail to provide income higher than the amount of the benefits received. There are also macro-economic barriers to public work employment. Neither the state nor local councils can become large-scale employers because this would lead to a rise in the public deficit, a fall in productivity, a laggard workforce, distorted local competition and the crowding out of opportunities for permanent employment. Further objections to public work employment include its (1) temporary nature, (2) inability to help those concerned re-enter the primary labour market, (3) inability to improve employability and (4) effect of turning the social causes of poverty into individual causes (Csoba 2010a).

The above corroborates the need for both solutions complementing the employment potential of business enterprises and a simultaneous search for possible forms of exiting public work employment and stepping onto a higher level. The direction to move in when public work employment is exited is either a business or a social economy. A business economy is not ideal for regions with few business enterprises. (This option should not be discarded, though.) A version of the latter also prioritised by the government is the transformation of START public work projects into social co-operatives. The following section discusses a few issues related to this.

## SOCIAL ECONOMY IN HUNGARY

### A. *Social enterprises*

There are three definitions in Hungary of social enterprises serving as building blocks of the social economy.

1. NESsT definition: Social enterprises (1) offer innovative solutions to social problems, (2) have a dual purpose: improving financial sustainability and exerting a significant impact on society and (3) sell high quality products and services in a consistently responsible manner. Social enterprises can operate as non-profit, public or commercial organisations. They prioritise social goals connected to disadvantaged people (Tóth et al. 2011).
2. Definition in the Project Guide of Social Renewal Operative Program of Hungary (based on the EU's White Paper): 1) non-governmental entities, (2) primarily market-based production, commercial and service activities aimed at helping self-employment, (3) basic values: volunteering, co-operation, solidarity and responsibility, (4) prohibition of profit sharing, (5) social commitment. Their main purpose is to reduce unemployment and ease the burden on the social security system (Petheő et al. 2010).
3. Definition by the Concise 4 research programme: A social enterprise (1) is a non-profit organisation; (2) seeks to meet social goals through carrying out business activities; (3) does not allow private individuals to distribute assets, but serves the good of those people who are targeted by the social aims, (4) possesses an institutional structure in which the participation of the members is voluntary; (5) supports mutual cooperation with other organisations within the sector concerned (Petheő 2009).

Nevertheless, the use of the term "social enterprise" without any definition whatsoever or the absence of awareness of the operation of social enterprises as such is the most common phenomenon.

<sup>13</sup> Government Decree no. 1044/2013. (II.5.) on certain issues related to public work employment requiring decisions



Under the European Commission's definition the following qualify as social enterprises: Enterprises (1) for which the social and societal objective of the common good is the reason for the commercial activity, often in the form of a high level of social innovation, (2) where profits are mainly re-invested to achieve this social objective, (3) where the organisation or the ownership system reflects their mission and (4) which use democratic or participatory principles or focus on social justice. Thus, typically, they provide social services or other goods and services (housing, health care, support for the elderly and the disabled, shelters for disadvantaged groups, child care, access to work and training, addiction management, etc.), or they produce goods and services for some special social purposes. The latter includes employing disadvantaged persons having a particularly low level of education or facing social and employment problems leading to social exclusion. Social enterprises comprising the social economy employ over 11 million people in the EU, accounting for approximately 6% of the total number employed (EC 2011).

In Hungary, there are no uniform statutory regulations applicable to social enterprises. (By contrast, there are acts on social enterprises in most European countries.) In Hungary the Act on social organisations<sup>14</sup>, the Act on the management of non-profit organisations<sup>15</sup> and the Act on social co-operatives<sup>16</sup> provide a legal background.

### B. Social co-operatives

Social co-operatives are one of the types of social enterprises. They are engaged in a business activity; however, social objectives are overriding priorities, and there is no profit-sharing among members. They are a special form of social enterprises, as the basic principles of co-operatives apply to them (ICA 1995).

Not all co-operatives are social enterprises (the literature is divided over the applicable criteria) and, conversely, not all social enterprises are co-operatives (they may operate as associations, foundations or companies based on shared benefits).

Social co-operatives first feature in Hungarian regulations in 2006, after a change in political leadership.<sup>17,18</sup> As defined by them, co-operatives are legal entities incorporated with a specified amount of capital comprised of membership shares operating in accordance with the principle of open membership and a

changing amount of capital whose aim is to facilitate the satisfaction of the economic and other societal (cultural, educational, social and healthcare) needs of their members. Social co-operatives seek to create employment for disadvantaged members and improve their social situation in other ways. Co-operatives may be engaged in any activity that is not at variance with the law.

The alignment of the rules applicable to social co-operatives with the rules governing public work employment started in 2012.<sup>19</sup> On 1 September 2013 a new form of social co-operative emerged in Hungary.<sup>20</sup> Its key features are:

(1) *new actors among its members*. In addition to natural persons, local councils or ethnic minority self-governments and their partnerships and entities with a public benefit status engaged in charity activities specified in the applicable law may also become members. Entities with a public benefit status may also be investor members. In the case of loan for use contracts, the minister in charge of public work employment may appoint a person representing the government until the maturity date of the loan.

(2) *conditions for membership that are easier to meet*: prospective members may meet their obligation to subscribe membership shares by making a declaration of intent to purchase them from other members; they have to make the required capital contribution within a period of one year. The latter requirement can also be met by transferring the goods produced/manufactured by them in the course of their work for the co-operative and thus into the ownership of the members.

(3) *establishment of a legal relationship intended to create employment for members*: a legal relationship intended to create employment for members is an independent legal relationship that is outside the scope of the statutory regulations applicable to legal relationships established for the purpose of other employment where work may be remunerated – in proportion to the work contributed by members – by the in-kind transfer of the goods produced/manufactured, in part or in whole, jointly by members. Such a legal relationship is subject to special tax and social contribution regulations and it does not influence the eligibility of employees for in-work benefits and other support.

(4) *transition from public work employment*: If a number of disadvantaged persons have a public work

<sup>14</sup> Act CLXXX of 2011 on the freedom of associations, the public benefit status and the operation of and support for civil society organisations

<sup>15</sup> Act IV of 2006 on business associations

<sup>16</sup> Act LXXXVIII of 2005 on voluntary activities in the public interest

<sup>17</sup> Act X of 2006 on co-operatives

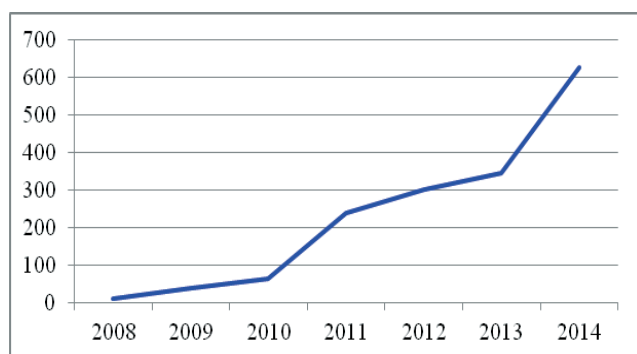
<sup>18</sup> Government Decree no. 141/2006. (VI. 29.) on social co-operatives

<sup>19</sup> Act XXXVII of 2012 on the amendment of Act X of 2006 on co-operatives, Act XCIII of 1990 on duties and Act CVI of 2011 on public work employment and the amendment of acts related to public work employment and other acts.

<sup>20</sup> Act XLI of 2013 on the amendment of certain acts in connection with social co-operatives and on the amendment of certain acts related to public work employment.

employment relationship with the same public work employer for no less than one year and undertake to work together as members of a social co-operative for at least two years, they may use some tangible tools typically used in public work employment free of charge on the basis of a loan for use contract.

In parallel with the applicable legislation, programmes supporting the establishment of social co-operatives also started. They received support from OFA (the National Employment Public Benefit Non-Profit Private Limited Company)<sup>21</sup> in 2007 and 2009, from the programmes of “Atypical Forms of Employment” of the Social Renewal Operative Programme of Hungary<sup>22</sup> in 2010 and 2011 and the Social Economy Programme of Social Renewal Operative Programme of Hungary<sup>23</sup> in 2012. Furthermore, the OFA Co-operation Programme<sup>24</sup>, the Swiss-Hungarian Civil Fund<sup>25</sup> and NESST – Citibank<sup>26</sup> also encouraged the strengthening of social enterprises and, among them, social co-operatives. A take-off in the number and regional distribution of the social co-operatives registered in Hungary amply reflects the operation of these programmes (Figure 5).



Source: Edited by the author on the basis of data of the Court of Registry and the OFA (National Employment Public Benefit Non-Profit Private Limited Company) and TÁMOP (Social Renewal Operative Programme of Hungary) tenders

Figure 5. Changes in the number of social co-operatives

## TRANSITION FROM PUBLIC WORK EMPLOYMENT TO A SOCIAL ECONOMY

According to the government’s plans, in agricultural pilot programmes public work employers will receive a state subsidy decreasing in proportion to any growth in their own income. If a programme becomes self-sustaining, participants may – as an alternative – establish social co-operatives. Local councils may participate as members in co-operatives, which may then use – free of charge – the machines and equipment that the councils purchased earlier using subsidies to cover investment and equipment costs. This process is in line with the principle of a three-pillared subsidy system, i.e. public work employees may enter the primary labour market by becoming self-employed, a co-operative member or a co-operative employee (Bagó 2014).

Besides fulfilling the joint requirement of spending less public money and creating more jobs, converting public work employment into co-operative employment is warranted by compatibility with EU programmes. The reason why the leading role of local councils should be kept (Table 1) is that – as a result of previous programmes – they have the means (land, buildings and machines) necessary for production/services and they have largest share in the local service market. They operate mass catering, health care, social and recreational systems. Through the public buildings in their possession they have interests in energy supply and in the cleaning and maintenance of public spaces. They are responsible for public safety and security and community transport. Due to a mistrust of civil organisations, they do not want other, independent actors to enter this market. There is hardly any practice of transferring public duties to local civil organisations, which are in many cases not prepared for this role.

<sup>21</sup> Szövetkezz/2009 (Co-operate/2009) The development and the expansion of social co-operatives

<sup>22</sup> TÁMOP (Social Renewal Operative Programme of Hungary)-2.4.3.B-2/10, /11

<sup>23</sup> TÁMOP (Social Renewal Operative Programme of Hungary)-2.4.3.D-12.

<sup>24</sup> TÁMOP (Social Renewal Operative Programme of Hungary)-2.4.3.-B-1/09. COOPERATION

<sup>25</sup> Strengthening and increasing the capacity of civil society organisations active in the area of social and environmental protection issues in North Hungary and the North Great Plain Region (2012).

<sup>26</sup> NESST-CITIBANK Social Enterprise Development Programme (2012): A grant of USD 10,000 to the enterprises submitting the two best business plans, mentoring, and offering of promotion opportunities <http://www.nesst.org>

*Table 1*  
*Reasons for and conditions of converting public work employment into social co-operatives*

| REASONS:<br><i>Contribution of the resources of local councils to the co-operative</i>  | CONDITIONS:<br><i>Assertion of co-operative principles</i>   |
|---|--|
| <ul style="list-style-type: none"> <li>➤ arable land, property</li> <li>➤ technical equipment</li> <li>➤ administrative staff</li> <li>➤ management</li> <li>➤ markets                             <ul style="list-style-type: none"> <li>➤ business-based: for their own tasks</li> <li>➤ subsidised: for means-tested recipients</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>➤ voluntary basis and open membership</li> <li>➤ democratic control by members</li> <li>➤ economic participation of members</li> <li>➤ autonomy and independence</li> <li>➤ training and education</li> <li>➤ cooperation between co-operatives</li> <li>➤ commitment to the community</li> </ul> |

Source: edited by the author based on co-operative principles (International Co-operatives Alliance, 1995)

However, the requirements for operation as a social co-operative (Table 1) can be met only if there a strong community background. The weak local communities, strong paternalism, corruption and social vulnerability typical of today’s Hungary, especially in the provinces and the peripheries, suggest anything but a strong community background.

The two forms are fundamentally different. One carries out public duties and as such falls into the category of social care. The other is a business enterprise. Their convertibility into each other depends on a number of factors (Table 2), of which I highlight five:

(1) *Objectives and activities:* Some of the current public work objectives announced by the government are also social objectives. It seems that the objectives and the activities are no strangers to the social economy. However, a look at the political goals linked to public work employment, the control exercised over the poor and a decrease in the number of the recipients of social welfare benefits reveals that the problems facing the poor and the disadvantaged are managed in a more complex fashion in the social economy, and paid employment is only one of the not mutually exclusive forms of helping

individuals to enjoy various benefits and is by no means merely a tool for exercising power.

(2) *Fundamental principles of organisation and management:* Under the current public work employment scheme, as we have seen so far, employees are in a deeply subordinate position and work according to strict schedules and under strict control. Management is autocratic. Local policy makers and the mayor have a say in whom to employ and whom to dismiss, and their decisions are often politically charged. The principle of performance may prevail in employee selection in both cases. Under the co-operative scheme members are equal and each member is entitled to one vote irrespective of their social status. This also means responsibility, which requires a responsible owner’s attitude. No enterprise with an attitude of subordination or, at best, an employee’s attitude will ever succeed.

(3) *Fund-raising and commercial activities:* Inherently, public work employment is based on one source of funds, i.e. state subsidies. Commercial activities are allowed only to a limited extent and reliance on donations in order to be reinvested in employment is not typical at all. Co-operatives have a wider selection of fund-raising opportunities to choose from. However, they need to prepare themselves for this appropriately, and have to be familiar with the rules of accounting for the funds raised.

(4) *Nature of employment and income:* Public work employment is only for a short period of time. Public work is poorly paid and no other employment is allowed during the term of public work employment. By contrast, under the co-operative scheme, membership or an employee status can be established for an indefinite duration and remuneration is also diverse (salary, participation, in-kind benefits, discounts and services provided to the charge of the community fund), while other employment is also allowed. The permanence of employment and income depend on the market reception of the joint performance of the management and employees of the co-operative. No arbitrary restriction is imposed on salaries.

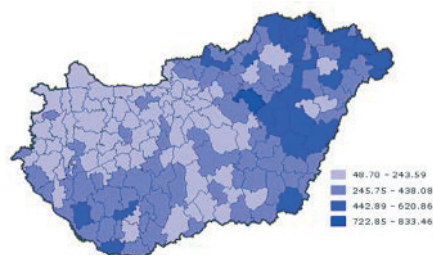
*Table 2*  
*A comparison of the fundamental characteristics of public work employment with those of the co-operative formation*

|                | <i>Public work employment</i><br>(performance of public duties) | <i>Social co-operatives</i><br>(social enterprises) |
|----------------|---|---|
| Objective      | Work replacing social welfare benefits                          | Social/community objectives                         |
| Task           | Linked to the tasks of local councils                           | Satisfaction of market and community needs          |
| Sales activity | None or indirectly  | Basic condition                                     |
| Management     | Board of local councillors/mayor                                | Democratic/members’ meeting                         |
| Attitude       | Employee  | Owner   |
| Employer       | Mayor   | Chairperson   |
| Term           | Temporary (months)  | Indefinite duration                                 |
| Income         | Guaranteed by the state   | Income depending on market performance              |
|                | Support for means-tested recipients                             | No different minimum wage                           |
|                |   | Members’ interest – membership share                |
|                |   | Community fund                                      |
| Obligation     | No other employment is allowed.                                 | Other employment is also allowed.                   |

Source: Edited by the author

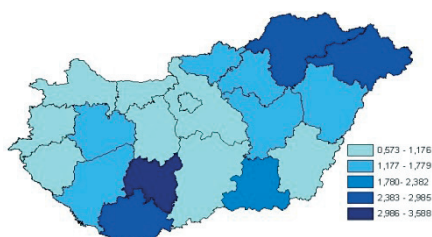
(5) *Regional/local justification*: It is in areas hit by massive unemployment where the application of both forms is justified. Both forms may pose a threat to local businesses if the activities carried out by these two forms are the same as the activities in which such local businesses are engaged.

Regional similarities between the two forms of employment are amply illustrated by correspondence between the 2010 regional density of public work employees and the 2014 regional density of social co-operatives (Figures 6 and 7).



Source: Map of Resources, HAS 2012

Figure 6. Numbers employed under the public work employment scheme per 1,000 unemployed persons (2010)



Source: Edited by the author on the basis of the data of the Court of Registry

Figure 7. Regional distribution of social co-operatives per 1,000 unemployed persons in a breakdown by county (2014)

The largest number of social co-operatives were formed in the counties where public work employment was the most prevalent. The only exception to that is Békés and Csongrád Counties. The density of registered (not necessarily operational) social co-operatives is lower in the former and higher in the latter than could be expected.

As regards the permeability of the sectors, we wish to point out three further threats. It follows from their mission that social enterprises intend to provide benefits for their respective communities and society, too, expects them to make sacrifices. If characterised by excessive charity and self-sacrifice, initiatives transforming themselves into social enterprises may easily burn out or perish – as did Prometheus. If it is the business profile

that gains prevalence, social enterprises may – like the workings of a Trojan horse – ruin the businesses operational in the region concerned in addition to making social goals disappear into thin air. Alternatively, if they cannot detach themselves from local councils, they become an uncontrollable Frankenstein figure threatening the original community objectives (McMurtry 2013).

It follows that a “hybrid” solution merging the characteristics of the two sectors with a pronounced dominance of local councils carries serious inherent threats.

1. If exceptions start functioning as main rules, i.e. in our case local councils becoming members is not a rare exception but a mandatory element, then this maintains dependence on and subordination to local councils and elected political bodies over the long term and at a national level. This can easily lead to operationally hindering double management, or the fossilisation of social enterprises as institutions of local councils, and the hope of material benefits expected from local governments can prevent the evolvement of other forms of social enterprises.
2. “Cosy links” with local councils restrain the utilisation of market opportunities and, thus, make financial sustainability difficult.
3. The “re-regulation” of the markets under the control of local councils and the favouring of their “own enterprises” on these markets distort the market and competition alike.
4. One-sided closed membership, an “employee” attitude and autocratic management hinder the emergence of truly social enterprises and prevent the idea of alliances from becoming fully fledged.
5. Dependence on central and local politics distorts social goals and may abuse employment to establish political clientelism.

The infringement of the principles of co-operativism may set back the idea of alliances for further long periods. Under such a scenario we would lose an economic tool that is also suitable for mitigating regional disadvantages, and we would see the emergence of further social and regional differences.

## SUMMARY

One of the toughest challenges of the 21st century is the reduction of joblessness and the resultant social exclusion and, with this, ever more extreme regional differences. In order to respond effectively, both the notion of work has to be re-evaluated and a new employment model has to be set up. As available paid work is no longer sufficient for a workforce whose number increases in parallel with an increasingly long life expectancy, in addition to encouraging the faster spread of atypical forms of paid employment, alternative activities (voluntary work, work around the house and work done in the interests of a community) should again be included in the category of work. The postmodern

employment model comprises building blocks that are hierarchically structured. It relies on the business, public and social sectors of the economy, i.e. a diversity of actors. It is territorially differentiated and, as a result, has strong local links.

Under this employment model, public work employment, which has quickly gained ground recently in Hungary in terms of both the number and the rate of those employed under this scheme, is only temporary and has its limitations. Although local councils can assert local needs and characteristics, have certain means of production (land, buildings, machines) at their disposal and exercise control over local markets (mass catering, energy supply, maintenance of public spaces, operation of (public) buildings, health protection, recreational facilities and community transport), they should not play a direct role in large-scale employment in these areas. Firstly, because, fundamentally, an elected body only has short-term goals. Financing is heavily dependent on equally volatile central programmes. Political or private interests may override social goals, as a result of which business neutrality disappears, i.e. both objectives and interests may drift away from the community's. Secondly, because local councils lack the skills, competence, management capacity and the working capital (and often the permits) needed for commercial activities and the management of production.

In Europe, social co-operatives possess well-established traditions and play an increasingly diverse role in employment. Nevertheless, they are not the only form of social enterprise. In Hungary, however, the concept of social enterprises is confined nearly exclusively to that of social co-operatives. Thanks to the programmes of the past five to six years, their registered number has jumped; the number of operational social co-operatives is much fewer, though. The number of those operating in line with the co-operative principle is even fewer.

The objectives and activities of the START pilot programmes launched under the current public work employment scheme are similar to potential co-operative objectives and activities. However, their current ability to earn income from commercial activities is weak (and this ability does not become stronger simply because state subsidies decrease). They lack independence, democratic management, an "owner's" attitude on the part of the members and the skills and competence on the part of the employees that are needed for employment in a mixed economy. We find subordination serving as a basis for paternalism, the lack of an entrepreneurial attitude and the current relationship with local councils to be an Achilles' heel hindering transition. The two problems meet when co-operatives enter the markets controlled by local councils. In our opinion, under the current circumstances, START pilot programmes can be resumed if they are in keeping with social goals, are in conformity with the intention of separation from the public sector and take the form of non-profit business enterprises capable of sustainable operation under business conditions. Insisting on the co-operative form or, in a worst case scenario, turning it inside out may carry significant risks and set back the development of this fragile form in the social economy, for which there has no alternative in the peripheries for decades in Hungary. In order for them to be introduced in a manner that ensures their viability, it is essential for them to help communities to grow stronger, to increase their social capital and to develop socially responsible entrepreneurial thinking.

The emergence and strengthening of social enterprises may bring about changes in disadvantaged regions with few businesses. Likewise, a shift towards the postmodern employment model based on a mixed economy is also marked in these regions. The resolution of the dilemmas of public work employment described in this study is the first step in this shift.

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