

ETCO PROJECT



**Social Entrepreneurship
and Its Implications for Hungary**

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Introduction

The concept of social entrepreneurship is relatively new in the European Union. It is very complex and it is interpreted differently in various sources.

Its importance is indicated by the fact that more than 11 million people amounting to 4.5 per cent of the economically active population in the EU are involved in social businesses. Their performance accounts for 10 per cent of the combined GDP in the EU (according to the report of the European Commission, 2014). These figures shed light to the importance of the underlying issue of social problems.

In the European Union social problems related to such issues as unemployment, social exclusion and housing, family benefits, increasing income inequality, pensions, health care and others have been exposed.

Introduction

Social entrepreneurship is one of the brightest phenomena representing a new vector of socioeconomic development and promises to solve or at least lease these problems; therefore, it can be involved in some of the state's functions.

Therefore, defining the term social entrepreneurship is particularly important.

Defining entrepreneurs and their types

What is entrepreneurship, because the term entrepreneurship is not a clear concept either?

Below presents some approaches to the definition of entrepreneurship in economic theory in different time periods.

Defining entrepreneurs and their types

Entrepreneurship is a kind of activity which combines the following: 1) initiative in connecting the factors of production 2) taking major decisions in the production process 3) innovation 4) riskiness.

McConnell, Brue, "Economics" (McConnell and Campbell R., 1963)

Entrepreneur is an innovator who combines the factors of production in novel way, this person is: initiative, authoritative, foreseeing, risk-taker.

Joseph Schumpeter, "The Theory of Economic Development" (Schumpeter, 1934)

Defining entrepreneurs and their types

Entrepreneur is a person who fights for some cause (for his own expense, risk and in his favor) to make some product.

Jean-Baptiste Say, A Treatise on Political Economy (Jean-Baptiste Say, 1803)

Entrepreneurship is the pursuit of opportunity beyond resources controlled.

Professor Howard Stevenson (Eisenmann, 2013)

Defining entrepreneurs and their types

Entrepreneurship is the phenomena associated with entrepreneurial activity. Entrepreneurial activity is the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.

OECD–Eurostat entrepreneurship definitions (Ahmad and Seymour, 2008)

Defining entrepreneurs and their types

As you can see the most important traits are as follows: being innovative, proactive, opportunity aware, value creator, showing initiative, self-motivated, hazardous. Thus, entrepreneurship is an independent, innovative, proactive, hazardous, systematic activity to achieve economic and social goals and receive profits.

The next integral part of understanding the term of entrepreneurship is to explore its classification. Peter J. Boettke defines two types of entrepreneurship: **arbitrage** (discovering the price gaps that exists and acting on that margin to close the gap: buy low – sell high) and **innovative** (discovering new trading opportunities, discovering lower cost or new technologies).

Defining entrepreneurships and their types

Steve Blank included in his classification not only the aim of the enterprise's activity, but also its size.

Therefore, he mentioned four types of entrepreneurships: 1) small businesses, 2) scalable start-ups, 3) large companies and 4) social entrepreneurs.

- 1) Small business entrepreneurship "...is anyone who runs his/her own business... most are barely profitable";
- 1) scalable start-ups attract investment from equally crazy financial investors – venture capitalists;

Defining entrepreneurs and their types

- 3) large company entrepreneurs have finite life cycles. Most grow through sustaining innovation, offering new products that are variants around their core products.
- 3) Finally, social entrepreneurship includes innovators who focus on creating products and services that solve social needs and problems. But unlike scalable start-ups, their goal is to make the world a better place, not to take market share or to create wealth for the founders. Therefore, while the other types of entrepreneurship aim to venture growth maximization and economic prosperity, social entrepreneurship has primarily social objectives.

Defining entrepreneurs and their types

Some definitions:

Social entrepreneurs are the agents of society changing, creators of innovation, challenging the “status quo” and changing the world for the better.

Social entrepreneurs are individuals with innovative solutions to society’s most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change.

Defining entrepreneurs and their types

In the definition of the European Commission, the social enterprise “...uses its profits to achieve its primary objective instead of distributing profits and has in place predefined procedures and rules for any circumstances in which profits are distributed to shareholders and owners”.

Thus, another feature of the social enterprise is that it uses its profit for the company's own social goals. In addition, the social entrepreneur “delivers a social value to the less privileged, all through an entrepreneurially oriented entity that is financially independent, self-sufficient, or sustainable”.

Defining entrepreneurs and their types

Moreover, the concept of social entrepreneurship is similar to that of **corporate social responsibility** (CSR) that is very popular nowadays. The European Commission (2015) defines CSR as “the responsibility of enterprises for their impact on society”.

Therefore, CSR as well as social business involves the active role of the enterprise in solving important social problems, but at the same time “CSR programs are the philanthropic programs of companies. CSR is part of a corporation, which is a profit-maximizing company. A social business is a company by itself, which is dedicated to social impact-maximization.

A common way of practicing CSR is by donating money for social causes”.

Social enterprise' boundaries

Very often social entrepreneurship is associated with other similar social activities such as philanthropy, voluntary activity, charity and other socially oriented practice, but its social activist “might only become a social entrepreneur if he or she further develops his or her activism into a sustainable solution that will allow them to address the issues at hand in a scalable and impactful manner”.

In addition, not to be confused with similar types of activities: philanthropists, activists, companies with foundations, or socially responsible organizations – these are not social entrepreneurships.

The researchers also believe that distinguish social entrepreneurship must be distinguished from social service provision and social activism, because they differ significantly, first of all, by nature of action and outcome.

Social enterprise' boundaries

Of course, they have many similar characteristics, but “instead of taking direct action, as the social entrepreneur would, the social activist attempts to create change through indirect action, by influencing others – governments, NGOs, consumers, workers, etc. – to take action”.

Others try to distinguish social entrepreneurship from social service provision – when “a courageous and committed individual identifies an unfortunate stable equilibrium... and sets up a program to address it”. The main difference between these two types is the outcome: the social service provision is not likely to lead to a new superior equilibrium.

Social enterprise' boundaries

The perception of and the approach to social enterprises differ slightly in the US and in Europe primarily because of the historical reasons.

The American approach is divided into two schools: the first one is called “**social innovation**”, the second one is labelled as “**earned income**”, and refers to the venture with bright commercial activities in support of its goals.

According to the European concept, the pioneering model of the social enterprise is “**social cooperative**” that appeared in Italy, and later spread to the other European countries.

Social enterprise' boundaries

In the USA the concept of social entrepreneurship is

- 1) somewhat broader;
- 2) more focused on the term “entrepreneurship” and its commercial activities;
- 3) is the part of the market economy;
- 4) includes a variety of legal forms of social enterprises etc.

According to the European approach, social entrepreneurship is essential element of the social economy; it is more focused on achieving the social objectives of the society. It depends to a large extent on the individual countries (with their social security systems), thus the list of the comprehensive activities of these enterprises (mainly services) is clearly defined. In addition, the democratic management of social enterprises, too, is in the focus.

Social enterprise' boundaries

Furthermore, American social entrepreneurships are actively supported and promoted by appropriate private funds, whereas European ones are maintained by the national governments or the institutions of the European Union. In general, the legal framework of social entrepreneurship in both the US and Europe is poor; active debates are under way on its interpretation.

These approaches are studied by scientists, under which the following attributes of social enterprise “of an ideal type” were derived:

Social enterprise' boundaries

1. a continuous activity producing goods and/or selling services;
2. a high degree of autonomy;
3. a significant level of economic risk;
4. a minimum amount of paid work;
5. an explicit aim to benefit the community;
6. an initiative launched by a group of citizens;
7. a decision-making power not based on capital ownership;
8. a participatory nature, which involves various parties affected by the activity;
9. a limited profit distribution.

Social enterprise' boundaries

There are many disagreements on the boundaries of social entrepreneurs' notion among the scientists. For example many scientists simply avoid the issue of boundaries, whereas others consider the social enterprise as a traditional business with social mission (when the return is used "in the interests of customers", but not by company leaders), and others accept only a non-profit nature of social entrepreneurs.

The scientists note that social enterprise permanently evolves and develops and in its development it takes up commercial, non-profit, public and hybrid types.

Social enterprise' boundaries

Social enterprises are somewhere between non-profit and for-profit ones, and both forms can be financed by a public body (wholly or mainly).

The European approach to defining social entrepreneurship is closely linked to the concept of cooperative: businesses “owned and run by and for their members. Whether the members are the customers, employees or residents, they have an equal say in what the business does and a share in the profits”, therefore, by their nature cooperatives presume at least a partial distribution of profits among their members.

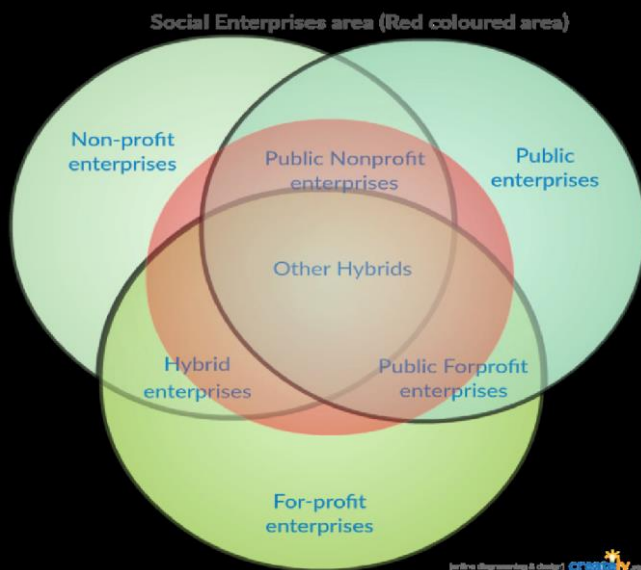
Social enterprise' boundaries

Public enterprise is “a corporation established, or a group of individuals appointed to act together, for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character, and

- (I) financed wholly or mainly by another contracting authority;
- (II) subject to management supervision by another contracting authority; or
- (III) more than half of the board of directors or members of which, or, in the case of a group of individuals, more than half of those individuals, are appointed by another contracting authority”.

In addition, the interpretation of the concept of social enterprise can be represented via Euler and Venn diagrams, and in this case, the social enterprise in the broadest interpretation will be located somewhere in the red zone (the darkest area) according to the following picture.

Social enterprise' boundaries



Social enterprise' boundaries

As we can depict from the diagram above, the spectrum of social enterprises includes different types of businesses and their combinations. They can function as non-profit or for-profit enterprises. Sometimes social enterprise (both for-profit and non-profit) can be public or financed by a public body (“wholly or mainly”) or combine all the above mentioned forms.

The Survey of the Hungarian Literature

Hungary, there is no legal definition of social entrepreneurship and its non-profit or for-profit form. It is absent among business organizations and in legal documents, but the most powerful international NGO in Hungary in the field of promotion and start-ups of social enterprises NESsT* defines social entrepreneurship as “a business that is created to address or solve a critical social problem in a financially sustainable (and potentially profitable) way”.

Furthermore, the international research project SEFORIS aiming “to better understand the role of social enterprises” in European Union and particularly Hungary explains social entrepreneurships as a “force for more inclusive and innovative societies”.

- **Nonprofit Enterprise and Self-Sustainability Team** – *one of the most experienced organisations in the field of social entrepreneurship development in the CEE region*

The Survey of the Hungarian Literature

The representative of the main research institution of social entrepreneurship in Hungary Petheő Attila of Budapest Corvinus University mentioned that social enterprise is, “on the one hand the highly developed organisational form in which the enterprise is walking the thin line between profit maximisation and the often irritable realisation of lessening societal stress, on the other hand it is the tool which may bridge the gap between the lack of emotion in the economy and the wish for the welfare of the public.” According to the research of Petheő Attila, the social enterprise in Hungary is a not-for-profit organization that narrows the spectrum of social enterprises.

The Survey of the Hungarian Literature

He used the definition of the CONSCISE Project throughout his thesis: social enterprises are

- 1) not-for-profit organizations;
- 2) seek to meet social aims by engaging in economic and trading activities;
- 3) have legal structures, which ensure that all assets and accumulated wealth are not in the ownership of individuals but are held in trust and for the benefit of those persons who are or areas that are the intended beneficiaries of the enterprise's social aims;
- 4) have organizational structures in which full participation of members is encouraged on a co-operative basis with equal rights accorded to all members;
- 5) often have another interesting, but contended, characteristic; to encourage mutual cooperation with other organizations in the "sector".

The Survey of the Hungarian Literature

In addition, there are some recent works concerning social economy in Hungary. For instance, Éva G. Fekete, defines six spheres of social business in Hungary:

- a) social land programmes;
- b) social agricultural co-operatives;
- c) non-profit employment projects;
- d) production and sale of local goods, products;
- e) special local circles offering cashless services;
- f) micro-credit circles.

The Survey of the Hungarian Literature

The term “social enterprise” is in Hungary “very often directly connected to the provision of traditionally defined social services”. However, there is still insufficient research on the concept and boundaries of the social entrepreneurs phenomena in Hungary because of the lack tools and resources.

Furthermore, there is a need in legal strengthening of social entrepreneurship in Hungary, but it is quite a challenge, because these businesses can be atypical, hybrid, combining private and public functions. In addition, since this concept is quite new to the community, businesses and the public (social policy makers) are not well informed in this area, so they cannot take an active part in a legislative activity. In this context we set up two hypotheses.

The Survey of the Hungarian Literature

Hypothesis 1: The non-profit sector is a core determinant of social entrepreneurship in Hungary.

Hypothesis 2: Social entrepreneurship in Hungary reflects only a small spectrum of the general social entrepreneurs phenomena.

The boundaries of social entrepreneurship in Hungary

First of all we should note that there is a problem to define this concept, because of the absence of a common point of view about the criteria of social entrepreneurship.

However, Hungarian social enterprises have some bright and specific features, such as innovative activity (comparatively higher than in traditional Hungarian enterprises) and the social direction (to address major social problems), such as poverty and social exclusion, the exclusion of disadvantaged groups from the labour market, aging population, labour market (youth unemployment and too early exit of +55 year olds), discrimination against Roma, homelessness.

The boundaries of social entrepreneurship in Hungary

For instance, according to the survey, Hungarian social ventures include the following eight social sectors:

- 1) social services;
- 2) “other” education;
- 3) environment;
- 4) employment and training;
- 5) recreation and social clubs;
- 6) business and professional associations/unions;
- 7) nursing homes;
- 8) and other health services.

The rest is predominantly active in economic, social, and community development; research; and, hospitals and rehabilitation.

The boundaries of social entrepreneurship in Hungary

It makes sense to determine the types of social enterprises (depending on financial return) in Hungary and try to place this information on previously defined spectrum of social enterprises.

The social enterprises in Hungary can choose their legal form of functioning such as non-profit (association, non-profit business association etc.) or for-profit (social cooperative) form, but in the first case they cannot carry out business activities fully, while getting some discounts or exemptions from taxes or customs, and business activities are regulated by various legal norms that are unclear sometimes. Therefore, most social enterprises in Hungary are non-profit ones, although the most visible and bright companies in the field of social entrepreneurship are social cooperatives that mostly offer employment opportunities.

Spectrum of social enterprises in Hungary

Non-Profit Sector

1) Foundation

“Foundations are organisations with endowments established to pursue durable public purposes... Unlike associations, foundations do not have members”. A foundation is a legal

person established by a founder or founders for the continuous realization of a long-term purpose, as determined in the founding statute (Act V/2013 Section 3:378). The founder must provide sufficient assets to achieve the foundation’s purposes (Council on Foundations, 2015).

Financial return cannot be distributed; it is used for social goals.

Spectrum of social enterprises in Hungary

2) Association

It is a legal entity established for the continuous realization of the common, permanent aim of the members as stated in the articles of association, and having a registered membership [Act V/2013 Section 3:63(1)]. At least ten natural persons, legal persons, and/or organizations without legal personality are required to form an association (Act V/2013 Section 3:64). An association cannot be formed for the purpose of economic activity, though it may conduct economic activity that is directly related to the realization of the organization's purpose [Act V/2013 Section 3:63(2)-(3)] (Council on Foundations, 2015).

Financial return cannot be distributed, it is used for social goals, not for members.

Spectrum of social enterprises in Hungary

3) Other non-profits

- a) Public Law Association,
- b) Public foundation,
- c) Trade union,
- d) Professional employer organization,
- e) Non-profit enterprise,
- f) Professional associations.

Spectrum of social enterprises in Hungary

For-Profit Sector

1) Cooperatives

It is an organization with legal entity which is established with the members' shareholdings predetermined by the founding document and operating according to the principles of

open membership and variable capital; the objective of the organization is to promote meeting the economic and other societal (cultural, educational, social and health care) needs of the members" (Directive 2003/72/EC). Cooperatives include (HCSO, 2015): Social cooperative, School cooperative, Agricultural cooperative, Savings and loan association, Savings and credit cooperative, Employment cooperative, Other cooperative.

Social cooperatives offer their underprivileged members employment and other solutions improving their social conditions. Employment can also include work-serving public interest.

Spectrum of social enterprises in Hungary

Unemployed persons and students can be members, as long as they personally contribute to the cooperative's activities and comply with conditions contained in various employment related laws (unemployed persons and students) in finding job decisions and employment.

Financial return cannot be distributed; it is used for its own activity.

Spectrum of social enterprises in Hungary

Therefore, the boundaries of social enterprises spectrum in Hungary depend mostly on the

type of profit's distribution and the social goals of the particular enterprise. If we look at social entrepreneurship in Hungary only through its legal form, then the spectrum of social

enterprises appears quite narrow and precise: it includes various non-profit organizations

on one hand (with clearly visible social mission), and for profit (social) cooperatives from the other one.

However, the definition of social enterprise in Hungary is much more complicated than that,

due to its history of development (including cooperatives), the participation of the state, changes in legislation, peculiarities of the functioning of the non-profit organizations etc.

In

addition, social enterprises in Hungary are closely related to the social economy, thus they

should be considered in conjunction with other "actors" such as the government, the

Spectrum of social enterprises in Hungary

For instance, social economy in Hungary consists of two types of organisations:

- 1) non-profit ones providing social and other services and employment to anybody;
- 2) non-profit ones such as cooperatives and enterprises providing employment to socially or otherwise disadvantaged groups and organising related activities.

In addition, there are two main features of the social economy in Hungary:

- 1) a strong role of municipal governments or authorities in organising social employment;
- 2) the tradition of 'social cooperatives' in agriculture.

Therefore, social enterprises in Hungary are closely related to the social economy: they are

its important subjects, but most of them are state-owned (established by the local government or the state, or they are significantly supported by the state to exist).

Spectrum of social enterprises in Hungary

Besides municipal governments are very important subjects of social entrepreneurships in Hungary, as in the remote and less developed regions they sometimes constitute the only effective solution of social problems (social enterprises are most needed in those regions).

In practice, many social enterprises need additional financing, grants, foundations, government grants and so on. In general, these enterprises are “between the state and the market, in order to fulfil their social mission, they perform business activity, and they are self-financing”.

Comparison of the Social Entrepreneurship in Hungarian and International Literature

Below some characteristics of social entrepreneurship in Hungarian and international literature are compared. Therefore, in Hungary the notion of social entrepreneurship is newer and narrower than that inherent in the international literature; and it is associated with providing social services and the non-profit sector of the economy, whereas in the international literature it includes various sectors and forms of activity.

Comparison of the Social Entrepreneurship in Hungarian and International Literature

Definition

In Hungarian literature

Social enterprise is the “highly developed organisational form in which the enterprise is walking the thin line between profit maximisation and the often irritable realisation of lessening societal stress, on the other hand it is the tool, which may bridge the gap between the lack of emotion in the economy and the wish for the welfare of the public”.

In the International literature

“Social entrepreneurs are individuals with innovative solutions to society’s most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change”.

Comparison of the Social Entrepreneurship in Hungarian and International Literature

Legal form

Non-profit sector includes foundations and associations, other non-profits, for-profit sector: social cooperatives. Most Hungarian social enterprises are non-profit organizations.

Social enterprises can exist in different legal forms, but except non-sustainable philanthropy, voluntary activity, charity and other socially oriented practice.

Comparison of the Social Entrepreneurship in Hungarian and International Literature

Size

Half of the social enterprises in Hungary are small (1-10 employees) and only 12% has revenues above €1 million.

It includes small, medium and large enterprises.

Comparison of the Social Entrepreneurship in Hungarian and International Literature

Sector of activity

Core spheres of its activity are: poverty and social exclusion, the exclusion of disadvantaged groups from the labour market, aging population, labour market (youth unemployment and too early exit of +55 year olds), discrimination against Romas, homelessness.

Core spheres of its activity are: “education, health, welfare reform, human rights, workers’ rights, environment, economic development, agriculture, etc.”.

Comparison of the Social Entrepreneurship in Hungarian and International Literature

Sources of funding

Main sources are:

- 1) Fees for services or sales of products;
- 2) Investors' capital (equity);
- 3) Loans;
- 4) Grants;
- 5) Private donations;
- 6) Microfinance; or
- 7) Others.

It includes: sale, economic activities, social investors, grants, loans, donations, awards, government agencies, friends, micro-financing and others.

Comparison of the Social Entrepreneurship in Hungarian and International Literature

Type of profit's distribution

Financial return cannot be distributed; it is used for social goals or to support its own activity.

Mostly financial return cannot be distributed; it is used for social goals or to support its own activity. Sometimes this enterprise can be financially driven.

Conclusion

Social entrepreneurship is a new and promising notion: it is called for solving the major social problems of the society; therefore, many scientists investigate this sphere: its development, nature, concept, boundaries, classification, and characteristics. It is obvious

that social entrepreneurship is inseparably related with entrepreneurship and its principles, psychological characteristics with the entrepreneur. Moreover, social entrepreneurship can be defined as a form of entrepreneurship: while the other types of entrepreneurship aim to venture growth maximization and economic prosperity, social entrepreneurship has primarily social objectives.

But, there is no single approach to the definition of social enterprise/entrepreneurship among academics and in society, on the contrary – there are even contradictory notions. The common features of most definitions are the philanthropic social (or environmental) orientation, financial stability and innovation component.

Conclusion

The American approach is more focused on the term “entrepreneurship” as commercial activities and examines the social enterprise as a part of a market economy. According to the European approach, social entrepreneurship is essential element of the social economy; it is more focused on achieving the social objectives of the society. In general, the legal framework of social entrepreneurship in both the US and Europe is poor; active debates are under way on its interpretation.

The corporate social responsibility (CSR) is a very important subject nowadays, as almost every big corporation tries to declare that it is socially responsible. The concept of social entrepreneurship is similar to that of corporate social responsibility (CSR) that is very popular, but nevertheless the profit is the main goal of a business organization’s activity.

Conclusion

At the same time according to some international organizations, social entrepreneurship should not be strayed with other similar social activities such as philanthropy, voluntary activity, charity and other socially oriented practice, because its social activism should develop sustainable solution on a long-term basis.

Another problem is that according to some scientists, the social enterprise reflects only non-profit social initiative, and others treat it as an ordinary for-profit business that additionally performs social mission. This causes difficulty in further research and evaluation of social entrepreneurships. However, in order to determine the boundaries between for-profit and non-profit social enterprises it is also possible to use an alternative approach that is based on the characteristics of social enterprises regardless of their financial independence, philanthropist level and focus on financial return.

Conclusion

Therefore, the spectrum of social enterprises includes different types of businesses and their combinations. They can function as non-profit or for-profit enterprises. Sometimes social enterprise (both for-profit and non-profit) can be public or financed by a public body (“wholly or mainly”) or combine all the above mentioned forms.

In Hungary there is no legal definition of this concept, but the notion of corporate social responsibility is quite well-known: “a business that is created to address or solve a critical social problem in a financially sustainable (and potentially profitable) way”. The social enterprise is a not-for-profit organization that narrows the spectrum of social enterprises.

Conclusion

However, the definition of social enterprise in Hungary is very complicated, due to its history of development, the participation of the state, changes in legislation, peculiarities of the functioning of the non-profit organizations etc. In addition, social enterprises in Hungary are closely related to the social economy, thus they should be considered in conjunction with other “actors” such as the government, the promoting and supporting organisations, the target groups etc.

Most social enterprises in Hungary are non-profit and state-owned ones. The non-profit sector includes foundations and associations, other non-profits, while the for-profit sector mostly consists of social cooperatives: the most visible and bright companies in the field of social entrepreneurship.

Conclusion

It is also important to mention that social entrepreneurship in Hungary is in the early stage of its development and is designed to solve the most pressing social issues of society, mainly related to the low level of employment.

SOURCE

Tetiana Buchko: **Social Entrepreneurship and Its Implications for Hungary**
(<https://pp.bme.hu/so/article/view/9376>)

VIDEOS

The Rise of Social Enterprises and the Social Entrepreneurs (9:18)

<https://www.youtube.com/watch?v=Re0h-vHyyiw>

**Social Entrepreneurship (Why to use?) /
Social Entrepreneurship Business Model (8:16)**

<https://www.youtube.com/watch?v=mHiyJaDVAWc>

The Social Entrepreneur (2:23)

<https://www.youtube.com/watch?v=urBvSI0WZX4>

Social enterprise: a new business model for Europe (3:15)

<https://www.youtube.com/watch?v=ueiQntEY36A>

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**Thank you very much
for your attention!**