

Leonardo da Vinci Transfer of Innovation - 2010-1-FR1-LE005-14505
Ecole Supérieure de Commerce et de Management de Tours-Poitiers (ESEM)
*ARIADNE, the managerial guidance in Social Economy based on intrinsic skills,
competences and values: commitment, behaviour and motivation*

ARIADNE Project
Country Specificities Chart - HUNGARY
Budapest Business School – WP 4

1. Specific characteristics

Definition of social economy in Hungary

- *Organization types (cooperatives, mutuals, associations, etc.)*
- *Attention to the needs of the community and members (prioritizing of this versus economic results/profit; multi-stakeholder dimension)*
- *Democratic decision-making process (level of involvement; multi-stakeholders)*
- *Sectors of operation today (quantitative and qualitative data)*

The **Hungarian concept of social economy**: in this regard the most important point is that we use the non-profit sector approach in determining the content and borders of the term. The main organizational forms are associations, foundations, and social enterprises. The sectoral activities cover education, health and social services and culture, sport activities. The history of non-profit sector goes back to the beginning of last century and the statistical data are also available for a long period of time. Although the share of non-profit sector in Hungary - measured in GDP or employment - is not high compared to some other countries, but the importance of the sector is increasing both in economic and social point of view.

Social economy in Hungary – activities:

- Flexible (or fuzzy) definition: a mix of activities in non-profit sector, in civil organisation and in other sectors
- Limited role in areas as social inclusion, employment, social services and health care
- Encouraged civil society development through associations, voluntary organisations, foundations

Social economy in Hungary - organizations:

- Between state and market
- National legal framework for the operations
- Include: associations, foundations, charities, community cooperatives
- Mainly at the local level of government

A general statement concerning the Hungarian non-profit sector is that while its roots go deep down, and it has long historic traditions, it is still a very young formation with very few organisations around for more than 22 years. It is mostly the product of the transition from socialism to parliamentary democracy with numerous unsettled, transitory elements. It is still in

the process of formation, progress, and development. A mere 10% of its organisations were founded in or before 1989.

Organisations are generally characterised by the limited availability of financial and human resources. The number of those having stable background and operating in a professional way is quite low. As a result, many organisations are rather dependent on momentarily available public funding applications, and essentially adjust their activities to these. Another significant part of organisations only rely on their volunteers, and do not wish to institutionalise to any extent larger than the statutory minimum. Only 15% of organisations have employees, and 44% have an annual income lower than half a million HUF (about 2000 EUR), and only 4% of organisations have an income higher than 50 million HUF (approximately 200,000 EUR).

Types of non-profit organizations in Hungary¹:

Voluntary associations are autonomous membership organisations formed voluntarily for a purpose agreed upon by their members and stated in their founding articles. Associations must have registered members who organise to actively pursue the associations' aims. Although membership organisations are not necessarily called voluntary associations and special laws and government decrees may specify rules for some of them, the basic legal regulation of voluntary associations applies to all such organisations, including societies, clubs, self-help groups, federations, trade unions, mass organisations, social organisations, etc.

Public law associations are self-governing membership organisations which can only be created by the Parliament through passing a specific law on their establishment. The Academy of Sciences, the chambers of commerce and the chambers of some professions (e.g. doctors, lawyers, architects, etc.) have been transformed into public law associations since the creation of this legal form.

Foundations are organisations with endowments established to pursue durable public purposes. Their founders can be either private persons or organisations with legal personalities. Unlike associations, foundations do not have members. They are managed by a board. Their founders are not allowed to have a significant influence on the decisions of this board.

Public law foundations are foundations established to take over some government tasks (e.g. education, health care, public safety, etc.) which are defined in law as government responsibilities. Their founders can only be the Parliament, the Government and the municipalities.

Public benefit companies and their successors, the *non-profit enterprises* are private firms which generally produce public goods, thus they can get the public benefit status. Their occasional profit cannot be distributed among their owners, managers or employees; it must be used to pursue their public purposes. Apart from the non-distribution constraint, it is the basic economic regulation of the ordinary private firms which applies to them.

In some sense, the newly emerging *social cooperative* is already an intermediate legal form, halfway between the non-profit and the for-profit sector. The importance of their membership, their public purposes and their eligibility for the public benefit or even eminently public benefit status link social cooperatives to the voluntary sector, while the evaporating non-distribution constraint is a point of similarity with the private for-profit corporations.

With organisations having a membership, the top decision making body is the general meeting (the totality of all members) where each member has one vote (with social associations that is independent from the extent of the financial contribution made). Each member can elect others and is at the same time him/herself eligible for leading positions. All elected officials must report to the general meeting. Only the general meeting can amend the articles of association through a ratio of vote determined by them.

¹ Source: Éva Kuti (2008) Civil Europe – Civil Hungary. European House, Budapest

Historical evolution/pioneers:

- *Who/how many were they*
- *In what sectors*
- *Cultural/political context that favoured or obstructed the birth and evolution*
- *Was it a bottom up or top down process*

Civil organisations newly forming mostly from the 1980s onward could rely on widespread traditions of societies and foundations of the remote past and specially the period between the two World Wars. The mushrooming of organisations in the wake of economic and social transition of 1989-90 was fed by several sources. From the late 1980s onward it became possible again to establish foundations, and societies were also allowed coupled with a very liberal taxation system. All these, along with the democratic system coming with the political transition greatly contributed to the fast numerical growth of organisations resulting in over 60 thousand non-profit organisations created by today. It is important to emphasise against this background that the Hungarian non-profit sector has not, essentially, grown during the past decades as a by-product of the crisis of the welfare state as was the case in numerous developed democracies including the most developed states of Europe. The need for non-profit services in the beginning of the new system grew for two reasons. On the one hand, the economic crisis in the early 1990s significantly curbed the state's financial potential, thus the state tried to off-load its excessive duties, and services, leaving empty space to alternative providers in areas such as education, health, social services, and culture. That brought to light new social problems that generated the need for a new type of service. Unemployment ratcheted up, impoverishment, homelessness, and a list of other social issues that had not existed or remained concealed under the socialist system. The new structure brought with it the growth of social differences and the reshuffling of territorial relations. The rising ratio of aging groups in society exerts an increasing pressure on social institutions. These combined left behind unmet needs.

In line with the above, more and more non-profit organisations began to *provide social services*. At the same time, contributing to the numerical growth of services was a group of public institutions fighting for survival, struggling with shortage of funding, now reorganised into a non-profit format. A further source of numerical growth was that both public and church institutions very often established foundations to fund their own operations, which, in turn, rendered the working and financial management of the institutions more flexible. The public and municipal services thus outsourced were reorganised most often into formations close to the state (public foundations, public benefit companies). What they needed was not so much the grass-root concept, and the benefits of social embedding, rather, the point was to distance them from the rigorous restrictions applicable to these institutions. The strengthening of the service provider non-profit sector has always been, and still is hindered by the fact that the state's vision of social services remained unclear; service provision systems remained untransformed thus non-profit organisations could not adapt to it with stable structures.

Do national laws or other regulations exist that regulate:

- *Activity/sector*
- *Legal structure*
- *Taxes/fiscal elements and supportive policies*
- *Relationship with public authority for delivery of services (outsourcing, vouchers, etc)*
- *Other*

In the course of breaking down the socialist system the fundamental regulation of the non-profit sector also had to be created. The possibility of establishing foundations became part of the Civil Code (1987), while the freedom of association is laid down in a dedicated piece of legislation (1989).

The endeavour by legislators of satisfying some of the public services through the involvement of the non-profit sector was clearly felt from the very beginning. That is why forms of organisation close to the state were created such as the *public law foundation*, the *public law association* and the *public benefit companies* (1993). A change in the situation came in 2006, when a law disallowed the *public benefit company* as a legal form, and thus obligated such organisations to transform. The law required them to convert into one of the newly appearing forms of non-profit economic enterprises (non-profit limited partnership, non-profit limited liability company etc.). Apart from these they could also choose either conversion into a for-profit economic partnership or termination. That same law created also *social cooperative* as a new, formerly not existing forms.

One of the most important laws concerning non-profit organisations was passed in 1997. It was the so-called *Non-profit Act* regulating the public benefit status of organisations. The law requires non-profit organisations to perform any of a set of activities of public benefit which the state subsidises to an extent larger than others, while at the same time it also sets higher administrative standards to organisations embracing these activities. The classification *public benefit* and *eminently public benefit* must be specifically applied for and the courts decide on granting classification at its own discretion. It may be of interest for the social economy that the classification *eminently public benefit* is available only to organisations that assume statutory functions from the state or municipalities.

The issue of volunteering has been regulated by law since 2005.

Two special elements in the Hungarian regulation of the non-profit sector is the 1% law (1996) and the law on the National Civil Fund (2003). The former enables citizens to designate 1% of their personal income tax to a non-profit organisation, and offer another 1% to a church of their choice. The latter law established a public fund in order to support *classical civil organisations* (private foundations, associations) into which the government transfers annually as much money as 1% of personal income tax was designated to the non-profit organizations.

A new, comprehensive framework law is currently being drafted concerning the freedom of association, and the operation, and support to civil organisations, which may bring considerable changes to the currently applicable legislation. The content of the bill is disputable, but it still remains a fact that Hungarian regulations concerning non-profits have been changed frequently on a rather *ad hoc* basis.

The following are the most important laws concerning the Hungarian non-profit sector:

- Decree of legislative force no. 11 of 1987 on the Amendment of some civil law rules
- Act II of 1989 on the Freedom of association
- Act XCII of 1993 on the Amendment of some provisions of the Civil Code
- Act CXXVI of 1996 on the Use of a specific part of the personal income tax in accordance with the taxpayers' intention
- Act CLVI of 1997 on Public benefit status of non-profit organisations
- Act L of 2003 on the National Civil Fund
- Act LXXXVIII of 2005 on Volunteering
- Act IV of 2006 on Economic enterprises

An initially very favourable tax system was followed by the gradual melt-down of such favourable elements. Financial restraints introduced to handle the economic crisis of 2008 have, by today, brought an end to all tax benefits.

Similarly characteristic was the transformation of the subsidy system of applications, and project financing. The National Civil Fund was meant to compensate its disadvantages, footing part of the organisations' operating expenses incurred between two projects.

There is no dedicated legislation to regulate non-profit organisations' cooperation with authorities and municipalities, i.e. that area is not distinguished from the legislation applicable to for-profit organisations.

Self-regulation is seen with some organisations or groups of organisations as a form of behavioural standards and codes of ethics, but it is not a widespread phenomenon, and does certainly not characterise the entire Hungarian non-profit sector.

2. Positioning/role in socio-economic system

Relationship with public authority:

- *Substitution*
- *Collaboration*
- *Advocacy/lobby*
- *No relationship/antagonism*

In the Hungarian decision making system the national and the community levels (LAU-2) are strong, while interim levels are weak, meaning that this is where non-profits had better organise and assert their interests.

There have been several failed attempts at creating a uniform national civil or non-profit representative organisation. It is typical that groups of umbrella organisations of various power and clout try to represent their interest independently whereby they are easy to play off against each other. It is a characteristic fact that even when the tax reliefs once granted to the non-profit sector were revoked there was no significant resistance staged by these organisations.

The social area is generally no different, but at least the ministry in charge of social issues and the larger non-profit organisations feature cooperation closer than the average.

The Economic and Social Council was formed as a collective bargaining consultative forum soon after Hungary joined the EU.

Local governments would like to put on a paternalistic role vis-à-vis civil organisations, and hand out grants to win them over. They often do not regard non-profits a partner of identical rank, which they can do because non-profits are mostly at the mercy of central funds, and because non-profits do not operate professionally. That attitude, however, is currently changing, and cooperation based on a contract, and normative funding are becoming more frequent, due partly to the fact that some financially troubled municipalities depend increasingly on alternative ways of providing public services or alternative solutions to meet local needs. The current political climate, however, favours much more powerfully the transferring of tasks to churches than to non-profits.

Joining of forces by civil organisations at a community level began in the 1990s. By today practically in almost all larger cities there are *civil roundtables* meant to support the uniting of non-profits, often to represent their interests against the local government.

Relationship with markets:

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- *Labour market (selection of workers and volunteers)*

The almost two years since the breaking of the economic crisis saw the Hungarian employment count shrink by 140 thd.² Registered job-seekers in July 2011 amounted to 554.2 thd meaning stagnation compared to the same period of the last year (unemployment rate equalling 11.2%).

Employment in the third sector is about 3.5%, which, in accordance with 2009 statistics is little more than 130 thd employees (among them 90 thd full-time job).

Both the rate and the structure of unemployment reflect the diverse nature of the economy and the society experienced since the second half of the 1990s. That means that while the central and north-west part of the country enjoys a more favourable situation, the east and the south suffers not only from higher unemployment, but the composition – schooling, age breakdown – of the unemployed pool is less favourable, and the ratio of long-term and passive unemployment is higher. Approximately 40% of the unemployed are of low educational levels, and have no vocational qualification.

Public works programs target just that group, but neither the activity performed, nor its method result in the integration of participants in the primary labour market.

In spite of seasonal work opportunities (agriculture, tourism), and social policy adjustment, the number of jobseekers fails to drop at a rate that could bring lasting changes to the better in the labour market.

There are a growing number of persons not receiving any social benefit³.

It cannot be realistically expected that the hatching social economy should, on its own, mitigate the effect worked by the economic crisis on the labour market. Especially not since the economic crisis has powerful social implications leading to the gradual deterioration of a sense of confidence, an indispensable ingredient for the creation of the social economy.⁴

Very bad housing conditions, lack of employment and income, and mainly the lack of perspectives would require a comprehensive set of measures to remedy the situation. Aware of all these difficulties, social employment should be built - in line with the role of the social economy – for the benefit of, and together with, these social groups.

Available labour, in terms of number, is abundant. That means that it is possible for employers to choose from either the primary labour market, or organisations now forming or already existing in the social economy.

Part of the job seekers (mostly the more educated) will accept any employment just to have a job and an income (compromising on jobs requiring lower qualifications, uncertainty of wages, and of working hours). Others, however, prefer staying on benefit or public work schemes just because of the uncertain status of social enterprises.

Although organisations operating in the social economy can provide a community background, and an environment solid with the participants, which is difficult for participants to accept due to lack of trust.

Those with low education and bad mental health are overrepresented among job-seekers. There exists a pattern of multi-generation unemployment whereby the complete adult population of some small settlements are unemployed. Although the social economy could be a solution in these areas, both human resources (especially management) and capital are missing.

² Source: Rövidtávú munkaerő-piaci prognózis (Short-term labour market forecast) –2011 MKIK Gazdaság és Vállalkozáskutató Intézet (Economy and Enterprise Research Institute)

(http://www.afsz.hu/engine.aspx?page=full_afsz_rovidtavu_prognozisok_oldal)

³ Source: A munkaerő-piaci helyzet alakulása a Nemzeti Foglalkoztatási Szolgálat legfrissebb adatai alapján (Trends of the labour market situation based on the most recent data of the National Employment Service) - July 2011 (www.afsz.hu)

⁴ Source: Közbizalom felmérések (public confidence surveys) www.kozossegfejlesztes.hu, and TÁRKI

Over the past period mostly civil organisations have taken up the challenge of reintegrating the workforce primarily with EU and other funding sources.

Job-seekers have the following problems: low schooling, skills and qualifications, not in demand in the labour market, transportation problems (rural regions), inability of taking a job offer some distance from their home because they have a child to look after (lack of alternative child care institutions or if the institution exists, it is not affordable for those needing it), career starter do not find a job for lack of previous experience (graduates!), unemployed for too long, integration difficulties for mental and social reasons.

The other part of job-seekers does not take on a job that they do not like (reasons quoted: sickness, having a child, family problems, low salary). Lack of motivation is likewise very frequent ('I'll survive somehow' – 'I have always managed to get by').

Problems of social enterprises when selecting the workforce:

- The workforce is not sufficiently socialised for a workplace operating on joint responsibility
- The arrangement requires dedication from the employee (while remuneration is not proportionate).
- Long-term operation is uncertain, thus its labour demand is also uncertain (cannot offer a long-term vision to the participants)
- It requires an outside source to pay for the labour (due to the low profitability of the activity involved)
- Selection of the workforce is based not only on professional criteria (competence) but also on additional criteria including the existence of subsidy or willingness to accept uncertain or short-term conditions, etc.)

Modern voluntarism has not yet become widespread in Hungary.

- *Financial market (ability to attract resources, fee-for service, donations, contracts, etc)*

Looking at the composition of the total income of membership organisations in the period 2005-2009 in social economy activities (health, social, economic development, training) one sees that income from health activities rose (from 7.5% to 11.9%), same as income from economic development (from 9.7% to 14.4%), and income from social activities is almost the same (around 10%), while income from education reflects a lowering tendency (from 12.6% to 11.8%).⁵

The ratio of organisations' income from subsidy through application is on the rise. While in 2005 it was at 7.2%, by 2009 it increased to 9.1%. That is clearly ascribable to the fact that EU funding became available during this period.⁶

During the preparatory phase of our EU accession the PHARE programs helped several organisations acquire the skill of orchestrating various labour market reintegration programs and managing the respective funds. Management skills gradually grew as a necessity due to administrative challenges of EU applications. However, only larger organisations could access such funds that could ensure proper management practically only in the period supported.

Organisations not having appropriately qualified human resources are inexperienced and shy in accessing funds. In disadvantaged rural areas there are few (if any) non-profit organisations that could embrace funding intensive programs/services/public duties.

It is a frequent problem that non-profit organisations lack mobilizable capital, their balance sheets of the years preceding, the funding applications submitted are weak, they cannot offer guarantees, or cannot win the client's (including municipalities') confidence in lack of

⁵ Source: KSH (http://www.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat_eves/i_qpg004.html)

⁶ Source: KSH (http://www.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat_eves/i_qpk008b.html)

references. For the weakness of their bargaining positions they are forced into accepting hardly reasonable compromises. Freshly launched enterprises face a multitude of these difficulties.

- *Goods and services market (competition or collaboration with for-profit enterprises/filling gap where there's market failure)*

- Competitive market -

It is difficult for social enterprises to enter the competitive market for the above problems of human resources, compounded by shortage of capital, of references, network capital, and uncompetitive products. Even innovative products are hard to sell, and organisations lack the resources to bridge the introductory period. If labour is subsidised, they can underquote market prices, but cannot keep up as soon as the subsidy expires. If labour lacks optimum qualification, even productivity may be suboptimal. Reaching economy of scale without capital requires long and hard work.

Although innovation is present, it results more often from random ideas than from systematic research.

In the event of labour intensive activities labour costs are not covered by the market, and so a donor is required.

Without support even the non-profit sector can have such work performed only at low wages or voluntary work.

Exclusively state funding is not typical at all (even if the activity in question is a state function), and it seems unlikely to become typical even in the future.

At a local level (smaller localities: villages, isolated farms, urban vicinities) people are increasingly dependent on small-scale community solutions. In lack of support it is possible that, by necessity, mutual help will be the way of the social economy.

- *Distributive function (relationship with clients, price discrimination)*

Social enterprises' own business policy (even if for small community enterprises that is not properly planned) determines to whom and at what price they sell a given product, and who they discriminate (usually in the positive sense, among the neediest). However, in lack of the rights that public agencies have (investigating revenue, financial status) such judgments are random and very subjective.

Relationship with networks:

- *With similar organizations to exchange/develop knowledge, information, best-practices, solutions, etc.*

The non-profit sector has both informal and formal relationships. Well-working networks can properly inform each other, and exchange experience. In previous years assistance to the National Civil Fund Program study tour proved to be useful.

There are few organisations of a similar activity profile among those working in a given geographical area (region) specifically in the social economy. That is why competition is not typical. Direct contacts between organisations of similar profile is quite tedious (large travel expenses, 'one-man-show' type management [being too busy])

Their source for information and good examples is mostly the Internet. Apart from that the National Employment Foundation and other large civil organisations used to stage conferences, workshops to ensure they get to know each other, exchange experience, and hand over new information (using mostly National Civil Fund Program financial assistance).

- *Representative organizations (political/lobby and/or union)*
 - The National Alliance of Social Cooperatives is a representative organisation, active as a formal organisation (having only social associations among its membership), but has not yet built up enough experience to enable meaningful conclusions.
 - Various associative organisations have professional, representative alliances, societies whose proposals are – or are not – being considered depending on the current political trend. These do not specifically care about social associations.
 - No other groups of social enterprises have representative organisations of their own. There are still too few of them in Hungary for that.
 - Other professional organisations – on a professional level – are observant of social changes, but that does not mean that they commit themselves politically.
 - *2nd level organizations (consortia and other forms of business coordination)*
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3. Future prospects

Managerial dimension:

- *Level of professional development/training of managers, not just degree held*
- *Internal policies related to staff development (not just for managers, but capacity growth for all staff)*
- *Long-term planning and sustainable growth capacity for organization and staff development*

Organisations of the Hungarian non-profit sector typically struggle with shortage of funds. Thus wages in the non-profit sector lag behind those of the for-profit sector, and often even behind those of the public sector. Few organisations can afford employing paid staff, and even fewer employing qualified management staff. Managers often work as directors of non-profits on a voluntary basis on top of their original jobs, motivated by a sense of vocation or social prestige.

Prior to the political changes, of course, it was not possible to have non-profit manager training. Managers of non-profits acquired experience following the political transformation either in other organisations before entering the non-profit sector, or picked up managerial skills over years of actually practising them in newly forming organisations. Formal non-profit manager training re-started only in 1997, and even then at a medium level. Standards lagged far behind manager training courses in higher education. Current tertiary non-profit manager training began in a somewhat chaotic fashion, then changed fast in the early 2000s, and is still taking shape. These tertiary courses and specific higher level trainings train not exclusively managers, much rather generalist co-workers for non-profit organisations. On top of these, there naturally exist typically one or two-day courses arranged by actors of the non-profit sector themselves.

Despite major progress achieved since the political changes, and (with the widening of training) an increasing number of experts with relevant experience getting involved with the organisations, the issue of management remains still unresolved. Low wages and weaknesses of the training system have resulted in the fact that a very small part of the manager pool in the non-profit sector can rely on massive management skills. Unless fundamental conditions change, the current tendencies justify no assumptions of a change in the future. There are no weighty strategic documents on the table to fuel hopes of change.

Prospects for innovation and development:

- *What type of innovation (product, market, process, organizational, service)*
- *Who's pushing for the innovation (the organization itself, market demand, public authority, community, etc)*
- *Awareness and potential of innovation capacity of the organizational form (since social enterprise is innovative in and of itself)*

The changes in 1989/90 were only a change of the political setup in Hungary; the economic and social system change is a several decade-long process. Our accession to the EU, and the pressure to adapt brought new challenges. The system of support and regulation of the non-profit sector has not followed a clear concept, and thus it has changed very often. That means that the Hungarian non-profit sector has been operating, and is still operating in a constantly, and rapidly changing environment in which there are very few stable elements prevailing for decades.

That is the reason why the Hungarian non-profit sector has become very innovative and adaptive, while at the same time greatly exposed to funds, thus much of their energies is used up fighting for essential resources, for survival. Due to that dependence on funding offered through applications the fuel to innovation is typically provided by the state.

European prospects:

- *Awareness of EU regulations, policies, funding opportunities regarding social economy*
- *Best-practices across Europe – know and compare to inform enterprise in your country*

Hungarian non-profit organisations, and among them the actors of the social economy in general have paid little attention to the EU perspective, and the related regulatory and strategic changes. They characteristically have little resources (financial and human), language knowledge, general skills, and experience to work any major effect on that decision making level, or to benefit from decisions made perhaps independently from them. Most organisations are not clear on how the EU operates, thus they do not know how to influence those decisions.

Besides this general statement there is, of course, a smaller group that tries to popularise the EU. That group of organisations flocks around the Európa Ház Alapítvány (Europe House Foundation) (www.europeanhouse.hu). There are organisations which have joined European, global networks, and appear in the European arena as such. One such group of organisations is the group of environmental protection organisations.

That same European level thinking is not particularly characteristic of organisations active in the social economy in the narrow sense of the word. The European dimension reaches them mostly by means of fund raising, funding applications related to a major campaign (e.g. European years).

For that to change, an important factor is that an increasing part of the available funding comes through applications from the European Union.