

# Beyond the formal economy. Social cooperatives for labour integration under the pressure of market competitiveness

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## Abstract

**Purpose** – Using the theoretical framework of the substantive economy, this study aims to point out the main aspects of the substantive mode of operation that help the integration of disadvantaged people while at the same time shedding light on the barriers that hinder economically efficient functioning in a market economy.

**Design/methodology/approach** – Research focuses on Hungarian rural work integration social cooperatives, which are engaged in producing activity by the employment of disadvantaged people. In the research, mixed methods were applied: results of a questionnaire survey covering 102 cooperatives, as well as 20 semi-structured interviews and experiences from the field. A total of 17 indicators were used to explore the substantive operational features, promoting mechanisms and problems in the following areas: organisational goals and outcomes; integrating roles and functions; productive functions; and the embeddedness of cooperatives.

**Findings** – As for results, substantive operational mechanisms and tools that support the integration of disadvantaged people have been identified such as mentoring, social incentives, the ability to create local value or the expansion of local community services. At the same time, several barriers have been detected that make it difficult to operate economically, such as cooperatives being a stepping stone for workers, excessive product heterogeneity or the lack of vertically structured bridging relationships.

**Originality/value** – The value of the study is to counterpoint the mechanisms promoting social purposes of work-integration social cooperatives and the obstacles to their long-term sustainability within the framework of the substantive economy, to better understand their functioning and the less quantifiable factors of their performance.

**Keywords** Social enterprises, Rural work integration social cooperatives, Substantive economy, Social inclusion, Economic sustainability, Competitiveness

**Paper type** Research paper



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**Limitations and further considerations:** A limitation of the study is that it only focuses on the RWI SCs financed by the Focus Programme, so cannot therefore be generalised to all Hungarian SCs. Moreover, the research has largely been limited to the employer side, so the authors propose to further investigate the involvement of the employee stakeholders.

## 1. Introduction

Nowadays, the social economy [1] is becoming more and more valued at the European and global levels. The reason for its popularity and political support is that social economic actors, including social cooperatives (SCs), are playing a growing role in the management of social and environmental problems: while previously SCs primarily aimed to reduce the increased unemployment due to deindustrialisation today addressing job insecurity, improving working conditions, increasing social inclusion and reducing the democratic deficit are the main challenges. A widespread social aim of these organisations is to integrate vulnerable, marginalised people into the world of work (Eurofound, 2019).

While SCs are gaining ground, their functioning raises fundamental questions, for example, about the alignment of social and economic goals or economic sustainability – to which researchers give conflicting answers. At the heart of the problem is the fundamental mismatch between their objectives, operating principles, characteristics and motivations of the founding members and the employees, and between long-term sustainability and market competitiveness, as increasingly important expectations.

In connection with the discourse described above, in the course of our exploratory research, we examine the operation of rural work integration SCs (RWI SCs) in Hungary, whose basic and most important goal is to provide employment to disadvantaged people and to integrate them into the labour market, while they are required to strengthen their competitiveness on the market, which is one of the goals set by the grant system currently funding their operation.

These RWI SCs are a hybrid form between the market and the subsidised public sector and, in many ways, operate outside the rules of the formal economy. Our research builds on Károly Polányi's theory of the substantive economy (1976, 1977), that some researchers (Baines *et al.*, 2019; Csoba, 2007; Hopkins, 2016; Olmedo *et al.*, 2019; Olmedo and O'Shaughnessy, 2022; Roy and Grant, 2019) have recently used to describe the functioning of the social economy. There are, however, some mechanisms of SCs that are under-researched in the substantive context, such as the nature of organisational goals, the integrating role of the workplace or the substantive benefits of workers' participation in the production process. Our exploratory research aims to understand the functioning of mechanisms beyond formal logic.

We have two exploratory research questions:

- RQ1.* What are the main substantive operational characteristics, mechanisms and tools that promote social cooperatives to achieve their social objectives?
- RQ2.* What are the main obstacles that hinder their economically efficient, long-term sustainable operation in a market economy?

These research questions are examined in four areas of analysis (through 17 indicators), which are the following:

- (1) organisational aims and results;
- (2) integrating role and functions of RWI SCs as workplace;
- (3) and as a productive organisation (through products and services); and
- (4) embeddedness of SCs into the different types of relations.

The research draws on the results of a questionnaire survey covering 102 SCs, as well as interviews and field visits. Our analysis also includes national statistics on the operation of the market organisations and the number of employees. The main aim of the study [2] is to

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highlight the substantive operating mechanisms of SCs that contribute to the (re)integration of unemployed people into the world of work. Furthermore, we point out the obstacles and contradictions that make it difficult to operate in an economically efficient way under the rules and expectations of a market economy.

## 2. Theoretical framework

Today, using the concept of Defourny (2001), there is a shift from the direction of the “welfare state” to the “welfare mix” because the social economy nowadays also takes on a role in official tasks such as the allocation of resources, the provision of services to people in need or regulating economic life (for example, through labour market reintegration). This entails not only the division of tasks but also imposes responsibility on actors of the social economy. Borzaga *et al.* (2014) confirm that actors in the social economy are taking on an increasing role in areas traditionally provided by the public sector, but they also point out that there are significant differences between countries in terms of activities and importance.

### *2.1 Inconsistencies arising from the different functioning of profit-oriented market organisations and social economy actors*

Although SCs are increasing in number and importance (in connection with their role in employment and work integration, as well as the expansion of the range of their services), their long-term sustainability raises many questions. These organisations have continuous difficulties in meeting the dual responsibilities of realising social objectives and meeting an ever-increasing expectation for competitiveness in the market. There is a fundamental contradiction between the operational and management principles and goals of these organisations (Borzaga, 1996; Fazzi, 2010; Varman and Chakrabarti, 2004; Weaver, 2020), as well as the characteristics and motivations of their founding members and employees (Borzaga *et al.*, 2014; Depedri *et al.*, 2012; Fazzi, 2010; Fazzi and Elsen, 2020; Pansera and Rizzi, 2018; Valentinov, 2007) and between a profitable operation and market competitiveness. In their research, Fazzi and Elsen (2020) point out a fundamental difficulty, namely, that in disadvantaged areas targeted by SCs, purchasing power is typically weak; residents are mostly unable to pay for the goods and services produced by the social economy, while only the larger ones can produce for more distant markets, their relationship systems with businesses are mostly local and less extensive. Although their leaders are usually driven by enthusiasm, this alone is not enough to grow the business and generate real change.

Overall, it is very difficult to create economically successful cooperatives in an environment full of risks, and this would require, among other things, trade networks of higher level (Fazzi and Elsen, 2020; Pansera and Rizzi, 2018; Tortia *et al.*, 2020). SCs suffer due to their dependence on public funds and the associated burdens of bureaucracy, as well as tensions caused by the reduction of welfare benefits and increasing social expectations, as well as new challenges and innovation constraints (Fazzi, 2010), which is currently further made more difficult by macro factors such as the labour shortage following the economic crisis or the effects of the pandemic.

The root of the problems lies in that these alternative economic actors operate within the boundaries of the market economy. At the same time, their operation is characterised by several “non-capitalist” operating mechanisms, such as reciprocity, decommodification of well-being, networking with non-market entities and reintegration of marginalised social groups (Poledrini, 2014; Pansera and Rizzi, 2018; Thomas, 2004).

Approaches dealing with the evolution of SCs identify several development paths according to the extent to which these organisations can operate in an economically

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sustainable manner while maintaining their social goals (Cornforth, 1995; Hernandez, 2006; Storey *et al.*, 2014). According to the latest theories (Azkarraga *et al.*, 2012; Storey *et al.*, 2014) in the life of an organisation, stages of degeneration may be followed by stages of regeneration, when the organisation renegotiates its operating principles and its social and economic goals become balanced. However, some authors believe that these contradictions accompany the life of these organisations and cannot be resolved (Cornforth, 1995; Estrin and Jones, 1992; Hernandez, 2006; Stryjan, 1994).

### *2.2 Resolving inconsistencies arising from divergent operations with the theory of the substantive economy?*

In examining the functioning of RWI SCs, we take Polányi's (1976) theoretical approach to the substantive economy as a starting point, which, in our view, can resolve the contradictions presented below. Previous researches on social enterprises allow us to understand the mechanisms of functioning of social enterprises as hybrid social enterprises occupying an intermediate place between the market, the state and the non-profit ("social") sector and that use combined coordination mechanisms in their operations (Defourny and Nyssens, 2017; Olmedo *et al.*, 2023; Olmedo and O'Shaughnessy, 2022; Roy and Grant, 2019).

Polányi (1976, 1977) regard the economy as an institutionalised process of interactions between man and his environment, ensuring a continuous supply of the material means necessary to meet needs. The substantive approach goes beyond the formal logic focusing on profit maximisation, where economic acts are characterised by a series of choices determined by rare situations and where the main motive of the economy is profit maximisation. According to Polányi's theory, the economy is embedded in the broader society (both economic and non-economic institutions), where the market is not a "separate economic sphere" and where people work not only because of self-interest but for various purposes, such as religion or tradition. Economic action is understood through an analysis of the relationships between actors and their environment (nature and community). The unity and stability of the economy, in which units are interconnected and reproduced, is ensured by so-called integration forms: redistribution, reciprocity and market exchange, whose occurrence and dominance varies from culture to culture and from era to era (Polányi, 1976, 1977).

The logic of the substantive economy and the functioning of the social economy share many similarities (Baines *et al.*, 2019; Csoba, 2007; Defourny and Nyssens, 2006, 2017; Olmedo *et al.*, 2023; Olmedo and O'Shaughnessy, 2022; Roy and Grant, 2019).

### *2.3 Objectives of economy*

The three types of exchange – defined by Polányi – can be interpreted as forms of socio-economic relations between different stakeholders, which are hybridised by social enterprises (Defourny and Nyssens, 2006; Olmedo *et al.*, 2019, 2023; Olmedo and O'Shaughnessy, 2022). According to Defourny and Nyssens, it means that integration forms "work together rather than in isolation from each other" (2006:13). Both reciprocity, redistribution and market exchange appear in different combinations in their operation, and they mix different logics. Although the actors interact with the market, they do not have as their primary goal the pursuit of economic profit. They receive public subsidies but they also shape them; they are embedded in civil society through collective action to achieve common goals (Defourny and Nyssens, 2006:13).

As hybrid organisations, social enterprises can combine social and economic (sometimes political or environmental) objectives. However, economic and social goals are often

intertwined and difficult to separate (Roy and Grant, 2019), while their dominance in the life of the organisation may change over time (Azkarraga *et al.*, 2012; Storey *et al.*, 2014).

*2.4 Motivation and function of work and production*

“Social mission” has several meanings and levels. An organisation can articulate its social mission through the nature of the products or services it provides, or by responding to local needs and providing missing services, while a third type of social mission is when local people are empowered to make decisions (Defourny, 2009:14). According to Defourny and Nyssens (2017), work integration SCs, a type of social enterprise, which are the focus of our study, combine the first two levels by producing products and services that meet the needs of the target group while enhancing their skills. The role and nature of work in SCs, as expected, is primarily oriented towards meeting social needs, but of course, also serves material needs, according to the content logic.

Some authors draw attention to the high level of social commitment, “altruistic motivations” (belief in social usefulness) and loyalty to their organisation characteristic of employees in the social economy, as opposed to market enterprises prioritising profit maximisation goals (Borzaga *et al.*, 2014; Depedri, 2015; Valentinov, 2007).

Despite the social goals and altruistic motivations, Csoba (2007, 2020) stresses that this does not mean that the social economy is not productive or value-creating. In the substantive economy, work is not an end in itself but an activity with a social function, serving the interests of the community, a natural way of being (Baines *et al.*, 2019; Csoba, 2007; see detailed in Table 1).

However, in a substantive, “embedded” economy, in addition to satisfying material (economic) needs, economic activities are always directed towards fulfilling social, protective, welfare, community, etc., functions (Defourny and Nyssens, 2017). On the one hand, by providing local employment and livelihoods, they can reduce outmigration, and on the other hand, some research has shown that they are beneficial for cooperation, joint innovative thinking and creativity (social renewal capacity), local identity and attachment (Csurgó and Megyesi, 2015; Steiner and Teasdale, 2017; Kiss and Rácz, 2019; Kiss and Rácz, 2022).

Borzaga *et al.* (2014) point out that meeting changing social needs encourages social economic actors to continuously grow and develop new products and services by exploiting previously unused resources, which can even appear as a competitive advantage in the

Analytical aspects	Substantive economy	Formal economy
Goal of the economy	Satisfaction of needs	Growth as an end in itself
Motivation of work	Many-faceted motives, incentives and objectives	Financial incentives
Function of work	Work is a natural form of existence	Work is an instrument and/or goal
Independence of the economy	Economic activity interwoven with social relationships	Economic activity as an independent subsystem
Producer/consumer roles	The producer is also a consumer	The producer and the consumer are separate
Degree of solidarity	High collectivity	High individualism and competition

**Table 1.**  
Comparison of the distinctive features of the substantive and the formal economy

Source: Baines *et al.* (2019):9

market. In their research, [Campopiano and Bassani \(2021\)](#) prove that the innovation investments of SCs (products, services and processes) are positively correlated with social and environmental results.

### 2.5 *Embeddedness in society*

According to [Van Twuijver et al. \(2020\)](#), common characteristics of rural social enterprises are the strong local embeddedness and the ability to combine different goals and resources. A high degree of adaptability and flexibility is necessary for the survival of these organisations in an uncertain and resource-poor environment ([Kibler et al., 2014](#); [Kiss and Rácz, 2022](#); [Lang and Fink, 2019](#)). Under such circumstances, social enterprises have adapted to operating by reusing social capital ([Di Domenico et al., 2010](#); [Sunley and Pinch, 2012](#)).

[Pansera and Rizzi \(2018\)](#) highlight that one of the key success factors of SCs is the role of supporting social networks. Although social enterprises are, in terms of their size, mostly small enterprises operating at the local level to achieve economies of scale and centralised services, it is increasingly typical for them to act through networks or consortia. With this strategy, they can, in many cases, become important actors in their social and economic environment, even playing a coordinating role ([Borzaga et al., 2014](#)). Moreover, some analyses point to the fact that social enterprises carry out decisive economic development activities, develop the entrepreneurial culture and stimulate the economic development of neglected areas that are traditionally outside the scope of entrepreneurial behaviour ([Birchall and Hammon Ketilson, 2009](#); [Spear, 2002](#); [Kelly et al., 2019](#); [Liddle et al., 2012](#)).

To summarise the above, we believe that the substantive approach offers a solid theoretical framework for exploring the operational characteristics of RWI SCs operating in rural parts of Hungary. At the same time, we see the need to explore the mechanisms of operation to better understand the specificities of the substantive logic and the difficulties that these organisations face in the context of price-regulating market conditions and their expectations.

### 3. About the Hungarian social cooperatives in the Eastern-European context

In Hungary, as is typical of Central Eastern European countries, after 1990, the negative consequences of the social and economic problems that culminated from the overall social and economic transformation became more pronounced in rural areas. The loss of markets and the closure of uncompetitive state-owned enterprises have been followed very slowly or not at all by the arrival of new investors, creating new jobs and the creation of new local businesses with significant employment capacity ([Buček, 2005](#); [Lengyel and Bajmóczi, 2013](#)). Local governments in difficulty as a result of structural change (especially in industry-dependent municipalities) are left to deal with social problems on their own, while increasingly having to meet market challenges ([Pearce and Mawson, 2003](#); [Čapková, 2005](#)).

The process of democratisation in this region was accompanied by austerity measures that prevented the emergence of the “welfare democracy” that characterised Western countries after the Second World War ([Gagyí, 2015](#)). Later, the 2008 global financial crisis highlighted the structural weaknesses and vulnerabilities of economies across Europe. At the same time, in Hungary, in the context of the post-socialist transition, the post-crisis recovery unfolded unevenly in the influence of local economic processes, resulting in a stronger role for local government and central government involvement in local affairs ([Nagy et al., 2021](#)). Local economic development in the past decade has been characterised by the continuous expansion of the role of local governments as farmers and the emergence of

economic coordination and market organisation tasks (Kiss and Rácz, 2022; Lendvay and Nagyné Molnár, 2013; Molnár *et al.*, 2018; Pálné Kovács, 2019, 2021; Váradi, 2015).

Since the mid-2010s, SCs have received increasing attention in the central government-supported, local government-coordinated economic development model in Hungary, and several regulatory and support policy interventions have been made to strengthen their role in this period (Koltai *et al.*, 2018; Vásáry *et al.*, 2018).

The development path of SCs in Hungary shows specific characteristics, both in terms of the operating mechanisms and the functions provided, which differ from those of Western and Southern European countries that rely on the social cooperative integration model (Csoba and Sipos, 2020; Simsek, 2021).

While in Italy, for example, the social economy has two main areas of activity – supporting labour market integration and providing welfare services – in Sweden and the UK, its main role is providing community and social services, and, as opposed to that, in Romania, it also has a marked role in health care, social sectors and education (Borzaga *et al.*, 2014). In comparison, in Hungary, SCs also have a significant influence on food production in addition to the areas traditionally covered by the social economy (Vásáry *et al.*, 2018).

In Hungary, Act X of 2006 on cooperatives laid the foundations for the operation of SCs as a special organisational form of social enterprises. In this Act, “social cooperative” is defined as a special form of organisation that combines the advantages of economic organisations and social organisations by providing disadvantaged people with job opportunities and helping to improve their social situation through other services [3].

In the Hungarian political environment, SCs have become the dominant representatives of social enterprise [4] in the second half of the 2010s (Mihály, 2018). With the publication of national and European Union grant application opportunities supporting this form of organisation, the number of SCs peaked in 2017, when the number of organisations operating was 2,688 in Hungary.

In 2016, the law on the establishment of SCs in Hungary was amended [5], obliging the organisations to have a state body (local governments and ethnic minority self-governments) or a charitable public benefit organisation as a member. The introduction of this law raised serious concerns, in particular about the violation of managerial independence (Simsek, 2021), also contributing to a decline in the number of active SCs, which fell to 1,185 by 2022.

In terms of geographical location, most of the SCs were established in economically less developed areas, such as industrially depressed regions and less industrialised agricultural counties, both characterised by high unemployment.

#### 4. Methodology and sample

In Hungary, a special group of SCs that provide employment is formed by those organisations that undertook to create sustainable workplaces for disadvantaged people under the five-year national support programme (Focus Support Programme [6]) launched in 2017. Our empirical research focused on this group of SCs called “rural work integration cooperatives” (briefly RWI SCs; see below).

Two questionnaire surveys were carried out in 2018 and 2021 at the beginning and end of the funding period. The total base population was 200 cooperatives, of which 178 organisations responded validly in 2018, while this number decreased to 102 organisations in 2021. The composition of the sample followed the main characteristics of the base population, so the results presented can be considered valid for all cooperatives implementing the programme. As these organisations are very young (six years on average) by international standards, the data for 2021 was used to examine the longest possible

period of operation. Where this was relevant, for example, due to changes in organisational objectives, previous data from 2018 was included in the analysis for comparison.

This study is aimed at processing data from the survey, focusing on variables allowing the examination of the socio-economic target system, the operational characteristics and results in connection with employment, products and network. Data from 102 organisations from the survey were merged with revenue, assets and capital data from the national database [OPTEN 2021](#) (based on the data of the National Tax and Customs Office) to examine the economic results of RWI SCs. For the comparability of cooperatives with other economic organisations, the analysis also included employment data and statistics on registered enterprises from the Central Statistical Office (KSH), and we also used public employment statistics from the Ministry of Interior. During the data analyses, cross-tabulations and multivariate regression analyses were carried out with the help of the SPSS programme (see [Table 2](#) for details on the methodology).

Operational (substantive) characteristics of social cooperatives	Indicators	Data resources
1. Goals and result of economy	Founding objectives of the organisation	Survey 2021, interviews
	Self-evaluation of efficiency; changes in perceptions	Survey 2018, 2021; interviews
	Number of employees compared to micro-enterprises in Hungary	Survey 2021, national statistics (OPTEN, HCSO 2021)
	Correlation between organisational objectives and the number of employees	Survey statistics (2021)
	Correlation between the incomes of the examined social cooperatives and the total number of employees	Survey statistics (2021)
2. The integrating role and functions of workplace, means of motivation	Demographics and employment characteristics of those employed by RWI SCs; comparison to national averages	Survey 2021, National statistics (HCSO 2021), Public employment data from Ministry of Interiors (2021)
	Perception of the relationship between management and employees	Survey, interviews; field work observation
	Perception of organisational problems	Survey 2021, interviews
	Rate and motives of outflow from the organisation	Survey 2021, interviews
	Types of employer incentives	Survey 2021, interviews
3. Producer/consumer roles	Types of organisational activities	Survey 2021, National statistics (OPTEN)
	Number of products produced	Survey 2021, National statistics (OPTEN)
	Types of innovative activities (own brand)	Survey 2021, interviews, fieldwork observations
	Characteristics of innovative activities; trends in innovation propensity	Interviews, fieldwork observations, survey 2018
	Types of sales target groups, marketing objectives	Survey 2021, interviews
4. Embeddedness of the organisation	Types and extent of social relations	Survey 2021, interviews
	Types and extent of economic relations	Survey 2021, interviews

Source: Authors' own editing

**Table 2.** Methodological tools according to the four aspects of analysis



In addition to the questionnaire survey, field observations and semi-structured deep interviews (20) were also conducted with the management, members and employees of the SCs participating in the Focus Programme, as well as with experts who have insight into the activities of the SCs. The interviews primarily helped us validate and provide a more nuanced interpretation of the results from the questionnaire survey and analyse the mechanisms behind the data.

In the course of the study, based on the characteristics of the substantive economy, highlighted by [Baines \*et al.\* \(2019\)](#), deriving from the theory of [Polányi \(1976\)](#) (see [Table 1](#)). A total of 4 analytical criteria and 17 indicators were defined to explore promoting mechanisms and barriers in the operation of Hungarian RWSCs. In connection with “Goals of economy”, we investigate the organisational aims and results through five indicators. “The function and motivation of work” will be analysed through an examination of the integrative role and functions of RWI SCs as workplaces using five indicators. “Producer and consumer roles” will be identified by examining RWI SCs as producer organisations through five indicators. “Independence of the economy” will be captured by analysing the embeddedness of SCs into the different types of relations through two indicators. “Degree of solidarity” is an overarching characteristic that is present in all the aspects analysed (see details in [Table 2](#)).

#### 4.1 *Research sample*

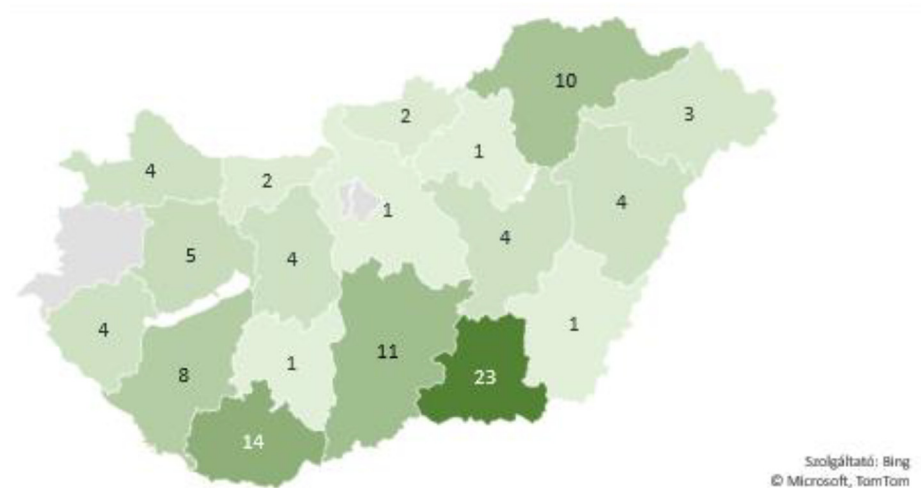
Our empirical research focused on the group of SCs, which were created and operated specifically for labour integration in disadvantaged areas (supported by Focus Programme since 2017), which work similarly to “rural work integration cooperatives” identified by [Fazzi \(2010\)](#) as most of them specialised in rural activities for work integration of disadvantaged people, they are productive organisations with medium level of propensity of innovation.

A special feature of this Hungarian model, however, is that within the framework of the Focus programme implemented, applications were invited from Hungarian SCs whose membership included a local government and in the founding membership there were individuals with unemployed or public work history. Under the programme a total of 200 SCs received support, undertaking to employ at least five new employees [7].

The 102 cooperatives participating in our sample are typically located in rural areas. More than 70% of the organisations are registered in villages, while the remaining 30% are based in small rural towns, and only six are located in larger cities. More than 80% of the cooperatives are based in less developed regions, especially the north-eastern and southern parts of Hungary (see [Figure 1](#)).

The characteristics of the cooperatives participating in the survey, according to their main activity: the largest part of them (25.0%) is engaged in food processing activities, within which the number of organisations processing fruits and vegetables is significant. The second most significant activity (15%) is the construction industry, followed by the production of other industrial products (14%), which mostly covers activities that are easy to train and require a substantial labour force (e.g. production of concrete elements, products in the wood industry and the textile sector). One-tenth of the responding organisations provide services to meet residential and institutional needs arising in their immediate environment (e.g. cleaning, maintenance of public buildings and care of green surfaces).

Organisations are young with an average age of six years (67% were founded in 2016 or 2017, while 31% were between 2013 and 2015). In total, 85% of the respondents were senior managers and managers, the others were mainly cooperative members. According to the



**Source:** Authors' own editing based on a questionnaire survey of social cooperatives (2021)

**Figure 1.**  
Location of the  
examined  
cooperatives in  
Hungary

latest data, the number of people employed by the SCs that make up the entire target group was 649 people in total at the end of 2021.

## 5. Research results

### 5.1 *Employment as a social mission in the light of economic rationality*

The social and economic target system of SCs was examined along several aspects in the questionnaire. We first analyse questions related to the motivations for founding these organisations and the subjective assessment of the organisations' effectiveness, then organisational goals became compared with the available performance indicators which characterise – even if not completely – the achievement of the organisations' mission (i.e. the labour market integration of the disadvantaged population and the creation of new jobs) during the funding period.

The survey results show that the highest-rated motivation for setting up a social cooperative is to promote the livelihood and well-being of the local community. Among the six social and economic motives asked in the closed question, the creation of permanent employment stands out highly, with an average of 4.75 on a scale of five (see [Table 3](#)), followed by the aim of promoting self-sufficiency.

Not only was the “number of jobs created” the main purpose for which organisations were set up, but it was also the most important indicator of effectiveness, according to the managers (see [Figure 2](#)). In total, 97% of the respondents considered that this indicator “fully” or “rather” expresses the effectiveness of the organisation. Respondents were also asked an open-ended question to give their account of the economic and social results. We found that employment was the top priority for both social and economic goals in 2021.

The results were compared with the previous data surveyed in 2018, where long-term employment was still listed as a social goal and various capital investments as an economic goal. These show that the most important goal does not change, and this is consistently reflected in the results. However, there is a shift in the perception of effectiveness, which was confirmed by the interviews: after a few years of operation, as the end of the funding period

approached, indicators measuring economic performance became more important, and the integration of disadvantaged people into the labour market, previously seen more as a social outcome, was seen by the leaders of the organisations as being at least as much a result of their economic performance as of their social mission. This trend is reinforced by the growing emphasis on sustainability and profitability, which is putting a lot of pressure and, in many cases, frustration on managers, according to the 2021 interviews:

*Because right now, this whole thing hurts me a little, that things are not going as they should. But I can see that, of course, we are also in it with our social brains, that we are not capable of (managing), say, a profit-oriented business successfully, but I think that it is not because it cannot be expected. (South Great Plain, cooperative manager)*

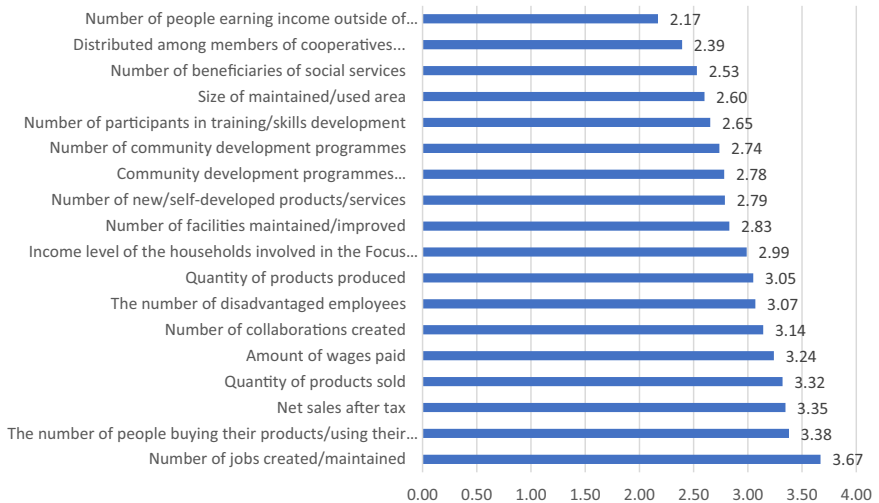
Based on the above and according to the testimony of interviews, the organisations were influenced by their intention to comply with Focus Support Programme conditions [8] and a

**Table 3.**  
Goals of establishing  
social cooperatives

Factors affecting founding purposes	Average	SD	Valid	Missing
Sustainable job creation	4.7524	0.64720	105	3
Ensuring the self-sufficiency of the employed	4.0857	1.11902	105	3
The possibility of resources from the funding programme	3.9619	1.03704	105	3
Promotion of organising community	3.7500	1.03107	104	4
Provision of temporary employment opportunities	2.9905	1.52224	105	3
Realisation of municipal revenue	2.1604	1.16404	106	2

**Source:** Authors' own calculations based on a questionnaire survey of social cooperatives (2021)

**According to your experience, what are the aspects that best express the effectiveness of the operation of social cooperative? (N = 102)**



**Figure 2.**  
Factors expressing  
the effectiveness of  
social cooperatives

**Source:** Authors' own editing based on a questionnaire survey of social cooperatives (2021)

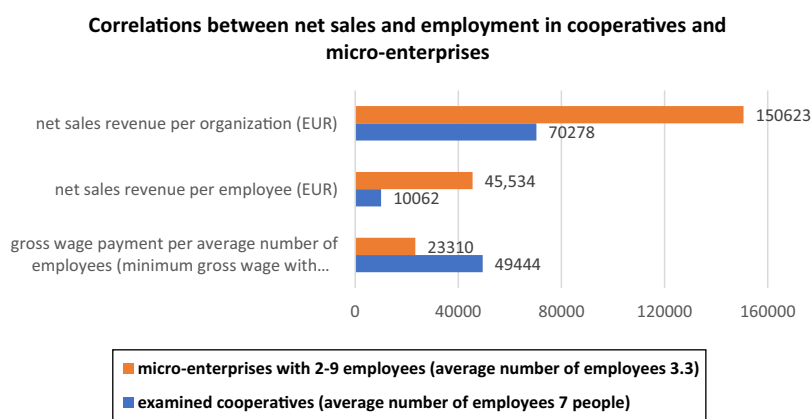
sense of mission characteristic of the early life cycle in making decisions. This is also evidenced by the fact that the average number of employees in the sample of cooperatives was seven, which exceeds the mandatory number of employees.

However, if we analyse employment in the light of the sales revenues, we can realise that there is a contradiction between economic rationality and social goals: it seems that organisations were guided by their social goals rather than by economic rationality when making decisions on the number of employees as you can see based on the following data.

The economic performance of the analysed cooperatives and the development of sales revenue will be analysed in the period 2017–2021 [9]. During this period, the annual sales revenue of the organisations was, on average, EUR 48,611. If we look at their results compared with figures for Hungarian micro-enterprises of a similar category (two to nine employees), we can see that their net sales revenue per organisation in 2020 was less than half (46%) of for-profit enterprises, while the average number of employees is more than twice as many (micro-enterprises employ a little more than three people on average, while cooperatives employ seven people). The difference in sales revenue per employee shows an even greater difference: in the case of micro-enterprises, it is 4.5 times greater than in the case of cooperatives (see Figure 3).

If we examine the amount to be used for paying gross wages as a ratio of sales revenues generated by cooperatives, we see that these organisations must spend approximately 70% of their net sales income on employment [10], while this ratio for micro-enterprises is only 15.5%. The examination of specific financial indicators can, therefore, explain why there is no strong significant correlation between the amount of net sales and the number of employees (see Table 4).

Despite the employment difficulties and declining income growth, the interviewed leaders of cooperatives typically wanted to continue to operate in the form of a cooperative organisation in the future, half of them with the current number of employees or more (46%), and only one-fifth of the respondents wanted to reduce the number of employees.



**Figure 3.** Comparison of social cooperatives and micro-enterprises in terms of turnover and employment

**Source:** Authors’ own editing based on own survey of social cooperatives (2021) comparing to National database (OPTEN, 2021)

### 5. 2 Social cooperatives to integrate disadvantaged people into the labour market

As we have seen in the previous chapter, the primary goal of the RWI SCs in line with the funding Focus Programme is to “promote the labour market integration of disadvantaged workers and those employed under workfare programmes”. In light of this, we examined the employees of the cooperatives according to various parameters (age, education, origin and history as an employee under the workfare scheme), which can be associated with their disadvantaged situation.

As data from the questionnaire survey and a comparison with national statistics suggest, the examined SCs did not have unskilled workers at a higher rate than the national average; however, the proportion of people with tertiary education among the employed was below average. In terms of age, the situation of being disadvantaged may be seen in the fact that the number of those above 55 years of age among the employees of the cooperatives was above the national average (see Figure 4-5). The achievement of the labour market reintegration goal, however, can best be captured in the previous labour market status of the employees: 40% of the sample included state-supported workers or workers removed from or previously involved in workfare programmes.

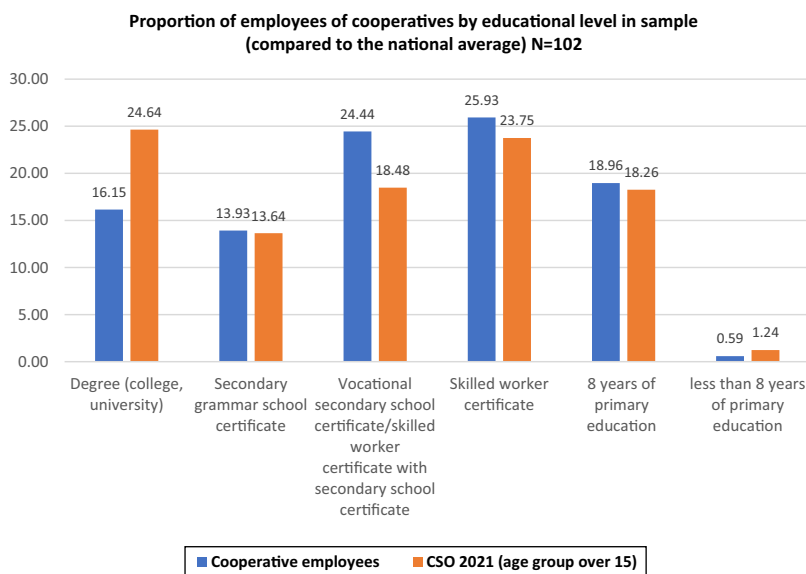
In summary, RWI SCs employ a large number of unemployed people or those with a public employment background, but typically not the lowest skilled. According to the interviews, this is explained primarily by economic considerations, namely, that RWI SCs can only produce products or provide services of high quality, leading to their economic stability if they have employees with certain basic professional competencies.

When we evaluate the effectiveness of these organisations, not only quantitative indicators are the guiding principles but also qualitative characteristics of the employment of this special target group – often struggling with family and other problems – and the success of their social (re)integration. Within the framework of our questionnaire research, we can examine this area of problems from the point of view of the managers. In the questionnaire, we asked about the extent of outflow of employees and the reasons behind it, the relationship and problems with employees, as well as the methods of incentives. However, qualitative methods are better to use to map the soft characteristics of employment; therefore, during the analysis, we rely significantly on our experiences from interviews.

The relationship between the management and the employees was rated very good by the leaders of cooperatives (with an average of 8.56 on a scale of ten), at the same time, according to the data, outflow and volatility in the workforce are very high. In the case of the

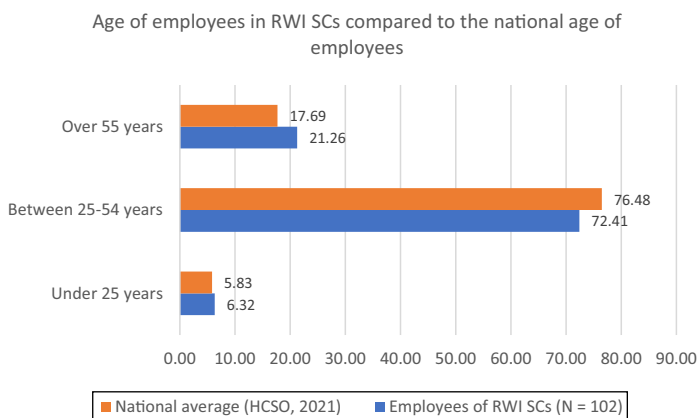
**Table 4.**  
Correlation between  
the sum of the  
incomes of the  
examined social  
cooperatives and the  
total number of  
employees  
(2017–2021)

		Value	Asymptotic standard error <sup>a</sup>	Approximate T <sup>b</sup>	Approximate significance
Interval by interval	Pearson's R	0.366	0.174	3.790	0.000 <sup>c</sup>
Ordinal by ordinal	Spearman correlation	0.344	0.095	3.537	0.001 <sup>c</sup>
	No. of valid cases	95			
	a. Not assuming the null hypothesis				
	b. Using the asymptotic standard error assuming the null hypothesis				
	c. Based on normal approximation				
	<b>Note:</b> The examination of the correlation shows a moderately weak correlation with a significance level of 0.00				
	<b>Source:</b> Authors' own, calculations based on OPTEN database (2021)				



**Source:** Questionnaire survey of social cooperatives (2021) comparing with national data from Hungarian Central Statistical Office (2021)

**Figure 4.** Composition of employees of social cooperatives according to educational level



**Source:** Questionnaire survey of social cooperatives (2021) comparing with national data from Hungarian Central Statistical Office (2021)

**Figure 5.** Composition of employees of social cooperatives according to age

102 organisations examined, interviewees reported that 496 people left cooperatives over the past 5 years, which means almost 5 people per organisation on average [11].

However, if we also examine the reasons behind leaving, it turns out that those for whom we have information (200 people) mainly left SCs for new job opportunities (58%) [12], which means that SCs typically play the role of helping a transition to the primary labour market,

work socialisation and are often a springboard for the employed. Although facilitating the said transition is one of the declared goals of these cooperatives, the leaving of employees who have already gained experience is one of the biggest difficulties in terms of sustainable and economical operation for them.

Besides this, “non-competitive low wages” and “problems with work morale” were identified also as the biggest difficulties. Based on the experiences of the interviewees, problems related to work morale can be summarised as follows: people who have been pushed out of the primary labour market – often having no job for years or having worked in workfare programmes or having difficulties with integrating due to their living conditions or physical/mental disabilities [13] – are no longer used to, or have never been accustomed to, keeping the rules and performance expectations of an 8-h-a-day work or those of a work organisation operating on an economic basis. The managers of the organisations in the interviews reported that, in many cases, an intensive mentoring process is necessary to keep the employees in the organisation, which requires a lot of extra energy and significant investment costs. Although these costs represent a competitive disadvantage for these organisations compared to businesses operating on a purely economic basis, at the same time, labour market reintegration undertaken as a social goal can only be achieved in this way:

*It's very important that in the last 7-8 years of work, values have been created which are human values [...] And these people find it hard to move to entrepreneurs [...] because they may have tried, but they just can't stand the harsh inhuman world [...] because they are in a game of survival [...] And that's why social cooperatives are important [...] I can't think and behave like an entrepreneur and I don't want to, the truth is. Because I want to keep the human side and the social side. (Southern Great Plain Region, Cooperative Manager)*

In terms of incentives, managers ranked in the top three the good working conditions, flexible working and community programmes, while economic incentives (such as higher than minimum wage) were ranked second. The importance of “social incentives” was also supported by the interviews.

*The three of us are diabetic, so we have to go to the internist and the lab regularly. If somebody has a problem, (s)he comes and tells us and (s)he can go [...] Let's write down minus an hour and a half, minus two hours, now (s)he has, say, an injection therapy, (s)he doesn't have to take leave or he doesn't have to go on sick leave, which would result in much fewer earnings, but we write down how many minus hours (s)he has. [...] (North Plain Region, Cooperative Manager)*

### 5.3 Social cooperatives as producing and value-creating organisations

According to the data of the questionnaire survey and the national statistics (OPTEN), the examined social cooperatives are characterised by a highly varied structure of activities (“pluriactivity”). Their activities and products often change depending on the needs of their local social and economic environment and the availability of resources (e.g. the right amount of raw materials, the available amount and quality of workforce to involve).

The 102 cooperatives that responded to our 2021 questionnaire survey reported having a total of 580 own products or services, i.e. each organisation has an average of five to six own products or services. This value shows an extremely large standard deviation in the sample: some organisations develop 30–40 types of products at the same time, typically in small quantities, which, according to the interviews, presents itself as a competitive disadvantage in markets that require larger product volumes and stocks. According to the experience of the interviews, the exploitation of the benefits of a wide range of products and services is

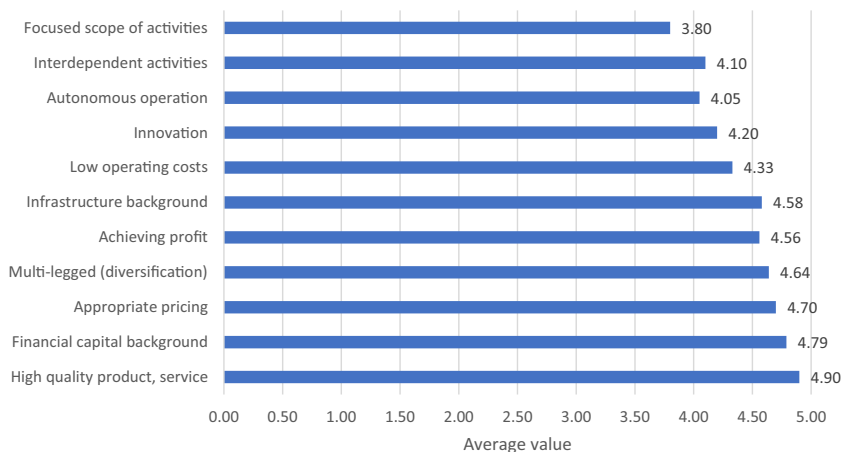
often hampered by the fact that SCs do not have a clear understanding of target markets and consumer needs due to social, cultural and geographical distance and lack the necessary marketing skills to bring new products to market:

*We have hardly any idea about marketing. E.g. how to introduce a product to the market, what are the tools, etc. How to position the product, what is the pricing policy? We can't sell well either, we don't have enough market to make the system sustainable. We have a good product, we have good people, we have the will. We could have six times the current production of our business. We don't need a theory, so we don't need a specialist or a mentor who has come and said something, we need the resources to use this (marketing) service from professional companies. (Southern Great Plain Region, Cooperative Manager)*

That the policy of standing on more than one foot is followed as a conscious strategy is confirmed by the fact that the leaders of the SCs in the questionnaire rated this factor particularly high in terms of long-term economic sustainability, with an average of 4.64 on a five-point scale. The SCs surveyed considered this factor to be more important for their sustainability than, for example, low operating costs (4.33), innovation activity (4.20) or focused scope of activities (3.80) (see Figure 6).

In addition, interviews with cooperative managers also revealed that the “multi-leg” operational strategy is mostly associated with a low level of technology and low professional knowledge, as well as the lack of basic employee competencies and skills. Maintaining pluriactivity thus ultimately contributes to the achievement of the social goal of labour integration; however, it hinders the production of products processed to a higher degree or in a larger volume, which would increase bargaining power in the market, and thus also hinders the transition to a more economically sustainable operation and professionalisation of cooperatives.

The examined SCs identified 40% of their products listed during the questionnaire survey (229 pieces) as new, self-developed products that had not existed before [14]. Interviews with the leaders of the organisations also revealed that the product development process is not only driven by economic drivers (e.g. availability of markets, raw materials,



**Source:** Authors' own editing based on a questionnaire survey of social cooperatives (2021)

**Figure 6.** Factors considered important for the long-term sustainability of the cooperative ( $n = 102$ )



suppliers and technologies) but also by social factors (e.g. accumulated, untapped knowledge, local traditions and previously unused local resources).

In the process of creating new products, the fragmented knowledge of different groups of stakeholders (employees, managers, suppliers, potential customers, etc.) connected to cooperatives is added together, a process at the end of which new products and services are created. The process of continuous experimentation, thinking together and co-creation is a key element of substantive operating. According to the experience of the interviews with cooperative workers, the creation of a new product or service has a symbolic meaning; it is an expression of the social reproductive capacity of the community.

*We find our work interesting, because compared to the fact that every day we “just” make dry dough, we develop, experiment, sometimes we spend hours experimenting [...] and it’s a good thing when you try to do a new thing and then you put a new thing out of your hand, into a customer’s hand and then you can be proud that you’ve achieved that. Without any help or assistance from anybody (...), but we figure it out on our own. (Northern Great Plain Region, Cooperative Worker)*

From the point of view of market penetration, it is of fundamental importance whether the manufactured products have a unique, distinctive brand name or trademark that can be identified by consumers. Almost a third of the surveyed SCs stated that they had their own branded product at the time of the research [15]. At the time of the survey conducted among cooperatives in 2018, this rate was only 10%, which indicates the progress made by the organisations in this direction. The role of private label products is also demonstrated by the fact that 24.8% of responding organisations plan to introduce their own brand in the future.

According to the interviews with the representatives of SCs, the use of brand names drawn from local cultural values [16] promotes the awareness of local values, the strengthening of identity, and thus the growth of social cohesion. However, it is important to point out that local brands often do not go through the standardised quality assurance processes recognised by the market, which is why the costs of product development can only be reflected in the price of the products to a limited extent.

#### *5.4 Local embeddedness of social cooperatives*

Social enterprises (including SCs) are usually embedded in strong social networks from which they draw support and exchange resources, thereby increasing their resilience and adaptability. According to our questionnaire survey, the most important social partners of the responding cooperatives (affecting 64.7% of the examined SCs) are local governments. However, cooperatives cooperate with local governments not only as social partners but also as business partners, a statement substantiated by the fact that more than half (53.9% of all respondents) named local governments as their key economic partners.

The complex, multi-faceted relationships of SCs with municipalities are closely linked to the specificities of the regulatory environment, which in Hungary makes it mandatory for municipalities to become members of SCs. The background to this – as we have already discussed – is the reorganisation model of the institutional framework of local economic development after the global financial crisis (2008), which relies on municipalities as coordinators, sponsoring organisations and development agencies for the catching-up of disadvantaged, lagging rural areas and local development aimed at social integration (Nagy *et al.*, 2021; Csoba and Sipos, 2020).

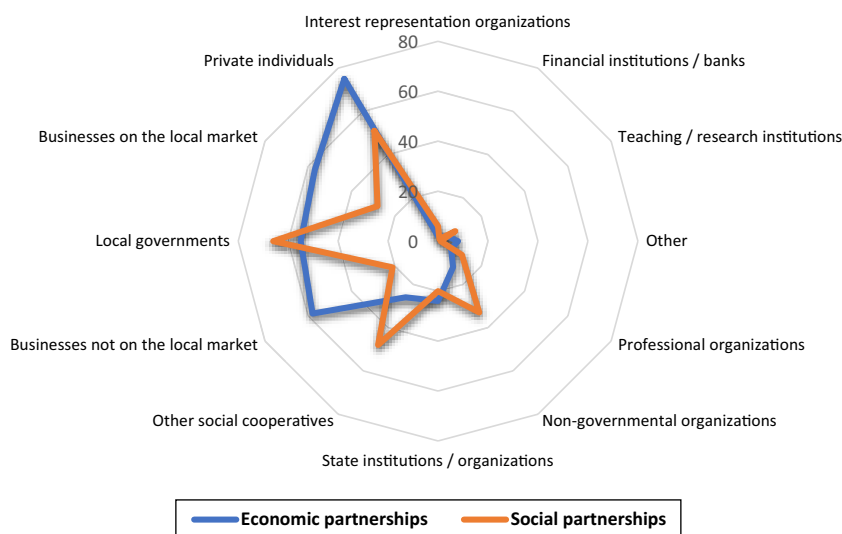
According to the results of the questionnaire survey, private individuals, including local citizens, are also characteristic actors of the economic and social relationship system of SCs. Out of the 102 organisations, a total of 75 organisations (73.5% of all respondents) sell

their products and services to private individuals living in their immediate environment (see Figure 7). The interviews also confirm that the local marketing of SCs' products is strongly influenced by social objectives (e.g. products are distributed to disadvantaged populations or sold below market price and used as raw material in local public catering). The strong local social embeddedness of SCs is shown by the fact that half of the organisations (50.0%) surveyed mentioned the local population as their most important social partner (see Figure 7).

Other key actors in social cooperative networks (affecting 47.0% of respondents) are social enterprises, including other SCs. According to the results of the questionnaire survey, these partnerships are most often established between members of the management to share information related to the operation, and they are used primarily as bridging social capital. The multifunctional social relationship between SCs is reflected in the fact that nearly one-fifth (18.6%) decided to participate in the Focus Support Programme at the encouragement or example of another social cooperative. However, the collaborations for economic purposes are most often ad hoc: only a quarter of the organisations (25.4%) indicated to have a business partnership established with another social cooperative.

The role of local market enterprises in SCs' partnerships is also significant, as evidenced by the fact that 55.8% of the responding cooperatives reported this type of cooperation. These relationships are typically aimed at the procurement of raw materials and services essential for the operation of the cooperatives, and the sale of products and services produced by the cooperatives. However, it is important to highlight the experience from the interviews that cooperatives often pursue social objectives when building up their business

**The most important social and economic partners of social cooperatives (N = 102), mentions (pcs)**



**Figure 7.** The social and economic partnership of social cooperatives

**Source:** Authors' own editing based on a questionnaire survey of social cooperatives (2021)

partner networks, providing income to local small producers or lower-income micro-enterprises in non-agricultural areas:

*We have at least 25-30 suppliers, two kinds, the old retired uncle who brings in the surplus from the small garden. The other (type) is the family businesses that grow some vegetables on a larger scale and deliver them elsewhere. We know everyone we buy from. (Southern Great Plain Region, Cooperative Manager)*

The questionnaire survey also provided an opportunity to examine the geographical scope of cooperatives' networks of business partners. Our results show that the geographical coverage of cooperatives' products and services is mostly micro-regional or local level (54.8% of mentions, respectively). In essence, the study of social cooperative partnerships has shown that local networks, in particular links with local authorities, local community and local market and non-market enterprises, are essential and indispensable factors for substantive economic operation. It seems that substantive operation cannot do without local partnerships based on personal trust, but the lack of external, bridging networks of partners makes organisations vulnerable to economic sustainability in the long term.

## 6. Discussion

Although SCs play an increasingly important role in the management of emerging global social and economic problems, it is a challenge for Hungarian RWI SCs to coordinate their declared social goals and aspects of economic sustainability as in other countries (Borzaga *et al.*, 2014; Depedri *et al.*, 2012; Fazzi, 2010; Fazzi and Elsen, 2020; Pansera and Rizzi, 2018; Valentinov, 2007).

Using the substantive economic approach derived from Polányi (1976), we analysed the operation of Hungarian RWI SCs to explore the main substantive promoting mechanisms and the barriers that make it difficult for organisations to operate in the market and be economically sustainable. In the following, we will proceed along the four aspects of analysis (based on Csoba, 2007; Baines *et al.*, 2019):

- (1) organisational aims and results;
- (2) integrating role and functions of RWI SCs as workplace;
- (3) and as a productive organisation (through products and services); and
- (4) embeddedness of SCs into the different types of relations.

I. Our starting point was that SCs regarded hybrid organisations as they combine social and economic aims (Defourny and Nyssens, 2006; Defourny, 2009; Olmedo and O'Shaughnessy, 2022; Roy and Grant, 2019). Our data show that the most important purpose of setting up a cooperative was to create jobs and promote the self-sufficiency of disadvantaged people, and the goal of community organisation has also come to the fore. These substantive aims point to the embeddedness of organisations in local society since RWI SCs seek to respond to the needs of the local community and to strengthen solidarity and cohesion, where economic development is not an end in itself (Polányi, 1976). At the same time, many studies have demonstrated (Defourny and Nyssens, 2006; Olmedo *et al.*, 2019; Olmedo and O'Shaughnessy, 2022; Roy and Grant, 2019) these social aims are combined with economic aspiration, as in the case of the examined cooperatives "self-interest", namely, the financial fundraising is mixed with "good-will" (Defourny and Nyssens, 2017).

However, the main substantive aim of these organisations is to integrate disadvantaged people into society through job creation; our research shows that this social mission and the regulations of funding programmes intended to support their operation keep the

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cooperatives on a forced path and ignore economic rationality; they usually employ a much higher number of people than the economic results of the organisations would justify. Despite the fact that organisations have many financial difficulties, at the time of the survey, the majority of the leaders do not intend to reduce the number of employees. However, our data support the thesis that the operating mechanisms of social enterprises are not static (Azkarraga *et al.*, 2012; Cook, 2018; Defourny and Nyssens, 2012; Storey *et al.*, 2014). As the life cycle progresses towards the end of the funding period, economic sustainability becomes increasingly important in the operation of organisations and causes serious frustration for managers.

II. Regarding the role of cooperatives as employers, we have found that they typically operate according to substantive principles, as goals and tasks are defined with individual needs and qualities, the social integration of employees and keeping them in work are the focus (Csoba, 2007). There is also a good, often more direct and empathic relationship between bosses and subordinates. That is why – on the base of interviews – the target group, namely, people with a history of unemployment or public work, chose this workplace despite getting lower than market wages. This claim is supported by the fact that the most commonly used incentives of cooperatives are good working conditions, flexible working and the organisation of community programmes, while economic incentives (such as higher than minimum wage) were of secondary importance. These results match those measured by Borzaga *et al.* (2014), who looked at the issue from an employee perspective.

The picture becomes more nuanced when we look at the outflow and fluctuation indicators. Based on our results, it can be said that despite these cooperatives employing people based on the principles of solidarity and fairness, they have served as “only” a stepping stone for many who had previously gained training and work experience here. This trend was strongly and generally felt between 2019 and 2022 when the labour shortages resulting from the economic boom in Hungary led the market to absorb the more (later also, the less) skilled labour force. Even though this is one of the declared aims of these organisations, i.e. to act as transmitters to the primary labour market, the outflow of skilled labour seriously jeopardises their sustainability and economic operation (Fazzi and Elsen, 2020). The situation is exacerbated by the fact that employment of disadvantaged workers thus requires significant additional resource expenditures (e.g. socialising, mentoring and training) that increase the vulnerability of the entrepreneurial activities of organisations (Fazzi, 2010; Borzaga, 1996).

III. Overall, the substantive way in which these organisations operate creates favourable conditions for the (re)integration of disadvantaged workers into the labour market. However, due to the dual goal system, cooperatives are frustrated by the desire and expectation for long-term sustainable economic efficiency, which is made difficult by the specificities and extra costs resulting from the substantive operation. The substantive approach to the products and services of the RWI SCs has confirmed that the focus of their activities is the local community (Olmedo *et al.*, 2019). In their operations, the RWI SCs mostly produce products and services that are not available to the population of rural settlements with service gaps, such as specialised consumer goods and personalised services (Kelly *et al.*, 2019; Liddle *et al.*, 2012). Overall, these functions of RWI SCs are extremely important in addressing the problems caused by market failures in rural areas.

On the other hand, our research has also confirmed that in the process of collective value creation, the RWI SCs predominantly use local resources (Steiner and Teasdale, 2017). For their activities, they mobilise not only resources of a material nature (e.g. infrastructure, land, disused buildings and physical objects) but also instruments of symbolic importance such as collective or personal knowledge, local experience, expertise, traditions, ideas, as

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pointed out in previous research (Olmedo *et al.*, 2023). The (re)use of local resources not only leads to the preservation of these physical and spiritual assets but also, ultimately, to the regeneration of the local economy and society.

Based on the results of our research, it seems that, when developing their products and services, the examined SCs are not driven by finding economic benefits associated with the entering of new products on the market but rather by specific, contextualised social goals (e.g. local value creation and social inclusion objectives). It is important to point out, however, that socially motivated product development and experimentation often compromises economic sustainability and its costs can be built into the price of the product to a limited extent.

IV. The results of our research on the partnership of RWI SCs showed that the behaviour of SCs is determined by specific, constantly evolving systems of social and economic relations and networks. In our research, we identified a high degree of overlap between the social and economic partnerships of SCs: the main partners of RWI SCs are local people, municipalities and their institutions and local small entrepreneurs, including small-scale farmers.

The general characteristic of the examined RWI SCs is that they are organised into networks of local actors with strong embeddedness. The reasons for the predominance of these context-specific relations are complex: on the one hand, the embeddedness in local social relations and the high level of social capital provide these organisations with resources, legitimacy and safety nets; on the other hand, their relationships are predominantly not based on the sake of commodities and the goal of obtaining profits, but to achieve an ambitious social goal (Olmedo *et al.*, 2023).

However, their capacity to interact with external systems (e.g. international and national markets, institutions and urban communities) is rather limited. This is presumably because the business models of these organisations defined by substantive operating principles are so localised, embedded and context-dependent that they are difficult to transfer to another operating environment (Kibler *et al.*, 2014). Other research points out that while locally embedded, reciprocity-based relationships undoubtedly facilitate access to the resources needed to start activities, bridging, vertically structured relationships that provide external resources are essential for subsequent sustainable operation (Lang and Fink, 2019). An important question for future research is how the highly site-specific, context-dependent, embedded and spatially non-mobile relationships of RWI SCs can provide a viable, sustainable business model for SCs in the long term.

## 7. Conclusion

Our main findings are formulated in the form of topic statements that first summarise the main substantive features and mechanisms helping SCs to achieve their social objectives, then the barriers to economic sustainability based on the study criteria in the four study areas.

I. The RWI SCs are driven mainly by substantive goals. Economic and social objectives are often intertwined, but the extent of their influence varies over time. Employment is both the most important social mission and an enforced goal for RWI SCs, where the employment rate is not consistent with economic results. II. RWI SCs employ a large number of unemployed people or those with a public employment background, but typically not the lowest skilled because of economic considerations. As being springboard for disadvantaged people (re)integrating them into the primary labour market, their competitiveness is weakening. III. RWI SCs play a key role in creating local value and expanding local community services. They offer a very wide range of products/services to integrate the

employed into the labour market and to meet the needs of the local population, but this diversity hinders more economically sustainable operations. IV. In RWI SCs, local partnerships play an important role in the development of social capital relationships; however, in the case of external bonds that cross group boundaries and create bridges, cooperatives are rather characterised by a deficit.

A fundamental research question to be further explored in the future is how the market-oriented development approach of the central government, with its emphasis on economic efficiency and return on investment, is compatible in the long term with the local development approaches and practices of SCs, which are based on the principle of a substantive economy and have to cope with the challenges of political, economic exposure and dependency. To this end, their continued sustainable operation and organic development are of paramount importance, with a supportive policy environment that provides operational stability and gives confidence to grassroots initiatives that focus on local interests and reuse local resources in innovative ways.

## Notes

1. The social economy – measured as the aggregate of cooperatives, mutuals, associations and foundations – employs more than 6% of the European working-age population (Borzaga *et al.*, 2014:4). The social economy has two main subsectors: the business/market subsector and the non-market producer subsector. The social cooperatives fall into the first group although these are not pure categories; there are overlaps between the two (CIRIEC, 2012: 15).
2. The study writing was supported by the National Research, Development and Innovation Office (grant No.147050).
3. Although the Hungarian law has adopted many modern elements from the recommendations of international organisations, financial and sustainability problems for social cooperatives have persisted, and social cooperatives have become dependent on the EU and its support programmes (Simsek, 2021).
4. In the Hungarian policy discourse, non-profit and civil society organisations can be considered “social enterprises if they have both social and business objectives, use the results of their management for the benefit of social objectives and apply the operational principle of participatory decision-making”.
5. Compliance with Act CXLV was required until 1 January 2018.
6. The programme was implemented with technical support from by the Ministry of the Interior under coordination by the National Employment Public Foundation Non-Profit Limited Association (OFA).
7. The condition for awarding the funding, which could be used for employment and small investments, was a continued employment of the hired employees, up to 18 months after the end of the funding.
8. In addition to the mandatory five persons, employment of 1–2 more people meant extra points.
9. HCSO statistics (2021) on registered businesses; public statistics on public employees employed under workfare schemes published by the Ministry of the Interior (2021).
10. The minimum wage of 2020, calculated with the mandatory amount for employees with secondary education and the average number of employees.
11. In most organisations (42 organisations), the movement of labour force affected 4–6 people, followed by a volatility of 1–3 people (29 organisations), while in one fifth of the sample, more than seven employees left the cooperative since 2017. We have information about the jobs of 212

of the employees who left the programme. In total, 21.2% of them were skilled workers, 17.4% were semi-skilled workers and 20.7% were unskilled workers.

12. Another 37% had a family-related reason.
13. In disadvantaged areas of Hungary, high levels of long-term unemployment have been caused by structural factors (the collapse of heavy industry and the restructuring of industrial agriculture after 1989). The residents, typically with lower education, have entered a state of long-term unemployment through no fault of their own, and it is very difficult to escape.
14. We considered any products or services to be new products or services owned and self-developed by an organisation when they were developed during the operation of the given organisation and had not existed earlier in the given form.
15. In the course of the questionnaire research, we considered it their own brand when cooperatives had some products or services individually named and produced by them.
16. As a rule, their products bear the name of the settlement where the organisations have their registered seats or the name of the given sub-region or less often some fantasy name referring to the producers.

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