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Social Innovations for the Disadvantaged Rural Regions: Hungarian Experiences of the New Type Social Cooperatives¹

Abstract

The study explores the spatial specificities of the new type of social cooperatives, with an emphasis on assessing the dichotomy appearing in relation to advanced and disadvantaged areas. It also looks at the features of operation, employment role and long-term sustainability, proposing support and further development opportunities. The key goals initially set of the cooperatives have not yet been implemented uniformly. They could not have met the requirements of significant development in local economy, enhancement of self-sufficiency and the transit role entailing labour market reintegration. However, they have already fulfilled the social objectives; namely, long-term local employment almost completely. The problems are mainly caused by lack of capital resulting from the lack of creditworthiness and the difficulty of further expansion of market opportunities. For further development, new, preferably county or national level markets should thus be targeted. Hence, to achieve favourable changes, the development of well-founded marketing strategies will be necessary.

Keywords: labour market, social cooperative, disadvantaged, employment, sustainability, Hungary

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1. Introduction

The research results focusing on hyphenated public work (Tésits and Alpek 2014a; 2014b; 2015), raises the question of what the long-term aim of the agricultural programme may be, as it is the most popular of all the eight piers of the “Start” work programme. Although there are considerable regional variations, on the national level, one-fourth of the public workers still participate in activities connected to crop production, animal farming or traditional preservation work. In the case of the agricultural tier, Transdanubia (primarily Győr-Moson-Sopron, Veszprém and Tolna Counties) is represented by a smaller number of settlements but a significantly higher rate per settlements, while in the North Great Plain (mostly in Jász-Nagykun-Szolnok, Szabolcs-Szatmár-Bereg and Hajdú-Bihar counties) more settlements share the values otherwise higher than the national average (Angyal and Oszi 2013; Artner 2013; Bagó 2013; Koltai 2013; Kulinyi 2013; Olah 2012; Zemplyeni 2013).

The popularity of the public employment programme in the aforementioned regions is not surprising, as it takes into account the local conditions in combining both large-scale agriculture and backyard farming by unique products and the highest possible degree of processing. Thus, in the most disadvantaged regions, they offer solutions to people with low qualifications which theoretically secure their livelihood on the long run; this is accompanied with additional practice-centred training. However, if the aim is merely the education of only self-sustaining backyard farming and the related skills, then the marginal position can be conserved. Combined with the inexpensive labour force, this can improve marketability only in the short run. Therefore, the pivotal question arises: how is it, if at all, possible to offer permanent employment opportunities that take productivity into consideration?

The decision on subsidising the establishment of new type social cooperatives was made in 2012, while its first phase affected 47 of the most disadvantaged sub-regions in Hungary and 800 such settlements where the population is less than 5,000 and they could not make an advance in the traditional grant schemes. Hence, 5 million forints were planned to be allocated to the newly established social cooperatives on condition, among others, that they would try to include all the disadvantaged families living in the smaller settlements. According to the plans, the phase after the initial

years will be subsidised by 15 million forints and, in the third phase, the sum of the grant will grow to 50 million forints to support cooperative activity taking the form of small-scale workshops.

In 2013, under the auspices of the New Széchenyi Plan, subsidy grants from the Social Renewal Operational Programme (TAMOP) were announced to develop the social economy. The subsidising of the social cooperatives to achieve self-support has a distinguished role in this programme. The grant subsidises newly established social cooperatives to further the regional development of the self-support of disadvantaged individuals in lack of employment or steady livelihood. Thus, the inhabitants of the disadvantaged regions will have the opportunity to join such an economic and productive community in which they can earn their everyday living.

This study aims to survey the founding conditions of the new type social cooperatives established after 1st January 2012, assessing the regional consequences of their activity and their possible role in employment and reintegration. In addition, a further goal was formulated which was set to map those resources that can support regional development and the improvement of the standard of living. Along with the afore-mentioned aims, one of the most important goals will be the examination of long-term sustainability considering such factors as the permanent and revolving demand for the products or services and the catchment area. These are indispensable for survival in the market or possible further development and growth. It was considered necessary to cast a light on the efforts that can secure economic survival and self-sustainability without subsidies and grants.

2. Literature background

In addition to reviewing the several decades of development of the social cooperatives (Nasioulas 2012), the European studies dealing with the social cooperatives published after the turn of the millennium draw attention to the importance of the essential social/welfare services of these organisations and the role they play in integrating disadvantaged people. They emphasise the ability of the sector to realise much wider social projects than earlier (Thomas 2004).

Other studies show the importance of the added value of cooperatives in a world characterised by state overload, globalisation and increasing social

and political fragmentation. They highlight those – mainly legal – changes that have increased the sector's production and competency in social services (Gonzales 2007).

The latest results not only classify the social cooperatives, but they point out the problems that mainly come from their underdevelopment and small size, adding that their potential is enormous regarding their employment role (Osti 2012). These studies demonstrate the specific types of cooperatives (green or agro-food organizations) and their problems too. The most critical issues of the latter come from market difficulties (Giagnocavo 2012). Despite these problems, studies emphasise the growing socio-economic role of these organizations in Europe, particularly in the strengthening of local economies (Borzaga et al. 2014; Defourny and Nyssens 2008; Nyssens 2008; Birkhölzer 2008; Borzaga, Galera and Zandonai 2008; Fraisse 2008; Les 2008; Liveng 2008; O'Shaughnessy 2008; Pättiniemi 2008; Perista 2008; Pestoff and Stryjan 2008; Spear 2008).

Much of the literature deals with the Western European model. However, the results from the Central European models may be useful for a pan-European development of the third sector. The present study is innovative because it reveals the possibilities of social cooperatives in the future development of the disadvantaged rural areas of East-Central Europe, as well as investigating how they can take advantage of these opportunities.

Regarding the afore-mentioned issues, the first Hungarian comprehensive research was conducted by the Budapest Business Development Research Institute in 2010 (Petheo et al. 2010). Beside theoretical issues, the study dealt with the assessment of European policies related to social economy and cooperatives, assessing the EU survey results carried out so far in connection with the third sector and placing a special emphasis on such European examples that focus on the furthering of the operation and support of social cooperatives. It surveyed the activity of the social cooperatives before 2010 and highlighted those areas which might offer an opportunity for the Hungarian social cooperatives to gain momentum. When evaluating the Hungarian conditions, the survey took into account the chances of relying on extended amounts of EU subsidies.

More recent findings in the field were published in 2011 and these included the experiences of the first subsidy programme that encouraged the initial steps of setting up social cooperatives (Simko and Tarjanyi 2011). The study revealed that the legislative environment in Hungary did not support but

rather discouraged social cooperatives. In addition, most of these organisations were not cautious enough to assess the market demands and their business plans were not sound enough. In addition, these factors contributed to the equity gap and temporary liquidity problems that characterised most of the cooperatives. The financial hardships were combined with seriously incapable or unprepared managers and these issues were further aggravated by the fact that a considerable proportion of the advisers and mentors were unpractised. Aside from the problematic issue of human resources, the employee morale and the motivation of the often unemployed or disadvantaged members was not adequate, as these people mostly had an employee attitude instead of the attitude of cooperative membership or ownership (Soltesz 2012; Simko and Tarjanyi 2011).

The experiences of the next, EU-funded programmes have confirmed the results of the earlier survey which found that the management of a portion of the freshly registered social cooperatives had not possessed the necessary skills before application. In addition, a proportion of the TAMOP-grantees were backed up by entrepreneurs and managers with material and financial reserves, who saw an opportunity in this type of support and business operation. The other part of the successful grantees had an advantage due to their earlier project management experiences and their established market connections, or their choice of a better and more innovative activity. In these instances, there seemed to be a higher chance of ensuring project sustainability in the long run.

These assessments also included regional characteristics. They found that the regions which are more disadvantaged in the labour market (North Great Plain, North Hungary), probably due to understandably higher application activity, were already overrepresented at the time of the research. The regional distribution of the successful applications along settlement types have also revealed a remarkable pattern. In the smaller settlements, it is very hard to find other marketable activities for the social cooperatives, as these application types exclude agricultural activities. A further regional consequence was found, i.e. the market of the products and the services were generally not restricted to the settlement or the sub-region, but the social cooperatives found the market gaps and aimed at the markets in a wider geographical area.

The TAMOP-grant structure had a substantial advantage over the earlier ones, as the founding members seemed to be more unified, skilled and

practiced than in the case of the former subsidies. Insecurity was more prone to emerge from the fact whether the management can successfully integrate and motivate the disadvantaged into appropriate employee status and actually ensure their process of becoming self-employed. Based on the desk research of the literature it can be declared that the new type social cooperatives – although their establishment was firstly induced by the motivation to get subsidies and most of them could not establish good partnership with the local government – can become good examples of innovation for the Hungarian business practice. Although it is still pending if the social cooperatives are sustainable in the future, most of the organisations are positive about the long-term sustainability of their activities. To achieve the above, innovative ideas, market gap-filling services and good local relations need to be supported by further government subsidies and concessions (Simko and Tarjanyi 2011; Soltesz 2012).

3. Research methods

In the research of the different regional opportunities of the social cooperatives, both primary and secondary methods were used. The desk research included the articles and studies published after the legislation on social cooperatives came into effect in 2006. The primary studies were partly based on the secondary database of the National Association of Social Cooperatives that kept record of the registered organisations.

The target group of the questionnaire-type survey was selected from more than 1500 new type social cooperatives and 326 – one-fifth of the whole range – which were chosen on the basis of the location of their headquarters in a settlement in one of the MD (most disadvantaged) sub-regions. The questionnaires were allocated to the entire target group and a valid response was provided by 132 organisations. The questionnaires and the evaluation have been built up according to the following structure. We evaluated the founding circumstances of the new type of social cooperatives, their activities, employment capacity, special resources, long-term sustainability opportunities and the demand for their services, as well as their cooperation ability and willingness.

The activity of these organisations is not exclusively attached to the primary sector, let alone the fact that more than 60 percent are service providers

based on their classification of business (TEÁOR—Statistical Classification of Economic Activities in Hungary), while only one-tenth operates directly in the agricultural sector. The former group is larger and includes community, social and free-time activities, social and health care services, education, cleaning, advising, personal or accommodation services and commerce. The primary branch is comprised of crop production and animal farming, fruit and vegetable processing and preservation, forest product gathering, forestry and forest cultivation activities. The processing industry organisations primarily manufacture light and food industry products and, in a smaller proportion, chemical industry goods.

The spatial distribution of the surveyed organisations is also versatile, while two-thirds of the cooperatives in the MD-regions have their headquarters in North Hungary (predominantly in Borsod-Abaúj-Zemplén County), the remaining one-third can be found in equal measures in South Transdanubia and the Great Plain.

4. Results

4.1. Sectoral and regional aspects in the establishment of cooperatives

The majority of the social cooperatives examined in the present study were founded in 2013. The economic reasons and motivating factors behind their establishment were local, unsatisfied demands on production or service. Such demands primarily concern the purchase, processing and/or sale of locally produced raw materials, vegetables and fruits. This is not surprising because individual products manufactured in low quantities in any product group have a competitive disadvantage on the market due to regulation difficulties, unfavourable taxing, legal and bureaucratic jungle. In each case, crucial social factors come into play, such as the need for value creating local and regional jobs, providing income for the disadvantaged and the development of their social status and living standards.

However, the establishment of a social cooperative can also be initiated by political intent, as in many cases the development strategy formulated by the leaders of the settlement organically includes job creation, the improvement of self-support or the development of the local economy. If the missing resources and the investors cannot be attracted from the outside and

there are no significant subsidy opportunities then, by mapping the resources the region has and finding the ways of their use, the local operators should be supported in satisfying the needs of the inhabitants. In the disadvantaged regions examined, the traditional tools of economic development did not have significant results. In this instance, strategies do not only aim at economic development, but they focus on social improvement on a wider scale that includes the improvement of the quality of life and community development.

Several factors have contributed to the establishment of social cooperatives. Arguably, the most substantial one was the opportunity to obtain the subsidy of the grant promoting the development of social economy. This sum gave a large enough incentive to launch the social cooperatives that was supported by local government activity, including agile enthusiasm, with earlier experiences in value creating public employment, legal expertise, positive examples and the operating patterns of successful, nearby cooperatives. The “Start” model work programme has created similarly advantageous preconditions, whose support formed an excellent foundation for value-creating establishment and the development of an increasingly market-based activity. Agricultural production is frequently not governed by market demand; thus, the most general example of such a connection is when the goods are provided to the consumer in a controlled way to evade sale difficulties, i.e. agricultural raw material production that has already started in the sub-regional programme is complemented by processing with a more sophisticated infrastructure or involving retail/wholesale trade (e.g. in Kérsején, Berekböszörmény etc.).

The initial goals were naturally rather than evenly accomplished. While the freshly launched cooperatives fully met the social aims and most of the requirements of permanent local employment, they have rarely matched the need for a substantial development of the local economy or the enhancement of self-support and a transitory role i.e. through reintegration into the labour market, sustainability, continuous development or the encouragement of entrepreneur attitude.

The choice of the principal and secondary activity of the cooperatives was influenced by numerous factors. Adapting to the agricultural production traditions of a given region or the existing infrastructural foundation with the traditions of industrial production – or earlier investments encouraging vegetable and fruit production, food industrial processing and trade – was an advantage in the manufacture of ready-to-wear clothes, outerwear, working

clothes and accessories. Satisfying local demands on uncovered services was of an extraordinary importance in choosing the activity types of the organisations dealing with public space maintenance and general cleaning. The appreciation of the need to keep the public spaces in an appropriate state is not surprising, being that environment protection and the quality of individual's life are becoming more and more important as issues nowadays, particularly in those settlements where the development of tourism is a significant factor of the mid-term plans. In the case of labour-intensive activities, skilled and available work force and the involvement of the highest amount of people possible were decisive factors when the organisations opted for light industry, ready-to-wear and joinery activities.

4.2. The role of cooperatives in employment

Almost the entire range of employees in the social cooperatives examined consists of members of a disadvantaged group. Women are overrepresented in these cooperatives because of the dominance of sewing, ready-to-wear industry, trade or agricultural activities. Male dominance can be observed primarily in activities connected to the construction industry. The employees of these organisations are middle-aged or people older than 50; most of them have primary and secondary education qualifications. The tasks that they cover primarily require skilled labour. The cooperatives mostly employ older but active individuals (25 percent), people with low school qualifications, women and Roma people (25 percent). First-time employees and disabled individuals come at the end of the line in a proportion of less than 10 percent.

Thus, the living conditions of disadvantaged employees can improve in the settlements concerned. Moreover, these employees can advance their living conditions who want to draw an income based not only on their skills and experience but their industriousness and motivation as well. Their proportion is dependent on the size of the settlement, as the average number of the employees at a cooperative is 20, which might as well amount to less than ten workers or, less frequently, a staff of 100 people. This will not solve the labour market problems of a bigger village or a smaller city. However, in small settlements with less than 1,000 inhabitants where the number of the active population is less than two-thirds of the residents and the proportion of the registered unemployed persons is less than 10 percent, while the presence of the cooperative can offer significant stability throughout many

years. As the average number of members in the organisations is relatively low, they generally employ the local work force. Nonetheless, organisations with activities that require more employees can have an influence on the labour market status of more settlements in the region.

According to the organisation leaders, most of the employees are motivated. Less enthusiasm is usually the consequence of despair resulting from poverty, hopelessness and the lack of long-term planning. Discipline problems (absence, improper work, abuse) are very rare. The gross monthly salary of the employees is over 100,000 forints, which exceeds the minimum wage by a couple of percent, but it is still 40 percent more than the public work salary. The employers also try to increase employee motivation by free-of-charge trainings, cash benefits, bonuses or the creation of positive workplace atmosphere, which also includes both understanding and appreciation.

Nevertheless, the goal of recruiting cooperative members is less fulfilled, while the process of becoming self-employed is practically undetectable. The main reasons for the latter case are naturally the lack of market opportunities, the risk-avoiding attitude of the employees, a short business history and the principal business activity of the cooperative, which barely supports self-sustaining forms for the individuals (textile- and ready-to-wear industry, public space maintenance etc.). This rate will grow with time, even with these cooperatives being primarily capable of employing the disadvantaged, being that the individual lack of assets and the risk the individual must take are moderated and responsibility is shared.

The cooperatives examined cannot be classified as employment cooperatives. Therefore, their profile, without exception, is set to permanent employment. Employment is generally supplemented by training, which increases labour market opportunity through providing on-the-job qualification skills (e.g. vegetable- and fruit processing) to a smaller extent, while the development of communication and acquisition skills, IT-knowledge, personality and self-awareness is pursued to a higher degree.

4.3. Special resources needed for permanent employment

When evaluating the classical resources, half of the cooperative managements reported that the capital necessary for the operation of the organisation is just the amount needed, while they cannot provide sufficient resources for the maintenance and development of the material assets and tools. Those

who feel that capital resourcing is a substantial problem must face several difficulties. However, these hardships are not activity-specific as they also inform garment and joinery industry organisations and trade cooperatives. Naturally, there are differences in the inner structure of their activity profile, as most generally raw material production and manufacturing are less profitable than trade activity.

At the same time, one of the most substantial problems is the lack of consumer demand for service or products, which is exacerbated by a low level of solvency or the unreachability of consumers. A portion of the goods are thus left unsold. Similarly, it causes sale and liquidity drawbacks if the target market consists of local people who can hardly produce the consideration of the services offered. In the background of the problems with capital supply and liquidity, weak grant application activity or insufficient managements can be found which, in the early years characterised by lower market and trade revenues constitute the main resources of the cooperatives particularly because, at this early stage, the organisations do not yet have financial reserves. If there is a financially sound market demand and the revenues are primarily based on business activity, then the vicinity of a competitor on the market might constitute a problem, if it is larger, more liquid and more experienced in the market. It can thus achieve higher cost-effectiveness.

More than two-thirds of the respondents have considered the material assets needed for the activity suitable, but their maintenance and development would be relevant and required. However, the development of the infrastructure and the vehicle fleet will need the acquisition of further markets and grant subsidies. In the assessment of the human resources, the weakest point proved to be the skills, competence and community attitude of the employees. Nevertheless, in several cases their reliability and flexibility in need was highlighted as positive traits. In the self-assessment of the leaders, biased evaluation cannot be fully excluded. However, skilfulness and competence received similar lower points, while community attitude, reliability and motivated work have proved to be the strength of all management.

Placing the resources into a wider context, more than two-thirds of the management committees of the examined cooperatives consider their activity to contribute to the development of the disadvantaged settlement/region. Most managers associate this with the direct socioeconomic effects, which is manifested in the reduction of unemployment and the improvement of the

social status of the residents. If these goals are achieved, then the burdens of the local government can decrease and development can be more easily carried out. According to this argument, the operation of the cooperative can indirectly influence the evaluation of the settlement. The good example can hopefully attract further businesses, while it may also trigger the establishment of new ones, which results in more income from local government taxes. The development of the local economy might as well have an indirect, community shaping effect.

Improving the living conditions of the inhabitants can be attained by other means, as well. It can include operating social shops as well as the maintenance of public spaces in the settlement or locally producing food raw materials that can offer good-quality, healthy and safe supply for catering. Besides carrying out other tasks important for the local communities, a portion of the cooperatives have community development and cultural activities. They organise social events and gastronomic festivals, or they can perform traditionalist activity by operating village cultural centres and so contribute to the strengthening of local identity, which can indirectly help retain the population. Even the community developing effect of the group leisure activities organised for the employees can be substantial in a smaller settlement.

Most of the social cooperatives have placed an emphasis on environmentalism and sustainability, as beyond the basic, legal directives they can also reduce the burden on the environment by traditional craftsmanship activities, environment-friendly and planned fertilisation, organic product processing, using green packaging materials and non-chemical preserving processes based on heat treatment. These processes are combined with low “food-kilometre” values, which save fuel and render the use of packing materials, preservatives and additives unnecessary. Environmental sustainability is enforced in the use of organic wastes of natural origin (agricultural, horticultural and green waste) as, after composting, they are suitable for soil-conditioning.

4.4. Long-term economic sustainability

The annual revenue of the social cooperatives surveyed, which was carried out in the year when the actual service was launched, immediately after it was established, ranges on a very broad scale, from a couple of million forints to 40

million. The higher income here is exemplified by organisations dealing with green space maintenance or vegetable and fruit wholesale trade. However, the distribution of the revenues is not so versatile; in most of the cases, the income of trade, productive and service activities do not exceed half of the whole amount, so the larger part is provided by state or grant subsidies. If local government does not contribute to their solvency, then these organisations do not have any financial reserve apart from the venture capital and grant subsidy in the classical sense. It should be added that, without an unrealised income, setting up solvency and operational reserves is not a prerequisite in the first year of the business.

The market is characterised by the fact that, even in the disadvantaged settlements or regions, there was demand for the services and products of more than two-thirds of the cooperatives. Solvency is a little lower compared to the demands, but, according to the management structures, it has a continually decreasing tendency. The lack of solvency is especially characteristic of the demands of the residents. If the small or middle-size enterprises or the state/local government have a demand for the products of the cooperatives, then the problem is naturally less definite in a financial sense. The proportion of those cooperatives is nearly identical which have difficulties in reaching their potential buyers and whose products are well defined. Where the activity has precedence – for example, production in the “Start” work programme – then the goods are introduced into the market therefore they can be more successful. More than half of the cooperatives would be unable to offer more products/services at the current price, but neither are they forced to retain their goods in stock.

The structural and regional distribution of the demand is governed by definite tendencies. In the initial years of business, the local and sub-regional demand, nearly to the same extent, exceeds two-thirds of all the demands, while on a county, regional or national level, it is only around 10 percent respectively. In sum, the consumer and market sphere demand is dominant (48 and 42 percent), while that of the state/local government is as little as 10 percent. As the local demand is primarily connected to consumers, it is the SMEs and, to a lower degree, local governments that are potential buyers from an extended area.

The relationships outlined above are backed up by the satisfaction evaluations on the quality and spatial distribution of the demand. The satisfaction with the quality and spatial distribution is higher if the product

or service sales are directed at the market sphere or the level above the local market, i.e. the sales are geographically more extended. As opposed to this, dissatisfaction is greater if the sales are restricted to the satisfaction of local consumer demands with less purchasing power. Evaluating the future trends of sales, the local governments believe that the purchasing power will keep its level, while they are more optimistic about the number of customers and their expectations are justified in this early phase of business activity. Predominantly those cooperatives belong to this group that offer a market gap-filling product or service. Nearly half of the examined organisations belong to this category, while their activity is more excessively based on a real market demand surveyed beforehand.

A little more than half of the cooperatives think that *their revenues* obtained from market-based activity *is insufficient* to pay for the expenses and that the missing amount should be covered by more substantial grant subsidies or other sources. In summary, one of the most important problems is insufficient capital and solvency, as it slows down the business activity and hinders meeting the requirements for quality. All of these issues result in a significant competitive disadvantage compared to that experienced by larger companies. Even business ventures with more favourable market conditions could not finance themselves without grant subsidies. This is a crucial point as they cannot afford developing although the continuous maintenance and servicing of the infrastructure and the machinery would require this. In the initial one to one-and-a-half years, there was only a one-time opportunity, via the starting TAMOP grant, to obtain resources for the acquisition of machinery, tools, equipment and building renovation. The development did not directly generate the creation of jobs, as even the renovation tasks were carried out by entrepreneurs. Thus, the number of employees practically corresponds to that of the grantees of the starting subsidy.

There is substantial *difference of profitability* between the producer and trade activities in favour of the latter. In this case, it should be considered that the organisations have just started their business activity. Thus, a portion of the agricultural activity needs a shorter or longer transitory period to produce results, while trade activity also needs time for establishing the markets and advertise the manufactured goods. In addition, the lack of capital is combined with the burdens of local employment and the resulting weak purchasing power and the price sensitivity of the consumers.

The productivity of the organisations is apparent in the *finished business plans*. Almost one half of the managements think that they could not create a sound strategic document which may be caused by the short deadline of the grant to set up the business plan, the lack of suitable experts qualified in financing and the lots of initial, uncertainty factors. In the case of smaller organisations, such factor is the smaller quantities produced, where the potential fluctuations cannot be “straightened out”. Starting the activity is mostly characterised by introducing the brand, the shop or the service into the market; thus, the volume of the sales is very hard to estimate. Naturally, there are several conditions that can modify the revenue; hence, sometimes not even the most realistic scenario might be carried out. The income may be influenced by the activity of the competitors, the changing of the environment or even problems within the cooperative. However, no business plan is cast in stone, while the numbers can be revised in the form of a modified business plan.

The unprofitability of more than one half of the cooperatives is the consequence of the activity of their competitors. While the competitors of the trade cooperatives can be found in the settlement, the ones with processing activity can only be found in the nearby towns. Apart from the fact that the competitors are larger, have more liquid assets and have a longer history of operation, they are also in possession of well-established suppliers and trade routes; they are hwnxw more cost-effective. The cooperative managements are inclined to acquire and appropriate the business attitude putting productivity and effectiveness more into focus and paying more attention to planning and development. A profound knowledge of the cooperative products, services and their market is thus needed while a strategy must be created. In addition, the knowledge of the basic business/production processes (manufacturing, logistics, sales etc.) should be combined with monitoring the challenges and opportunities. The reactive meeting of market demands should thus be surpassed and proactive attitude is a necessity.

Taking the difficulties into account naturally involves pointing out that the activity of social cooperatives is *less innovative*, even if it has a gap-filling function. Innovation in a classical sense, i.e. the continued and intensive development of tools and technologies, is not the natural requisite of cooperatives. However, innovative attitude characterises those activities that exceed the traditional functions of the cooperatives: processing, trade, social services improving the living conditions of the members of the economic or local community, or in the multiplicity of the business activity. In addition,

innovation can also be found in the business attitude only possessed by a couple of organisations and in the flexible satisfaction of changing market demands, which is at present confined to a trend-following market strategy at most.

The evaluation of the operational problems found that in the field of HR faces the greatest challenge in raising the salaries and, in the case of supplier/consumer relations, other hardships include the development and introduction of a new product as well as the financing and the human resources factor of the marketing activity, i.e. locating the new customers, offering discounts and managing sales. All these factors determine the drawbacks of liquidity, then exacerbated by the lack of the opportunity to raise capital and borrow money. Creditworthiness is dependent on coverage, which presupposes the possession of a collateral, marketable estate or shop. However, most of the cooperatives do not have real estates. Thus, the problems are primarily rooted in the difficulties of further extending the market opportunities, while the lack of available capital partly results from the lack of these market opportunities and from insufficient creditworthiness.

More than four-fifths of the cooperatives do not have established connections with the small factories, they do not collaborate. However, nearly half of these cooperatives are planning on *cooperation* some time later. Still, in the sale of processed, mostly food industry products, the establishment of a long-term cooperation would be a step forward, as well as in the case of hired labour force or mutual marketing of the products. Even a permanent, reliable outworker activity built on simpler, unskilled work would provide extra resources. The cooperation with other social cooperatives is similarly unfavourable. They basically lack information about other cooperative activities and cooperation opportunities. Only cooperatives that undertake processing and trading larger volumes have established and outstanding relations with smallholder farmers, suppliers and wholesale retailers. Cooperation with local government ranges from the absolute absence of connection to excellent relations; in the latter case, the government furthers the activity of the cooperative in every possible way. This pattern is mostly characteristic of those cases in which the mutual interests are directly manifested in a local government membership or the mayor taking the manager position of the cooperative.

Another factor is worth mentioning which primarily afflicts the everyday activity of agricultural cooperatives: changing weather conditions. The

greatest challenge of producing agricultural raw materials is their increasing vulnerability to extreme weather and climate conditions, which can hinder development and competitiveness. Plant production in particular is subject to pests, weather and environmental conditions; the fluctuation and uncertainty of produce is thus substantial, which has an effect on the planning issues mentioned above.

The cooperatives would naturally prefer to increase self-sustainability, especially in offering unique marketable activities and services, maintaining the quality of the products and keeping the customers. Further development and attracting more customers requires aiming at additional, potential county or national markets, or signing contracts that secure permanent, reliable purchasers.

Besides help coming from the local government, TÁMOP and LEADER-grants have funded development (e.g. capital increase) to date. However, the cooperatives expect more support, other than financial, from both decentralised sources and the state government. While they expect the increase of cooperation as a result of the former subsidy, the latter hopes to extend the processing capacities, tool acquisition, establishing financial reserves for the purpose of paying wages and contributions by offering grant and credit opportunities. The attainment of their goals would be furthered most by a favourable modification of the legislative environment (the cooperatives should be allowed to be public employers to save labour costs) and offering advising services including systematic dissemination of information on available grants, market organisation, logistics, project-generation i.e. on development and financing opportunities.

To encourage favourable change in the market conditions, the creation of marketing strategy and its development, market survey and relational capital forming are needed. Less than one-third of the cooperatives had a homepage at the time of investigation, but the rest are planning to make one. Part of a more effective marketing strategy could be the setting up of cooperative homepages, the starting of online sales and the introduction of mobile outlets although it is very expensive and requires vehicles. However, they alleviate insulated market position, enlarge the group of customers and make the products more widely known. In addition, there is a further need to find the necessary experts for the afore-mentioned tasks and, for the time being, keep a constant level of quality, develop and extend the range of products/services and processing capacities primarily through grant subsidies.

Naturally the local self-organised activity is not enough for the successful development of local economy. To achieve this goal, the state, local government and business sectors need to be synchronically supported, the black industry should be curbed, smallholder farmers ought to be subsidised, and legal, financial (credit and support), advisory, professional service and training background should be provided. It is pivotal predominantly because the development of the competitiveness of the social cooperatives facilitates an economic growth through the extension of products and services that create an increased amount of added value. In the absence of other possibilities especially in the settlements of the most disadvantaged regions, the work-experienced individuals leaving public work can only secure their living in the new type of social cooperatives. A new subsidy grant has been available since the end of 2014 due to the new “Sui Generis” programme furthering the establishment of member labour status that aims at self-care and self-support. This grant can be used for the improvement of professional, financial and administrative capacities, while it can also help provide background services, maintain, modernise and upgrade technology and acquire production tools. The social cooperatives founded on the value-creating sub-regional “Start” work model programme can be preferred in these subsidy grant application processes.

5. Conclusions

The new type social cooperatives were predominantly established in the disadvantaged regions in the last couple of years. The most significant differences in the spatial structure can be primarily observed in the agricultural activities most influenced by natural factors. In the mainly, moderately hot and drier climate of Nyírség, the group of settlements enclosed by Western Nyírség and Hajdúhát is exceedingly vulnerable to weather conditions.

The most important goals outlined at the launching of the cooperatives have not been evenly accomplished so far. They have been incapable of considerably developing the local industry, improving self-support, living up to the expectations of the transitory role, i.e. reintegrating people into the labour-market, providing sustainability and continuous development, or encouraging entrepreneurial attitude. On the other hand, the cooperatives have almost completely fulfilled their social goals and achieved permanent

local employment. In other words, each of the public workers lives in disadvantaged regions, while older individuals, people with low education skills, women and Roma people were those predominantly provided with income raising opportunities. Thus, in the affected settlements, principally the smaller ones with less than 1,000 inhabitants, most of the disadvantaged job-seekers can improve their living conditions locally. However, the cooperatives with activities requiring more labour can even influence the labour market conditions of more settlements in the region. For the time being, the aim to turn individuals into cooperative members has already been fulfilled to a smaller extent, but self-employment has not practically been achieved. This failure is due to many factors, naturally including the lack of market opportunities, the risk-avoiding attitude of the employees, the shortness of time since the establishment of the cooperatives, or their main activity profile which often does not make it possible for the workers to become independent entrepreneurs.

In the evaluation of the role the cooperatives play in settlement development, it is worth considering that beyond employment and the improvement of living conditions to alleviate the pressure on the local governments enabling them to invest the thus released resources in developments, the operation of the cooperatives can indirectly become a part of settlement-marketing and can also improve the general assessment of the settlement. The good example obviously attracts and encourages the establishment of other businesses; thus, the local government can gain more income through tax revenues. In addition, the development of the local economy can have an indirect community-forming role, which results in the strengthening of the local identity and thus enhances the population-retaining ability of the settlement.

From a marketing and sales perspective, those cooperatives are disadvantaged which predominantly specialise in the fulfilment of the local/consumer demands, as these purchaser groups are the least affluent. This is frequently combined with a smaller, district catchment area; thus, the opportunity for sales is even more limited. The cooperatives are more satisfied with the quality and spatial distribution of the demand if the product or service sales target the market sector or the catchment area above the local level, i.e. a geographically more extended market. The revenues gained from the market activity do not cover the expenses in most of the cases, so the missing sum must be compensated for by grants and other subsidies. Not

even the organisations that operate in more favourable market environments could be self-sufficient without tendering resources.

However, there is a considerable difference in profitability between productive and commercial activities, the latter being in a more favourable position. Insufficient market results can also be attributed to the activity of the competitors; the cooperatives specialising in food trade have competitors even on the local level, while those which have processing capacities operate in the nearby bigger settlements and towns. There is much to be learnt from the more experienced, cost-efficient and better capitalised factories; the cooperatives need to go beyond reactively meeting market demands and they will have to acquire a proactive attitude. In addition, innovation in the classical sense, i.e. the continuous and intensive development including assets and technologies is also not applicable to cooperatives. The problems are primarily rooted in the lack of capital, which is due to the adversities hindering the further extension of the market opportunities and the absence of creditworthiness.

Moreover, the majority of the cooperatives have not established cooperation with the smaller factories, although this would help the enhanced utilisation of the market opportunities. Further development and the extension of the potential buyers can only be attained if new, preferably county-level or national markets are targeted or purchaser contracts signed, which would then secure continuous demand. Thus, a well-established marketing strategy will also be required to promote a favourable change in this field.

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