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Department of Decision Sciences
Doctoral School of Business and Management

Thesis collection

for the Ph.D. dissertation

Business characteristics of the operation of Hungarian social enterprises

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1. Introduction

1.1. Preface

My interest in social entrepreneurship started at the beginning of my Master's degree, when I started thinking about how to combine being an entrepreneur with helping others through entrepreneurship. This is when I met the social entrepreneur, Éva Ibolya Farkas, who supports many people with her mental health solutions. I interviewed her on several occasions to get to know the subject better, which I used for my thesis and several articles. Although I am not a social entrepreneur in practice and do not run a social enterprise, I have had the opportunity to research the entrepreneurial thinking, activity and decisions of social entrepreneurs from various angles over the past years. In my dissertation, I used the results of previous research and explored some of the factors that contribute to the autonomous functioning of social enterprises. These formed the basis of my doctoral research, which I will explain in more detail in the following pages.

1.2. Abstract

My article-based dissertation examines the business characteristics of domestic social enterprises from the social enterprise side, including the example of social enterprises operating in the health and social fields, and from the enterprise development side, including the development processes of organizations developing Hungarian social enterprises from a business perspective, through the business models and tools used in the process. My starting point is that social enterprises are organizations that have a dual purpose, their primary purpose is to create social value and their secondary purpose is to financially realize that value. The social enterprises under study are those that adopt a business approach and have the capacity to generate business income.

In my literature review, I examined theoretical approaches to social entrepreneurship and then explored the operational typology of social enterprises. In order to examine their business operations, I reviewed the literature on business models of social enterprises as well as their developments and developers.

The articles in this dissertation were written using qualitative and mixed research methodology, two of which are case studies. With my co-authors, I explored the key actors influencing the functioning of Hungarian social enterprises and mapped the financing models. I examined the types of domestic development organizations, their processes and tools. Based on my research, market-based operation can be described as novelty, there are organizations

that develop revenue streams from their own sales in addition to their main source of income and there are others that aim to operate solely and exclusively from their own sales activities. For the time being, the limitations and opportunities generated by the key actors in the operating environment have a major impact on the functioning of social enterprises. One of the primary aspects of this is the presence of financial limitations and dependence on public sector funding. Development organizations aim to transfer and maintain basic and more complex business operations. Their methods and tools are taken from the traditional business sector, specialized to the needs of social enterprises.

1.3. Research framework

My article-based dissertation consists of three articles:

1. Kiss, J., Krátki, N. and Deme, G. (2021), Interaction between social enterprises and key actors shaping the field: experiences from the social and health sectors in Hungary, *Social Enterprise Journal*, Vol. 17 No. 4, pp. 625-646. <https://doi.org/10.1108/SEJ-03-2021-0019>
2. Krátki, Noémi and Kiss, Julianna (2021) Business operating models of social enterprises in the social and health fields. *Vezetéstudomány - Budapest Management Review*, 52 (1). pp. 2-12. DOI <https://doi.org/10.14267/VEZTUD.2021.01.01> [Szociális és egészségügyi területeken működő társadalmi vállalkozások üzleti működési modelljei]
3. Krátki, Noémi (2022) The improvement process and tools of the social enterprise development organizations. *Vezetéstudomány – Budapest Management Review*, under publication [A társadalmi vállalkozásokat fejlesztő szervezetek fejlesztési folyamatai és eszközei]

My overarching research question is the following: What are the characteristics of business operations of domestic social enterprises? Figure 1 contains the sub-questions of my overarching research question, which correspond to the research questions of my articles.

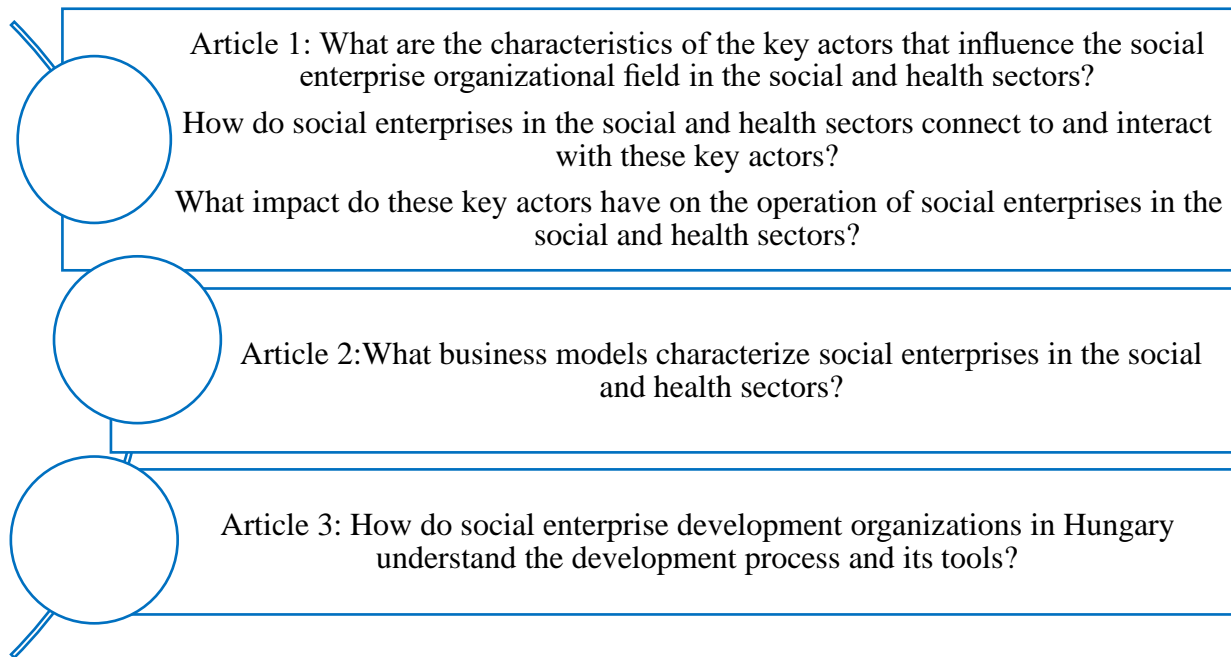


Figure 1: Presentation of the units of the article-based dissertation

Source: own editing

In the first article, my co-authors and I identified the key actors interacting with social enterprises in the domestic health and social fields and their influences on the functioning of social enterprises. Key actors were identified as those that are most important for the functioning of social enterprises. In the second article, my co-author and I investigated the business models typical of social enterprises in the domestic health and complementary social fields, including their financing models, which provide the revenue generating logic of the business model. In the third article, I interpreted the diversity of social enterprise development organizations in Hungary, and identified their development tools and processes. In this case, the focus is on the tools and business models used by the development organizations, and I examine the how of their development process, the considerations and decisions behind it. I answered my main research question by examining the following sub-topics:

- examining the key actors in the organizational field of social enterprises in the domestic health and social fields and their influence on the functioning of social enterprises;
- mapping the financing and revenue-generating potential of social enterprises;
- exploring the development processes and tools of organizations that develop social enterprises from a business perspective.

2. Theoretical background

2.1. Literature framework

The theoretical background of my PhD dissertation is provided first and foremost by the literature on social enterprises, the main directions of which and the approaches that provide the theoretical framework for my research are presented first in this chapter. My research is business-focused, so I will also provide insights into the literature on business models. For the purpose of my research on social enterprise development organizations, I will present the types of development organizations.

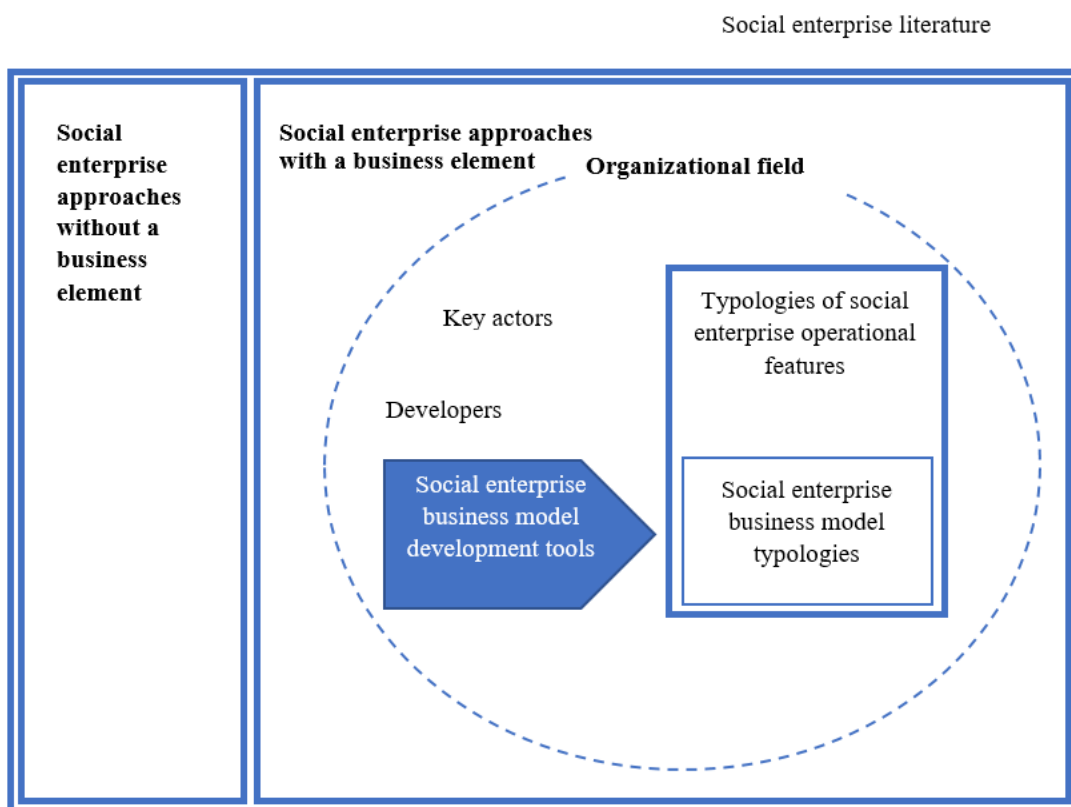


Figure 2: Conceptual framework of dissertation

Source: Compiled by Réka Matolay and Noémi Krátki

Figure 2 describes the conceptual choices and layers of the dissertation. In the literature review I am providing a comprehensive introduction to the various approaches of social enterprises. Out of the different schools my research focuses on those directions that include a certain level of market-based income and business-orientation. I am depicting this differentiation in the figure by showing the further layers of my thinking in the box on the right. The size of the two boxes of approaches does not refer to the number or relevance or any other

feature of the approaches. The one on the right is larger to allow for introducing further details on my foci of research. This selective introduction – only those elements covered in the dissertation are shown in the figure – characterizes the conceptual framework in this figure.

Within the approaches of social enterprises I provide an overview of typologies of their operational features from various angles. Since the business nature of social enterprises is the core theme of the dissertation, one of them – the social enterprise business model typology – is selected to be mentioned in the figure.

I am researching the social enterprises in their context, thus the dotted circle refers to the organizational field (see Matolay, 2012 for a further detailed analysis of the organizational field) around them. Key actors and a specific stakeholder group, the social enterprise developers are on display here. Both of these are analyzed in the empirical part of my research, and the latter is also explored conceptually.

Finally, the figure includes the tools applied by the social enterprise developers. Those explored are fundamentally directed to the business models of social enterprises, the arrow shape refers to this connection.

2.2. Social enterprise concepts

The definition of social enterprise of the European Union was issued by the European Commission, according to which social enterprises are organizations that do business activities to create social value and reinvest a large part of the profits they make back into operations, with operations and ownership specialized to create social impact. (European Commission, 2017). This definition is a synthesis of several theoretical approaches, including the concepts of market-based, social innovation and EMES, encompassing the internal workings of organizations, business purpose and innovation. Following Éva G. Fekete et al. (2017), the two trends of the market-based approach are the entrepreneurial non-profit and the social purpose business trends, which originated in the United States. The entrepreneurial nonprofit trend focuses on the market profit-making activities of nonprofit organizations, while the social purpose business trend focuses on the business-based solution to the social goals set by nonprofit and for-profit organizations. The social innovation approach, which also originated in the US, starts from the entrepreneur as an individual, rather than an organization, who is responsible for finding innovative solutions to a given social problem. The Western European approach of EMES (“EMergence des Entreprises Sociales en Europe”) refers to the combination of social and economic objectives of social enterprises, democratic decision-

making and innovative ways in which organizations can increase the social impact of their activities (G. Fekete et al, 2017). Among these schools, I found my own approach in the market-derived income school, which is a good starting point for the subsequent presentation of business models. This approach is about combining the business and social goals of social enterprises. Within the market-derived income school, I highlight the mission-driven business orientation because it gives me the opportunity to look not only at nonprofits, but also at business-type initiatives.

2.3. Typology of social enterprises

After the social enterprise approaches, I now present different typologies from the operational side. I summarized the chapter on the typology of social enterprises by comparing the social programs, business activities and missions of social enterprises, and the orientation of the organizations’ activities and their beneficiary groups. In connecting the different theories, it is possible to distinguish between business enterprises and social enterprises, depending on the degree of integration of the business activities and social projects of the organizations and their relation to the mission and the orientation of their activities. Finally, this determines the scope of beneficiaries of social enterprises (Figure 3).

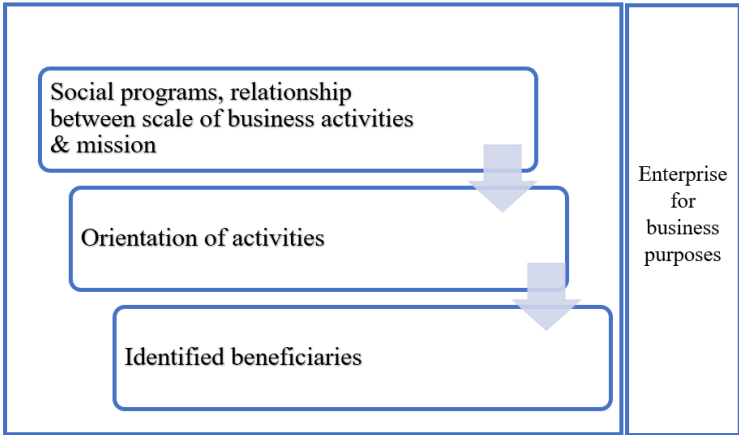


Figure 3: Synthesis of social enterprise typologies

Source: own creation

My dissertation gives a detailed description of the theoretical background of the typologies. In my thesis, I highlight the definitions that are closest to my approach, which include the classification of for-profit social enterprises and entrepreneurial non-profit organizations of Defourny and Nyssens (2017, cited in Repisky & Tóth, 2019, pp. 12-13 and cited in Matolay & Révész 2020), and the concepts of embedded and integrated social enterprises of Alter

(2007). The primary purpose of for-profit social enterprises is to create social value, and they are business-based social enterprises. Entrepreneurial non-profit organizations are non-profit organizations that engage in entrepreneurial activities to supplement their income in order to achieve their social purpose. Embedded social enterprises are non-profit organizations that created their business activities to make their social project a success, with the social mission at the core of their business. Often, these non-profits take on for-profit legal form in countries where they can do so in order to run their business more efficiently. In the case of the integrated social enterprise, the scale of social purpose programs goes beyond the business type. In most cases, this form is created when non-profit organizations are looking for a source of funding, partly from business activity to support their social projects, and there is an overlap between business and social objectives. These approaches allow for a market-based approach, considering both non-profit and for-profit organizations as social enterprises, and do not exclude social enterprises that do not have a self-financing model from the beginning. The above categorizations help to define the business models of social enterprises, point out the relationship between their business and social goals, and the relationship of social enterprises to the state. Furthermore, social entrepreneurs are made aware of the ways in which they can create their own sales channels in addition to their non-profit operations. After framing social enterprises, I introduce the other actors in my research, organizations that develop social enterprises from a business perspective.

2.4. Typology of organizations developing social enterprises

There are two types of organizations involved in business development for social enterprises: consultancy organizations and incubators. In many cases, these organizations work together on development work, for which accelerator programs are announced (Figure 4).

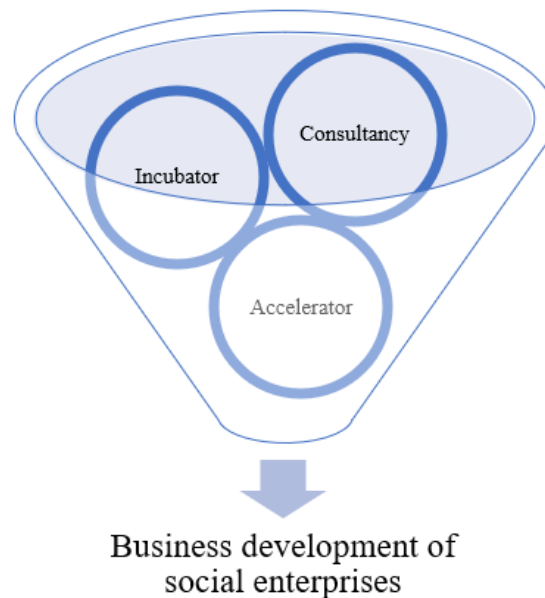


Figure 4: Developing social enterprises

Source: own creation

Incubator houses develop over a longer timeframe, up to several years, to accompany social enterprises in achieving their business goals. In addition to business knowledge transfer, they provide community office space, access to financial investors, research institutions, higher education institutions (Klofsten, 2016, cited in Nchang & Rudnik, 2018, p.4). Their primary target group is young, start-up businesses. They aim to develop and implement a business plan for start-up or early-stage social enterprises.

Consultancy organizations can be distinguished according to the complexity of their services. Full-service firms are the so-called Big Four international firms, which also provide accounting, controlling, business management and technology consulting. Traditional consultancy organizations provide integrated consultancy services (general service firms). Specialized consultancy firms are a special type of traditional consultancy organization which deal with developments of strategic importance. And highly specialized service providers (boutique firms) focus specifically on market areas or clients that the larger players do not address (Poór, 2010, cited in Fejes, 2015, p.26).

Németh et al. (2010) classify the types of consultants as national or multinational consultancies; medium-sized and small enterprises specializing in one type of consultancy; individual consultants; consultancy departments of other enterprises with a main profile; consultancy professors; associations and agencies providing consultancy services that are essentially non-profit-making. National or multinational consultancies deal with all areas of consultancy, while the specialized type deals with one area of consultancy. Individual consultants often work with partners to provide a more complex service. The consultancy departments cover services related to the original profile, and the consultant professors cover academic specialists. Finally, non-profit consultancies provide consultancy services either to their own members or to a specific type of business (start-up or established), either through self-financing or external partner funding.

In addition to knowledge transfer, accelerator programs provide a start-up investment opportunity for applicants, as the program concludes with a so-called demo event, where social entrepreneurs have the opportunity to present their business concept to financial investors (Cohen, 2013, cited in Nchang & Rudnik, 2018, p.21). During the training sessions, the importance of competitiveness and the role of teamwork are emphasized, so that the team focus is followed instead of the founder focus. In this sense, teamwork also includes the founder, and these programs are specialized for people constituting social enterprises (Miller & Bound, 2011, cited in Nchang & Rudnik, 2018, pp.19-20).

2.5. Business models

In this chapter, I present business models of social enterprises that highlight the ways and means by which the above-mentioned social enterprise typologies are being invented and tried to reach their peak.

I examine business models from two different angles (Figure 5). Not only from an asset perspective – see the different business model canvases summarizing the assets, resources and their way of usage by social enterprises – but also from an operational perspective, that is as concepts of how social enterprises operate. Hybrid models represent a new way of operating social enterprises. In my research I look at both sides, from the asset side at both the Osterwalder and Pigneur canvas and their extended version, and from the operating side I mainly focus on the operating models that show the diversity of revenue generation.

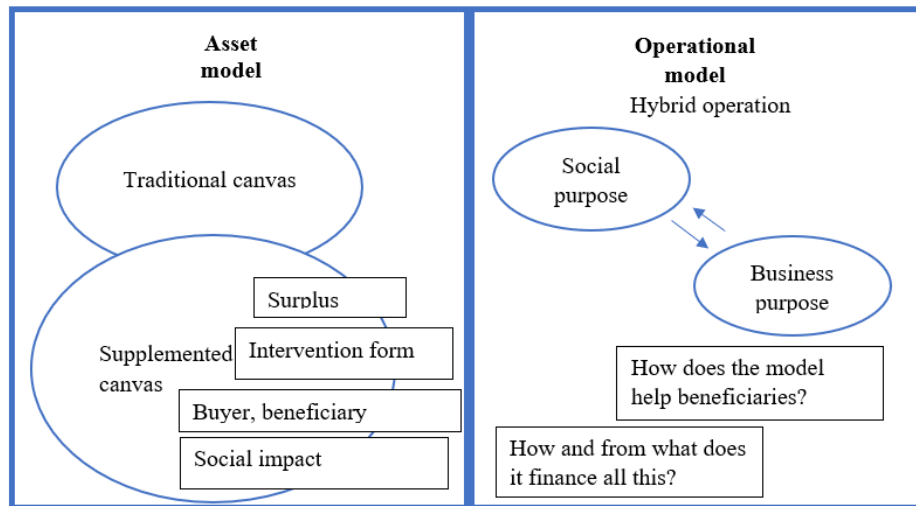


Figure 5: Correlations of business models in the case of social enterprises

Source: own creation

Starting with the asset side, there are social enterprises that use one-to-one business enterprise models in designing their operations, of which Osterwalder and Pigneur’s business model canvas is a good example. According to Osterwalder and Pigneur’s definition of business model (2010), “a business model describes the rationale of how an organization creates, delivers, and captures value”. The model defines the basic value creation logic of the company, which is part of the corporate strategy. It defines how the company creates value for the consumer, what resources and activities are needed for value creation. For the Erste SEEDS Mentoring Program, Osterwalder and Pigneur’s model was used, with the consumer side being one part of the model (Figure 6).

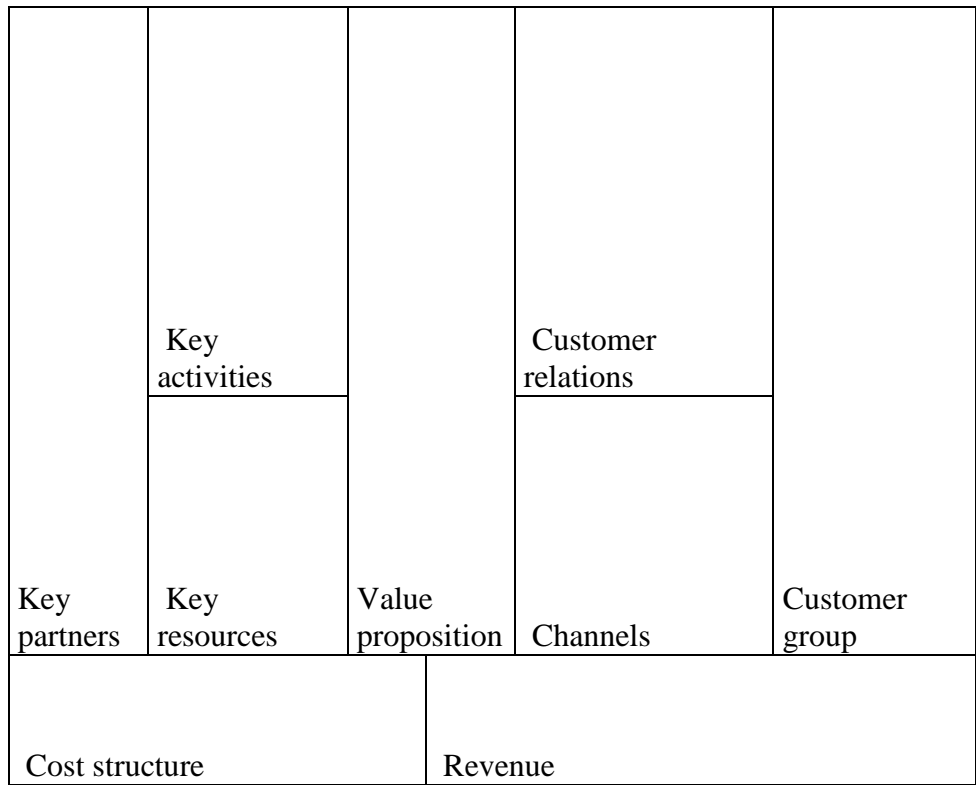


Figure 6: Business Model Canvas

Source: Osterwalder and Pigneur, 2010, p. 44.

The consumer segment means that the organization selects the target group whose needs it wants to satisfy. The value proposition is the set of products or services that the company offers to create value for its clients and to solve the client’s problem. Sales channels summarize the ways in which a company delivers its product or service to the consumer. This can be online or offline, and includes corporate communications as well. Customer relations is the long-term interaction with consumers. A good example is the provision of after-sales services (product repair, warranty). The other part of the model is the so-called infrastructure side. There are four types of corporate resources: physical, intellectual, human and financial. Resources are the assets that are necessary for a company to operate. The key activities of the company are the actions that need to be carried out in order to achieve the basic objective. Key partners are the actors with whom the company has a beneficial agreement. These types of key partners and the relationships with them influence the functioning of social enterprises, which can be financial supporters, funders, donors, the state, voluntary and skilled labor, suppliers, higher education institutions, organization developers. The bottom part of the model details and compares the revenues from the product or service sold to consumers with the costs of running the business model (Osterwalder & Pigneur, 2010). Another model used is the Social Business Model

Canvas (SBMC), an extended version of Osterwalder and Pigneur’s Business Model Canvas (Figure 7).

Key resources	Key activities	Type of intervention	Segments (Customer, Beneficiary)	Value proposition (Social value proposition, Impact measures, Customer values proposition)
Partners and key stakeholders		Channels		
Cost structure		Surplus	Revenue	

Figure 7: Social Business Model Canvas
 Source: Social Innovation Lab, 2013

In fact, the model is extended with elements of surplus, social impact measurement and type of intervention. For the surplus element, it is necessary to specify the additional way in which the organization reinvests the profit generated in its operations (creation of a new product, establishment of another legal entity). Social impact measurement shows how the value-creating activity of the enterprise can be measured, how effective the value creation process itself is. The type of intervention refers to the way in which the organization intervenes to address a social problem (reducing poverty, reducing exclusion). Segmentation should be used to identify precisely who is the customer and who is the beneficiary of social enterprises.

The context of the operating model addresses the hybrid functioning of social enterprises, their dual purpose, the role of the economic purpose and the way in which social and economic value is created. For the operational models, I used the classification of Santos et al. (2015). The authors interpret social enterprises as a hybrid system with a specific business model. According to this view, the business model underpinning the operation is itself the business-focused model through which the social purpose of the social enterprise is fulfilled and financed. Business requirements meet growing societal demand. Social business hybrid organizations combine financial and social value to achieve their mission, focused on solving a specific social problem. It is important to highlight the legal form of the enterprises using this model, which is very mixed (foundation, association, limited liability company, etc.). Hybrid

business models create value for society and for the business owner. The other theory I used originates from Alter. Alter (2007) defines nine types of operational business models used by social enterprises, which are configurations of social and economic value creation that can be applied to organizations, programs, service provision, and can be linked to Alter's (2007) typology of social enterprises that examines the degree of integration of business activities and social programs within an organization. Operating models are designed in line with the social and economic purposes of social enterprises, taking into account the needs and capabilities of clients, market dynamics, the mission of the organization and the legal environment. Social enterprises aim to use models to create as much value as possible for society. Both the classifications of Santos et al. (2015) and Alter (2007) are discussed in detail in my dissertation and in the second article of my dissertation. I refer back to these concepts in the research results chapter of my thesis.

3. Research design

I did the research of my dissertation with qualitative methodology. The qualitative choice is justified by the exploratory and understanding nature of my research, its ability to identify and understand phenomena, relationships and processes. I present my research design based on Maxwell's (2012) model. The model outlines the main elements of qualitative research and their relationship to each other (Figure 8).

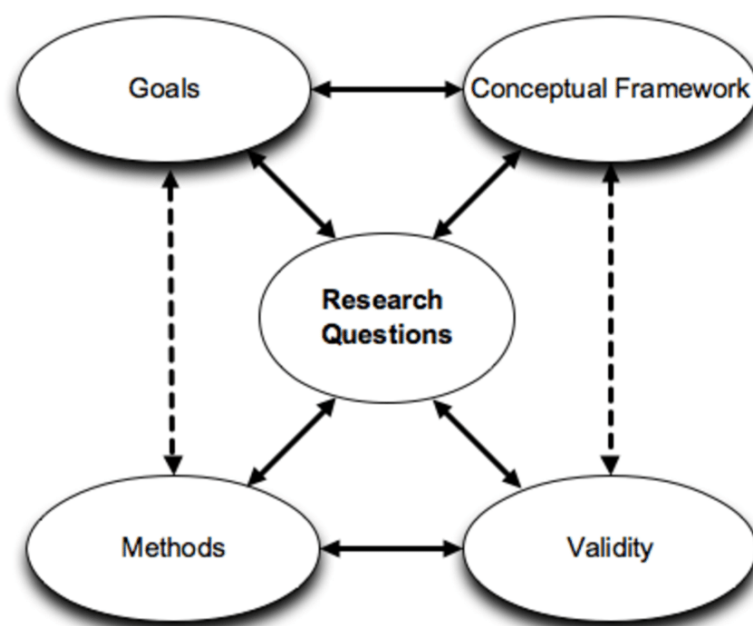


Figure 8: Figure of the research design

Source: Maxwell, 2012, p. 217.

I already described my research questions and the theoretical background above, while the aim of my research and the issue of validity were explained in the methodological chapter of my dissertation. In this section, I describe the research methodology.

3.1. Qualitative research methodology and the case study method

In my PhD research, I used a qualitative methodology, the purpose of which is “*to understand certain social situations, events, roles, groups or interactions based on situation-specific and detailed data.*” (Locke et al., 1998, cited in Horváth & Mitev, 2015, p.25). In qualitative research, researchers seek a deeper understanding. “*Qualitative research is an attempt to capture the deep meaning that structures what we say about what we do.*” (Van Maanen, 1988:11, cited in Horváth & Mitev, 2015, p.26). I chose the qualitative research methodology because I believe that a deeper understanding of the topic is the best way to gain a true understanding of that topic, and to ask the interviewees directly about the information and experiences they had. For me, this methodology is also important because it is not a rigid, standardized system, it is not removed from real life, from the natural social context (Mason, 2005). In qualitative interviewing, data generation is based on interactions with the interviewees (Mason, 2005), and this is what I experienced as the most exciting part of data collection.

Case study is a good way of describing complex phenomena and helps us understand them through in-depth research. The case study is seen as a tool for understanding and interpretation (Mitev, 2015). Majoros (2005) considers the case study to be an empirical study with in-depth source material. A multiple case study provides an opportunity to explore and understand the differences and similarities between selected cases (Stake, 2006). In Mason’s (2002) article, the sample selection, the choice of categories on which it is based and the comparability of cases are discussed in detail. During the sampling process (see next subchapter for details), I tried to ensure that the selected samples were as diverse as possible and comparable along the main criteria. To detect similarities and differences, a multiple case design was chosen. In addition to the reliability of research findings, the advantage of a multiple case study is that it eliminates the possibility of the researcher becoming biased towards a single case (Rao, 2014).

Among the ways in which Eisenhardt (1989, cited in Mitev, 2015, p.130) relates theory to case study, theory is “*the initial guide to research design and data collection*” (p. 130) in my work. Of the six data collection techniques proposed by Yin (2003, cited in Mitev, 2015, p.141), the techniques of interview and archival studies were used. These are presented in the next subchapter.

3.2. Sampling, data collection and analysis

Qualitative interviews are the focus of my PhD research and form an essential element of the data collection methodology of all three articles. In the case studies of social enterprises in the first two articles and in the research on social enterprise development organizations in the third article, I also include publicly available documents and sources provided by the organizations. The second article is built on mixed-methodology, with my co-author we also used quantitative analysis of data from the Hungarian Central Statistical Office (KSH). Table 1 summarizes the main features of the sampling, data collection and analysis by article.

	Article 1	Article 2	Article 3
Data collection	Qualitative methodology: conducting semi-structured interviews	Mixed methodology: collecting organizational documents, searching statistical database, conducting semi-structured interviews	Qualitative methodology: collecting publicly available resources, organizational documents, conducting semi-structured interviews
Sampling	Purposive sampling, maximum variation sampling	Purposive sampling, maximum variation sampling	Purposive sampling, maximum variation sampling
Data analysis	Semi-structured interview analysis (thematic coding)	Semi-structured interview analysis (thematic coding), analysis of public benefit reports, analysis of KSH data (cross tabulation, Anova)	Semi-structured interview analysis (thematic coding)

1. Table: Research methodology of the articles in this dissertation

Source: own editing

In the first article of my dissertation, the key actors in the organizational field of social enterprises operating in the health and social fields and their influences on social enterprises were explored. The macro-level analysis of the research aims to explore how key actors influence the operating environment of social enterprises, and the micro-level analysis aims to

explore how key actors influence the daily operations of social enterprises. In the first and second articles, we looked at the same organizations but from a different point of view. In the semi-structured interviews, the characteristics explored covered the founding history, circumstances and motivation, key resources (human, financial), partnerships, key milestones in operations, opportunities and limitations of the environment, and future plans. For the two articles, we conducted a total of six semi-structured interviews with four social enterprise managers and staff. Of the four case studies, two organizations are active in the health field and two in the social field.

The second article of my dissertation explored business models for financing social enterprises in the health and social fields. In the course of the research, my co-author carried out a KSH data analysis of the legal forms, activities, human resources and revenues of social enterprises in the respective fields, which were jointly interpreted to define the business operations of the organizations. In this case, the main topics of the semi-structured interviews were the basic characteristics of social enterprises (legal form, main activities), the main revenues and resources of social enterprises, the business models they used. In the four case studies, written on the basis of interviews and document analysis, we presented their specific financing business models. At the time of writing the first and second articles, the content of the case studies were revisited with the interviewees several times in autumn and winter 2019. The data collection was completed before the 2020 pandemic of the coronavirus, thus the impact of the COVID epidemic on the functioning of social enterprises is no longer part of our research.

In all three articles, I used one of the types of purposive sampling, maximum variation sampling (Patton, 1990), which consists of designing and analyzing a sample of a small number of items that are substantially different from each other in relevant respects, with the aim of drawing attention to similarities and differences between the items in the sample.

In the sample of the first two articles, these criteria were the field of activity, age, legal form and geographical location, as well as the diversity of the target groups. Due to the lack of a uniform definition and the diversity of organizations, we do not have a specific database, so we examined organizations, programs, lists of tenders, data available in studies and other articles on the topic, with the aim of selecting organizations that actually operate as social enterprises (the database used and updated during this research was developed by one of the authors in her PhD thesis, see Kiss, 2018). We selected social enterprises that work with addicts, people with physical disabilities, the homeless and people with intellectual disabilities (autism). The

diversity of the target groups is reflected in the legal form of the enterprises (foundation, non-profit limited liability company, for-profit limited liability company, social cooperative), the location (Budapest and Central Hungary, Northern Hungary, Western Transdanubia) and the time of foundation (1994-2004). The selected organizations are presented in Table 2.

Beneficiaries	Supporting activity	Legal form	Age (years)	Founder/ Manager	Location
addicted patients	health services	foundation	25-30	target group member/indirectly concerned	capital
people with physical disabilities	product manufacturing, supply of development products	limited liability company	5-10	target group member/indirectly concerned	capital
people with intellectual disabilities	employment, health services	foundation + non-profit limited liability company	20-25	professional	countryside
homeless	employment	social cooperative	5-10	professional	countryside

2. Table: Sample – the social enterprises surveyed for the first and second articles

Source: own editing

In the second article, a quantitative analysis of the 2017 KSH sample was carried out to provide a picture of the operational characteristics of social enterprises in the sector. In line with the European Union's approach (European Commission, 2019), organizations in the form of foundations, associations, non-profit companies and social cooperatives were considered as social enterprises if their sales revenue exceeded 25% or more of total revenue. Social enterprises operating in other legal forms (e.g., other cooperatives, for-profit limited liability companies) were not included in the analysis due to the lack of a suitable database, so it is necessary to take these limitations into account when interpreting the statistical data.

In the third article of my dissertation, I examine the social enterprise development organizations operating in Hungary and compare the tools and business models they use for development. After identifying the main external stakeholder groups – financial investors, suppliers, buyers, beneficiaries, regulators, developers, educators, researchers – and defining the group of developers, I focused on getting to know them. As sources for desk research, I

used the websites of the organizations, the various calls for tenders and organizational reports. After studying these, I selected 6 organizations from the 13 developers and incubators operating in Hungary so far, which are presented in Table 3. First, I separated development organizations from development programs and excluded organizations that ceased to operate in Hungary and those that develop social entrepreneurs instead of social enterprises.

	Organization 1	Organization 2	Organization 3	Organization 4	Organization 5	Organization 6
Type of organization	consulting organization	consulting organization	consulting organization	incubator	incubator	incubator
Domestic market presence	2009-	2012-	2012-	2016-	2016-	2016-
International background	yes	yes	no	yes	no	yes
Time of development	project-dependent (from 2-3 months to several years)	6-8 months	project-dependent	2-4 years	client-dependent	project-dependent
Regularity of development	project-like, program	project-like, program	project-like, program	project-like, program	program	project-like, program
Guaranteed value after development	business knowledge, rarely loan	business knowledge, sometimes capital, loan	business knowledge	business knowledge, loan, prize, capital	business knowledge	business knowledge, prize
Total number of enterprises developed	150	21	85	30	74	8000+

3. Table: Sample – the social enterprise development organizations surveyed

Source: own editing

In the selected six organizations, I conducted semi-structured interviews with their leaders and colleagues actively involved in social enterprise development, in January and February 2021, in the context of online interviews due to the coronavirus outbreak, by using the Teams and Skype apps, for 1-1.5 hours. Half of the interviewees are founders and developers, while the others are development colleagues.

I recorded the interviews and prepared interview transcripts as well as interpretative interview summaries. The main aspects of the analysis and comparison were the followings: the social enterprise concepts of the development organizations, in order to explore their clientele; self-identification of developing organizations, with the aim of knowing the category of developer into which they fall; the specialties of consultancy organizations and the ways in which they operate and respond to development processes; in addition, the tools used in their development to gain insight into their methodological toolkits.

4. Presenting the research results

In the first article of the dissertation, in identifying the key actors, we found that social enterprises are mostly dependent on the central state, local public health institutions, and have important links with local governments. Their partnerships with private clients, development organizations and for-profit or non-profit organizations are less dominant. The key actors associated with social enterprises have an impact on the legal forms and core activities of social enterprises, as well as on the human resources and finances of the enterprise.

The role of the central state is complex, providing a space for social enterprises by addressing the shortcomings of the health and social care system as well as the unaddressed health and social problems. In these missing gaps, social enterprises alleviate the shortcomings of public subsidies. In the cases examined, the founders established their organization with the aim of filling these gaps by providing new and innovative solutions to improve the existing public service. Another part of the role of the state is that social enterprises have to adapt to the state system in order to survive, they can operate in forms that are rewarded by the state, they depend on the state's ability to generate revenue, and the state has a crucial role in the development of social enterprises in the field under study (see Kiss & Mihály, 2019 for a further detailed analysis of the criticisms). Local governments appear as a partner for social enterprises operating in the capital, with one organization surveyed as a primary contracting buyer partner. For social enterprises operating in smaller towns, there is less evidence of long-term partnerships due to pre-existing contractual partnerships. Other key actors identified are the followings: these actors are present in the life of the organizations, sometimes in the longer and sometimes in the shorter term, but they are less dominant than the state, the local care system and local governments. The analysis of the consumer and revenue generating direction anticipates the second article of this dissertation and the analysis of the developers anticipates the third article. With regard to buyers and consumers, two organizations are engaged in sales

to individuals. Social entrepreneurs believe that it is important to raise awareness and promote the legitimacy of social entrepreneurship in our country. Although the existence of these organizations needs to be promoted, they have a large number of volunteers and involve the disadvantaged groups they support in their organizational activities. By promoting social enterprises, society would better accept the legitimacy of these organizations, which would contribute to the emergence of higher levels of cooperation. Contacts with for-profit organizations, non-profit organizations and developers were considered less important by social entrepreneurs. For two organizations, products are purchased by retailers with whom a long-term relationship is established. Cooperation with non-profit organizations was mentioned during the interviews, also in the case of organizations working in the same field, which are not profit-making relationships. Developers in this research are the developers that social enterprises in a given area encounter. As mentioned above, the key role in development is played by the state, so the interviewees noted short-term development and excessive knowledge transfer in relation to other developers. An extended version of Osterwalder and Pigneur's (2010) business model includes a key partner element, on the basis of which social enterprises could benefit from a relationship with developers, but this is currently a role played by the state on a compulsory basis. Partnerships with for-profit and non-profit organizations, as well as with individuals, are beneficial relationships to be developed for the future, as they increase the number of buyers and open up opportunities for cooperation with organizations.

Key actors in the institutional environment shape the functioning of social enterprises through the limitations and opportunities they create. They play a role in the choice of legal form and scope of activity, and in the availability of financial and human resources. Within the given framework, the social enterprises surveyed were using the best solutions for them. The founders chose the legal form of their initiatives which best suited their core activities and which were likely to attract grant funding for the period. This suggests that the state regulation and funding environment influenced the entrepreneurs' decision-making. In the 1990s, the foundation proved to be the most appropriate legal form for the provision of health and social care, in return for which they received normative financial support. Later, the social cooperative form became popular thanks to social subsidies, and in other cases for-profit legal forms were chosen, with the aim of bringing social problems closer to the private sector. What changed after 2010 is that entrepreneurs sometimes establish a new organization alongside their existing one, with the aim of starting up a new activity. The range of activities of social enterprises has changed a lot, first they were small and focused on one type of service or product, later they started to expand their

portfolios. There are organizations that recruited people involved in the problem to be solved as volunteers. This type of activity was financially supported at the time. In contrast, there were services that were discontinued due to lack of state financial support. In terms of financial resources, the founders initially started with their own capital and then followed up the opportunities for tenders. For older organizations, central state funding became the main income channel, with normative support and donations becoming the most important. However, this did not ensure a sustainable operation, so organizations started to look for other sources of additional income. Younger organizations, on the other hand, are rather looking to cover their operations from market-based income. The human resources of businesses also changed due to their financial situation, and in many cases, they started to employ volunteers on a full-time basis. Social enterprises cannot afford to employ experts and can only employ them at below market rates. Management is generally open to the views of workers in decision-making and even asks for their opinion.

In the second article of the dissertation my co-author and I mapped the types of business models of social enterprises in the Hungarian health and social fields. In this research, the business model emerges as the operating model that frames the diversity of forms of financing social enterprises. In the course of the research, we first provided a comprehensive picture of the business operational characteristics of social enterprises in the health and social fields through the analysis of the HCSO data, including their activities, legal forms, revenues and human resources. In order to explore specific funding business models, quantitative analysis was less suitable and we needed exploratory qualitative research, so we examined the same aspects (activities, legal forms, revenues, human resources) in detail for the four organizations we selected.

As a result, two types of business models were typified, which can be distinguished according to the extent to which they are separated from the regulated state claims. The model that complements state funding through sales operates according to fixed rules and its main source of income is a normative support, supplemented by the organization's own income. The financing model based on private market sales is now based on less tied rules. It operates mostly on the revenue from the sale of its own product or service, or both. In the case of a model that complements state funding with sales, the main source of revenue is provided by the state, and supplemented by a small amount of sales revenue. The value proposition of social enterprises is a set of social services that are partly or fully funded by the state and they support some kind of disadvantaged group. The small amount of sales revenue that complements the main source

of income comes from the market-based sale of products or services produced by professionals or the targeted disadvantaged groups. In a private market sales-based financing model, the main source of income comes from the sale of a product or service. Social enterprises with such a business model comply with the rules required by their legal form and try to meet the various conditions for tenders. In addition to their main income channel, they can also use private donations and income from various social responsibility projects as other sources of income. The value proposition is the marketing of products and services produced through the employment of the target group and the sale of services and products eligible for non-normative funding for institutions dealing with the target group.

Within the business models literature, there are similarities between Alter (2007), Santos (2015) and our case study models (Figure 9). From Alter’s classification, parallels can be found with the employment model, the fee-for-service model, and the low-income client model. This is because the organizations in question create social value through employment, by selling services and making them available to disadvantaged groups. Among Santos’ models, bridging and blending models link the needs of different client and beneficiary groups, and the market hybrid model allows access to services at below market prices or even free of charge.

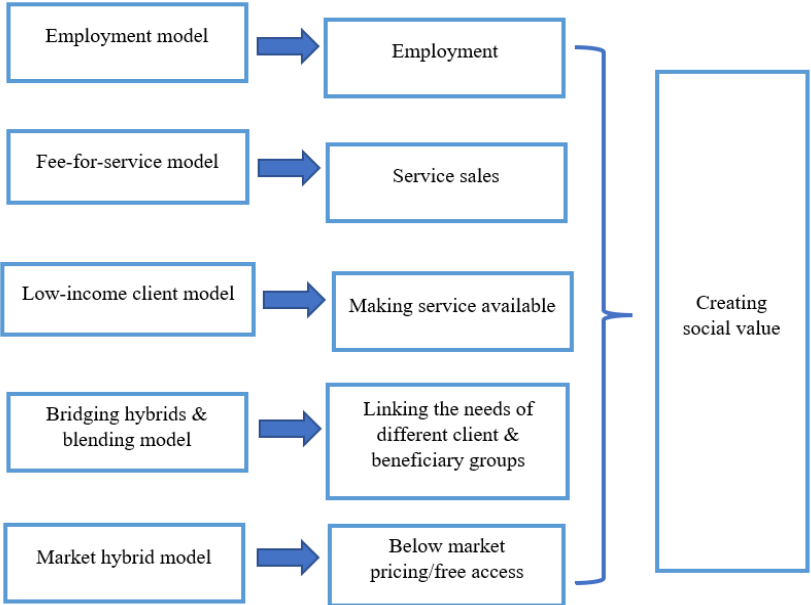


Figure 9: Creating social value through business models

Source: own editing

Based on the data processed, it can be said that in both the health and social fields, there are social enterprises that operate in a non-profit or business-like way. Among the organizations

we examined, the limited liability company and the social cooperative base their income on the development of their own sales channels. The operation of non-profit foundations and non-profit limited liability companies is governed by the system of public subsidies. In more detail, we linked the legal forms and organizational activities of the organizations based on interviews and analysis of their annual reports. The evolution of the legal form is influenced by the decision-making of social entrepreneurs in the light of which legal form enables the realization of which activity and which type of financial resources. The reason for choosing the foundation form is to effectively access public subsidies. There is a foundation that established a non-profit limited liability company to carry out its market-based activities. The social cooperative form was designed to access the tendering opportunities available at the time, and the foundation was already carrying out its economic activities at the time of its creation. Their activities include free or below-market institutional care for addicts and people with mental health problems, occasional homeless employment, the sale of services and products to institutions dealing with the target group to improve the situation of children with reduced mobility, the provision of housing for groups with multiple disabilities and the sale of products produced by them.

In terms of income and resources, the start-up of social enterprises was financed by own resources, followed by grant money, normative subsidies and central budget support. Thanks to their marketing activities, they attracted the interest of the public, donors, financial investors, from whom they generated other income. Table 2 in the second article shows that larger organizations (foundations) that have been in operation for longer generate more income. According to the variation in net sales revenue (NSR), the foundation that complements its operations by creating several non-profit foundations has the highest net sales and total income. The social cooperative relies on sales for its operations, with net sales as the only revenue item in its accounts. Other income may include membership fees, payments received from the founder, grant money, state subsidies (social security fund, 1% of the income tax, normative and non-normative subsidies) and other support (private donations). In the present case, the largest part of other income for the organizations is the amount of state subsidies (including normative and other central budget subsidies), especially for foundations with a non-profit limited liability company. The projected annual net sales of the limited liability company for 2019 are between HUF 10 000 000 and HUF 17 000 000. The category of other income is also present here, but it is less relevant than for non-profit organizations. The revenue from sales reaches 70% of the total revenue. Summarizing the different types of revenue, the highest revenue for a non-profit legal form is generated by the organization which was extended with

another legal form. The range of other types of income can include a variety of revenue streams, reflecting the diversity of funding, with the longest established non-profit organizations receiving the most public support. A social enterprise that finances itself from the start through its own revenue stream is not dependent on public subsidies.

The diversity of income types shows that there is a link between the organizations in the sample and some of the types of social enterprise typology associated with Defourny and Nyssens (2017, cited in Repisky & Tóth, 2019, pp.12-13; cited in Matolay & Révész 2020). Since non-profit foundations and non-profit limited liability companies operate in a model that complements public funding through sales, there is a link with the definition of entrepreneurial non-profit organizations, which defines social enterprises as enterprises that supplement their revenues. They also include social cooperatives, which in this case operate on a business basis similar to limited liability company. They correspond to for-profit social enterprises due to their financing model based on private market sales.

In the third article, I explored the types of organizations that develop Hungarian social enterprises from a business perspective, the ways and means of their development process. In the present case, the business model concept appears as a tool used by the development organizations in the development process.

In my research, I typed the organizations according to four aspects, which include the organizational profile, the type of target group, the criteria for access to development and the type of development funding. Based on profile, smaller consultancy organizations are involved in organizational development and consultancy, including business planning, corporate development, social impact measurement, strategy making, organizing professional volunteering programs and research. The larger scale consultancy organizations complement the above services with a process of facilitating the raising of capital for social enterprises, social impact measurement and its development, and reach out to social enterprises that have not yet engaged in business development but need it. Organizations of both sizes have members who specialized from the for-profit sector to the non-profit sector, simplifying and adapting methodologies that worked in business. The main objective of incubators is to motivate and prepare social entrepreneurs to develop and market their own products.

In terms of target group, developers mostly deal with young, newly created social enterprises, but a smaller number of already established social enterprises are also present. There are pre-specialized programs specifically targeted at young entrepreneurs or social

enterprises that only have an entrepreneurial idea. Typically, not the social enterprises contact the development organizations, but social enterprises apply for tenders for development projects and individual organizations.

Social enterprises can enter the development process according to different criteria. Each developer uses different criteria, including non-profit legal form, the existence of a social purpose, whether the problem to be solved has an environmental or extreme poverty focus. The more complex entry criteria include generating own revenue, having social impact measurement experience, operating for at least 3 years, and having enough clients.

In most cases, development is financed through the joint work of developers and their projects, using their own and international resources to finance the process. Their wide network of partners includes financial investors, banks, pro bono corporate partners, public organizations, EU institutions and other social enterprise development organizations. There are also less common forms of funding other than partner network funding. The pro bono type of financing means unpaid consultancy; the low bono type is where the social enterprise pays a reasonable amount for the service it requires, in other cases the social enterprise requesting the service pays a lower consultancy fee than the for-profit sector; the donor-supported type of financing is where the social enterprise's financial supporter pays for the service in return; and finally the hybrid type is where both the requesting social enterprise and the supporter pay for the service.

After identifying the development organizations, I explored the specificities of their development processes. Development processes are program or project specific, tailored to the specific needs of social enterprises. Two types of development process can be distinguished: development processes specialized for start-ups and development processes specialized for established enterprises.

The development of start-up organizations can be divided into three phases. In the first phase, they prepare their business plan, including a definition of their product or service, a justification for selling it, how to launch the product or service, positioning, the 4 Ps used in the marketing strategy, pricing and competitive analysis. Entry to the second phase is based on the usability of the business plan, its potential and diversity, and the level of commitment of the team. In the second phase, the mentors of the organizations evaluate the business plans and complete them. In the third phase, social entrepreneurs present their completed business plans to financial investors or to access capital, loans or prize from the development organization.

Developing already established social enterprises, the first step is to assess the problems of the organization and the tools needed to develop it. The training may include the preparation of a business plan, a cash-flow plan, or the training pillar of forming the organization. In this case too, the development can be divided into three phases. The situation assessment phase is where the problems of organizations and managers are assessed. Then, in the reflection on the mission phase, it is examined whether or not everyone agrees with the results of the situation assessment. The action planning and measurement tool phase concludes the process. These organizations usually struggle with organizational problems: organization of workflow, job design, process organization, leadership development and project management.

In line with Cohen's theory (2013, cited in Nchang & Rudnik, 2018, p.21), after the kick-off meetings of accelerator programs, educational workshops start on the topics of business modelling, business plan preparation, financial planning, social impact assessment methodology, and risk analysis.

In support of Klofsten's claim (2016, cited in Nchang & Rudnik, 2018, p.4), incubator houses support social enterprises for 2-3 years, mostly working with stand-alone teams rather than structured programs, with the key part being impact measurement and financial plan as well as their ability to convince investors. The development process in this case also consists of three phases: training, mentoring and incubation. The 8-12 months of training and mentoring can be called development, where a business plan is prepared and presented to the participants, and finally a business concept is created and justified by supporting calculations. After incubation, a pilot plan is designed, on the basis of which the planned operation is launched and the mentors supervise the first few years of operation.

After examining the development processes, I explored the development tools. In the case of start-up social enterprises, the aim of development is to enable social entrepreneurs to acquire business knowledge and its terminology, and to start their organization with the right foundations. For existing social enterprises, we can talk about more complex issues, including the design and development of a social impact measurement system and the formation of organizations.

For business models, Osterwalder and Pigneur's (2010) canvas model is used as a basis. The model is complemented with some specific social business niches that are part of the Social Business Canvas (Social Innovation Lab, 2013). Another model used by developers is the impact model, which includes the value proposition, the definition of the target group, and the

value conveyed. Furthermore, one part of the model is the innovation element, which defines what novelty distinguishes the organization from its competitors that is from other organizations. An important part of the model is the measurement of social impact, identifying the activities within the organization that are intended to achieve it and how they can measure the social impact generated.

The generation of social impact is a process, so the static business model is complemented by the Theory of Change (ToC) method to explain business processes and to define the problems of social enterprises. In order to think through the activities in more detail, inputs, activities, outcomes and their short and long-term effects are identified using the ToC model. The inputs can be physical, human, financial resources needed to implement a given program, project or strategy. Outputs are the direct effects or results of programs, projects or strategies; outcomes are the short and long-term effects of the results of a given program, project or strategy. When determining each step, they define the potential risks, outcomes and measure the social impact to be achieved (Rogers, 2014).

The main research question of my dissertation is the characteristics of the business operation of domestic social enterprises. To answer my research question, firstly I explored the key actors in the operating environment of social enterprises and their impact on the operation of social enterprises, in order to gain insight into the business operations of social enterprises through the legal forms of the organizations, their main activities, and the human resources and finances they possess. As a second step, I looked at the types of business models that can be used to finance social enterprises, the types of organizations that rely on building their own sales channels for their revenues, and the types of organizations that are governed by the state support system. Finally, I approached the business operation from the developer side, identifying domestic developers, their development processes and tools, shedding light on the business tools and concepts used by social enterprises.

The limitations and opportunities generated by key actors in the operating environment have a major impact on the functioning of social enterprises. One of the primary aspects of this is the presence of financial constraints and dependence on public sector funding. To alleviate this, social entrepreneurs can choose the legal forms they need to carry out their activities. Market-based operations are a novelty, with some organizations developing their main source of income from their own sales and others wishing to operate solely and exclusively from their own sales activities. The latter is reflected in the existence of for-profit legal forms and the involvement

in a number of development opportunities. Development organizations aim to transfer and sustain basic and more complex business operations. Their methods and tools were adapted from the traditional business sector, specialized to the needs of social enterprises.

The social enterprise diversity I examined is in line with international and national literature concepts that allow social enterprises to operate on a market basis. The market-based form of operation is diverse, with one form being organizations that are still partly dependent on grant funding but are seeking financial independence, creating their own sales channels to generate new revenue streams, and the other form include social enterprises which, from the beginning or over time, have become self-sustaining.

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