

# THE EMERGENCE OF FREELANCER COOPERATIVES IN SOUTH KOREA

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**ABSTRACT:** *This paper examines freelancer cooperatives that have recently emerged in South Korea. In particular, it investigates the reasons why freelancers have established cooperatives and what conditions are required for freelancer cooperatives to increase their work. A review of the extant literature on the manner in which freelancers have to organize, as well as case studies regarding freelancer cooperatives, shows that freelancer cooperatives have emerged in order to reduce members' job uncertainty and to reduce time variance of projects assigned to a freelancer. Based on an analysis of freelancers' organizational characteristics relative to entrepreneur cooperatives and worker cooperatives, we propose that the freelancer cooperatives are a hybrid between entrepreneur cooperatives and worker cooperatives. This paper also proposes the conditions required for development of freelancer cooperatives and suggests how those are distinguished from traditional entrepreneur cooperatives.*

**Keywords:** freelancers' cooperative, coordination, complementarities, open professional network, hybrid organization

## 1 Introduction

Cooperatives have been recognized as a countervailing vehicle for economic actors to avoid deadweight loss resulting from the value-dissipating behavior of profit-seeking firms with market power (Sexton 1990, Hansmann 1996). The development of farmer cooperatives and consumer cooperatives since the late 19th century has been well understood in this context (Birchall 1997, Spear 2000). Cooperatives also have been justified as a value-enhancing mechanism due to their resolution of information asymmetry prevalent in industries, such as the financial sector. Credit unions or cooperative banks that began to emerge starting in the late 19th century are well-known examples of cooperatives that have contributed to the creation of credit by replacing tangible collateral with intangible collateral, such as peer monitoring or a mutual trust mechanism, in order to guarantee repayment (Armendariz and Morduch 2010, Birchall 2011).

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Three types of cooperatives – farmer cooperatives, consumer cooperatives, and financial cooperatives – developed quickly in Europe and North America and have since proliferated widely throughout the rest of the world. Although the diffusion of cooperatives has not been even across countries, the three types of cooperatives are the most frequently observed around the world (Zamagni 2012). Development of other types of cooperatives is sporadic and geographically limited (Birchall 1997, Jang 2014a). The existing literature reveals that the three types of cooperatives were a type of organizational innovation that ordinary people attempted in order to address market failures in environments where market-governing institutions were less developed and where there was little role for government as a third party to monitor and police market transactions (Hansmann 1996, Spear 2000, Mikami 2003, Novkovic 2008).

However, the late 20th century saw the emergence of renewable energy cooperatives, car-sharing cooperatives, community cooperatives, and social cooperatives, which are distinctive to traditional cooperatives in terms of their objectives, ownership structure, and governance structure (Borzaga and Spear 2004, Zamagni 2012, Jang 2014a). In recent years, these innovative types of cooperatives have been growing in advanced countries, which have faced not only growing and chronic unemployment and an increasing number of communities devastated due to globalization and proliferation of information and communication technology, but also a setback of the welfare state and increasing demand for social services due to aging and increasing economic participation of women. In South Korea, where people have been granted the freedom to establish a cooperative in any industry apart from finance and insurance since December 2012, self-employed and freelancer cooperatives have been the most frequently observed cooperatives. Small retailers, village bakers, automobile repair shops and shoe craftsmen have founded their own cooperatives, which can be referred to as small entrepreneurs' cooperatives, while independent researchers, writers, lecturers, translators, IT developers, and web designers have also begun to launch their own cooperatives.

This paper examines the economic rationale for freelancers to establish cooperatives and explores organizational characteristics of freelancer cooperatives. On the one hand, freelancers are similar to the self-employed in that they operate their own businesses, although they differ in that they do not employ anyone and supply their knowledge/skill-intensive services. On the other hand, freelancers are similar to employees in that they earn income from their labor supply, but they differ in that they do not make an employment contract with a specific employer, instead making service contracts with multiple clients (Kitching and Smallbone 2012).

Topics concerning freelancers have received growing attention from academics focusing on labor market, organizational behavior, career, and entrepreneurship studies (Kitching and Smallbone 2012, Van den Born and Van Witteloostuijn 2013). The existing literature reports an expanding trend of freelancers in terms of their absolute number, the share of the total working population, and the number of service areas that freelancers are engaged in (Kitching and Smallbone 2012, Lee et al. 2013, Moulda et al. 2014). However, studies on freelancer cooperatives are rare (Spear 2000, Ravensburg 2011, Birchall 2011).

This paper examines the reasons why freelancers establish cooperatives. How do we address the economic rationale underlying common needs driving freelancers' decision to establish them? What conditions are required for freelancer cooperatives

to be sustainable? How do the conditions differ from those in traditional cooperatives formed by producers or workers? The following section covers the existing literature on freelancers to describe the common characteristics of freelancers from the perspective of organizing work and establishes the common needs or economic inefficiencies associated with freelancers' economic activities. Section 3 covers the recent advent of freelancer cooperatives in South Korea and utilizes two cases of freelancer cooperatives to inform on organizational characteristics of freelancer cooperatives. Section 4 describes the distinctive features of freelancer cooperatives relative to producer cooperatives and worker cooperatives and suggests conditions required for freelancer cooperatives to thrive. Concluding remarks follow.

## 2 The characteristics and common needs of freelancers

Freelancers are regarded as having a worker status that differs from that of other self-employed individuals or employees. Kitching and Smallbone (2012: 76) define freelancers as 'those genuinely in business on their own account, working alone or with co-owning partners or co-directors, responsible for generating their own work and income, but who do not employ others.' Freelance jobs are frequently found in media, filmmaking, publishing, writing and translation, art and culture, web development, software development, networking and information systems. They are also found in administrative support functions, such as data entry and web search, advertising, market research and surveys, as well as in business services, such as business consulting and recruiting.<sup>1</sup> Although it is not possible to identify the size of freelancer jobs since there is no formal or legal definition of freelancers in many countries, the existing literature reports that there has been an increase in freelance work in recent decades. According to the estimation made by Kitching and Smallbone (2012), for example, the number of freelancers in the UK has increased from 1,036,000 in 1992 to 1,560,000 in 2011.

In addition, based on both demand for and supply of freelance jobs, the existing literature predicts that freelance work is likely to continue expanding in the future (Handy 1989, Kitching and Smallbone 2012, Lee et al. 2013, Moulda et al. 2014). Firms have used freelance work to enhance their flexibility in responding to changes in market conditions and to progressively respond to the transition from mass production of standardized commodities into small quantity batch production. The number of people seeking greater freedom to determine the allocation of work and leisure has been growing. In addition, continuing advances in information and communications technology has considerably improved the market environments for freelance job transactions.

One may therefore imagine that freelancers plan their work independently, obtain project orders based on their work ability and negotiation power, allocate their time between work and leisure on their own, and manage their own compensation for the performance of work. In reality, however, freelancers vary in organizing work tasks, securing and handling clients, compensation methods, degree of autonomy, and whether freelancing is a primary or second job. Freelancers in different work settings might act quite differently (Kitching and Smallbone 2012).

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1 This list draws on Moulda et al. (2014), and the websites for freelance job match including [elance-odesk](#).

The extant literature identifies two distinctive types of freelancers in terms of the degree of freelancer autonomy and voluntariness. The first type refers to professionals who choose freelancing for reasons of flexibility, work-life balance, autonomy, and professionalism. They work on a project-by-project base and enjoy high degree of independence and autonomy. This type of freelancing is called the 'free agency' model (Kunda et al. 2002) or 'portfolio' model (Smeaton 2003); such freelancers are likely to be highly skilled and highly paid. In contrast, the second type of freelancing is called the 'marginalization' model (Smeaton 2003). This type of freelancer typically has fewer skills, is lower paid and insecure, a consequence of larger private and public sector organizations externalizing jobs (Kitching and Smallbone 2012). Although these freelancers work on a service contract rather than an employment contract, they typically work for a very small number of firms for a considerable period of time and they have little freedom to determine work place, work process, and work time. Therefore, they may be called 'disguised employees' (Rainbird 1991). Of course, there are a large number of freelancers who fall between the two types of freelancers described above and enjoy a considerable degree of work freedom but have difficulty securing jobs. In particular, structural unemployment is likely to result with these types of freelancers. Kitching and Smallbone (2012), for example, report that the freelance workforce has risen approximately 11 percent during the 3.5-year period from October 2007 to April 2011 during which UK unemployment rose approximately 56 percent.

Although there are no formal data on the freelance workforce, the number of freelancers is estimated to have increased in recent years in South Korea as well (Hwang et al. 2009, Lee et al. 2013). The existing literature on Korean labour markets reports that freelance jobs are frequently observed and are increasing in education, publishing, broadcasting, design, arts and culture, sports and recreation, information system development and web design, architecture, and social welfare services (Lee et al. 2013).

Although there are variations, most freelancers share common needs. The extant literature reports four major difficulties from which freelancers suffer. First, most freelancers have trouble securing jobs (Dex et al. 2000, Fraser and Gold 2001, Hwang et al. 2009). This job security issue inevitably results from freelancers' entrepreneurial characteristics that are shared by other self-employed individuals. Freelancers work at their own risk and reward without any organizational guarantee or support. Therefore, a freelancer is 'the archetypical job hopper going from one project and employer to the next, never staying for very long in a single organization' (Van den Born and Van Witteloostuijn 2013). What distinguishes freelancers classified in the aforementioned free agency model from other self-employed individuals is that many freelancers sell their intangible professional knowledge or skills to firms or individuals based on a deferred service contract while most traditional self-employed people sell tangible products or services to customers<sup>2</sup> (Van den Born 2009).

Therefore, the way freelancers reduce job uncertainty might be different from that for the traditionally self-employed. Most freelancers build networks to increase their likelihood of finding clients and being awarded contracts (Dex et al. 2000, Osnowitz 2006, Hwang et al. 2009, Van den Born and Van Witteloostuijn 2013). Using survey

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2 Of course, as an anonymous referee pointed out, one may argue that some freelancers such as those who are engaged in personal services sell tangible services such as gardening, housekeeping, care services, etc.

of 1,612 freelancers in the Netherlands, Van den Born and Van Witteloostuijn (2013) identify that building strong relations with agents and putting effort into building and maintaining a network significantly influences freelancer career success. However, one may argue that the effort and time that individual freelancers exhibit is to some degree wasteful because the resources consumed overlap from the social perspective and the individuals' networking behavior may incur negative network externalities (Liebowitz and Margolis 1994). Therefore, individuals' competition against other freelancers to build networks needs to be improved.

A second difficulty is associated with the high variance of work distribution across a time period while the first problem concerns the means of work distribution with a freelancer. Many freelancers frequently suffer from a feast-or-famine cycle of work. They might experience losing out on a job because the buyers of freelance work required more than the freelancers could give. Or they might experience regretting at having taken on a big job because it turned out to be beyond their abilities. Therefore, all freelancers definitely would like to reduce the variance of work distribution but this is not easy as long as they are working alone.

A third problem is related to the business relationship with clients. Freelancers are prone to undue interference and control by clients and subject to a weak position in negotiation with clients (Fraser and Gold 2001, Muehlberger 2007, Hwang et al. 2009). Finally, freelancers experience tension arising from the need to be 'enterprising' (Storey et al. 2005, Lee et al. 2013).

Some of the problems described above can be resolved by setting up a web portal and platform for buyers and sellers of freelance jobs to find each other<sup>3</sup> or founding a union or association of freelancers to perform activities aimed at improving their status.<sup>4</sup> Cooperatives can also be vehicles for freelancers to resolve their problems. The next section describes a short story regarding freelancers' cooperatives in South Korea that have been established in recent years.

### **3 The Korean cases of freelancer cooperatives**

Although statistics on freelancers do not exist, studies on freelancers in South Korea indicate that the growing incidence of freelance work in various industries and fields are similar to several of the reasons found in previously mentioned advanced countries (Hwang et al. 2009, Lee et al. 2013). However, freelancers' union performing activities to resolve their common needs in South Korea has not been found. Professional organizations established by a number of freelancers, such as International Interpretation and Translation Association have been developed in recent years but their main

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3 Websites began to appear in the late 1990s and include oDesk, elance, Field Nation, People Per Hour, and Fiverr in UK and the US. In South Korea, websites for collaborating firms or institutions which want to outsource IT related service and freelancers developed since 2000s, including eLancer, wishket, and freemoa.

4 An example includes Freelancer Union, which was founded in 2001 in the US and has been successful in resolving health insurance issues caused by freelancers' weak position in obtaining a private group health insurance policy under fair terms.

**Table 1 – Distribution of newly established cooperatives by type**

	Small entrepreneur co-op	Worker co-op	Consumer co-op	Multi-stakeholder co-op	Social co-op	Total
Nov. '13	1,909 (62.7)	225 (7.5)	208 (6.8)	601 (19.7)	102 (3.3)	3,045 (100.0)
May '15	5,302 (74.3)	298 (4.2)	227 (3.2)	1,023 (14.3)	284 (4.0)	7,132 (100.0)

Source: Ministry of Strategy and Finance, South Korea.

objectives are focused on lobbying the authorities related to policy for interpreter certification exam and translator qualification test.<sup>5</sup>

In recent years, private companies providing services to match firms or institutions which want to outsource IT related service and freelancers have emerged, including eLancer, wishket, and freemoa. However, these organizations with internet platforms perform mainly in IT related service areas and are for-profit firms which do not include freelancers in their governance structure. Therefore, freelancers' aspiration to organize a cooperative by themselves to resolve their unmet common needs in various fields in the country has been escalating. Freelancer cooperatives differ from for-profit firm with internet platform in that the former are governed by freelancer-members and thus they are residual claimants. Freelancer cooperatives are distinguished from several extant professional associations established in some fields including translation and interpretation service areas in that the former' activities are focused on resolving difficulties associated with members' economic activities while the latter organizations are concentrated on lobbying activities.

However, freelancer cooperatives did not appear until the Framework Act on Cooperatives (hereafter FAC) took effect in December 2012. The cooperative sector in Korea took a top-down approach from the beginning, although a bottom-up cooperative movement was attempted (Bidet 2002, Jang 2013b). There have been strict regulations on the establishment and management of cooperatives in terms of the boundary of their activities, conditions for obtaining permission from the government, and the governance structure (Jang 2013a). Owing to political leaders' increasing expectations on the role of cooperatives to alleviate the problem of the economic downturn and social welfare, on 29 December 2011, the FAC was passed by the Korean National Assembly and went into effect on 1 December 2012. The FAC allows for people in South Korea to freely establish any type of cooperative with five members in any field except finance and insurance (Jang 2013a).

Koreans' response to the enactment of the FAC has turned out to be explosive. As Table 1 shows, the growth of cooperative establishment based on the FAC has increased considerably during a short period of time. During the first 30 months after the FAC took effect, Koreans founded 7,132 cooperatives, of which more than 74 percent are small entrepreneur cooperatives, including cooperatives established by self-employed individuals with employees, self-employed individuals without employees, and freelancers. The Ministry of Strategy and Finance, which administers the FAC, classifies cooperatives

5 Interview with the president of Translators' Cooperative in 16 December 2015.



**Table 2 – Distribution of small entrepreneur cooperatives by industry**

Industry	No. of co-ops	Industry	No. of co-ops
Wholesale and retail	1,471(27.7)	Health/social service	173(3.3)
Agriculture/forestry/fishery	860(16.2)	Professional science/technology service	170(3.3)
Educational service	568(10.7)	Lodging/food service	179(3.3)
Manufacturing	480(9.1)	Construction	151(2.8)
Repair service/personal service	401(7.6)	Maintenance/business service	147(2.8)
Art/sports/leisure	387(7.3)	Others	294(5.5)
Printing/broadcasting/ICT service	223(4.2)	Total	5,302(100.0)

Note 1: Others include transportation, environmental service, and sewage and disposal service.

Note 2: The data are current as of May 2015.

Source: Ministry of Strategy and Finance, South Korea.

into five types: small entrepreneur cooperatives (producer cooperatives), consumer cooperatives, worker cooperatives, multi-stakeholder cooperatives, and social cooperatives.<sup>6</sup>

The desperate aspiration of the self-employed and freelancers are ascribed mainly to the recent increase in the number of workers in small enterprises and the recent decrease or slowdown of employment growth in large and medium-size firms. Self-employed business owners, unpaid family workers, and workers employed in enterprises hiring less than 10 employees shared 57.8% of total employment in South Korea (Jang 2014b). In South Korea, the self-employment rate was 29% in 2012, which is much higher than the OECD average of 16%. The self-employed and small businesses are prevalent in wholesale and retail, lodging, food service, repairs, and transportation. As a result, self-employed business owners have become oversupplied causing their income to suffer. In South Korea, the average income level of self-employed households was 76% of wage worker households in 2012 (Jang 2014b).

Table 2 shows that small entrepreneur cooperatives are the most frequently observed in wholesale, retail, agriculture, and manufacturing. Small entrepreneur cooperatives also increasingly appear in educational service, personal service, arts and leisure service, publishing, broadcasting, ICT service, and professional science and technology service. In particular, small entrepreneur cooperatives established in the latter industries or fields differ from those in traditional industries. Most of the self-employed in wholesale, retail, agriculture, manufacturing, lodging, and food service established cooperatives in order to boost their business income by integrating common businesses into the forward or backward in the value chain (Ravensburg 2011, Jang 2014b). In

<sup>6</sup> The typology of cooperatives registered under the 2012 FAC is determined by FAC and a decree of the Minister of Strategy and Finance. The social cooperatives defined by the FAC are mainly aligned with the 2009 statement of CICOPA on social cooperatives in terms of their public purpose, multi-stakeholder governance structure, and surplus distribution constraints. The other four types of cooperatives are delineated by a decree of the Minister of Strategy and Finance mainly with criterion in which who establishes a cooperative. Although South Korea already has held 1999 Consumer Cooperative Act and 1962 Agricultural Cooperative Act, these laws are too restrictive for consumers and farmers to establish a cooperative in the traditional fields as well as in a new sphere (see Jang (2013a) for more details). As a result, most of the existent medical consumer cooperatives registered under the Consumer Cooperative Act have been converted into health welfare social cooperatives under the FAC during the past two years.

**Table 3 – Partial list of freelancer cooperatives recently established**

Industry	Cooperative
Educational service	Korean lecturers' cooperative, Korean IT freelancers' cooperative, Scientists' cooperative (Bossam), Story coaching cooperative, Korean social media lecturers' cooperative, Humanities lecturers' cooperative, Civic landscapers' cooperative, Korean IT developers' cooperative
Art-sports-leisure-related services	Moonkyung artists' cooperative, Cultural contents producers' cooperative, Jincheon craftsmen cooperative, Dahakro theater freelancers' cooperative
Printing-movie-broadcasting-information service	Korean photo reporters' cooperative, Korean movie staff cooperative, Gwangjoo smart content developers' cooperative, Story-tellers' cooperative, Korean MICE cooperative, Picture book writers' cooperative
Professional-scientific- technological Service	Taeung engineering consulting cooperative, Korean creative women researchers' cooperative, Joeun architects' cooperative, Korean translators' cooperative, Korean scientists and technicians cooperative, Webtoon writers cooperative

contrast, a large portion of the small entrepreneur cooperatives in educational service, personal service, arts and leisure service, publishing, broadcasting and ICT service, and professional science and technology service were established by freelancers. The characteristics of business activities performed by freelancer cooperatives can be distinguished from those of traditional producer cooperatives.

Table 3 shows a partial list of freelancer cooperatives recently established in South Korea. Freelancer cooperatives have been established by lecturers, coaches, consultants, IT developers, scientists, researchers, civic landscapers, artists, craftsmen, theater freelancers, reporters, story-tellers, photo reporters, movie staff, and writers. Although the number of freelancer cooperatives has not been identified because the classification of cooperatives offered by the Ministry of Strategy and Finance in South Korea does not distinguish freelancer cooperatives from other types of cooperatives, existing observations imply that the number of freelancer cooperatives is not trivial. We explore the general picture of freelancer cooperatives by describing two cases, the Korean Creative Woman Researchers' Cooperative (KCWRC) and Korean IT Developers' Cooperative (KITDC). The case study was implemented by visiting the offices and interviewing chairpersons and executive officers with a semi-structured questionnaire regarding the common needs of members, the main objectives and activities of the cooperatives, and the challenges that the cooperatives face.

KCWRC was established in December 2013 by seven freelance research women who hold Master's or PhD degrees in the physical science, engineering, business, and public administration. Most of the women experienced breaks in their career due to maternity. They have not voluntarily or involuntarily returned to the research institute where they worked until they gave birth. They worked as freelancers for several years after they gave birth but it has been stressful to find and secure research project that they would like to carry out. The main objective of KCWRC is to assist members who have



strong aspiration for balancing work and caring for their children to take advantage of their freelance status by establishing an effective network and collaborative work system that helps reduce the disadvantages of freelance status.

KCWRC organizes work as follows. KCWRC and their members share information with each other, which increases the probability of finding a research project. Once a research project is found, the cooperative allocates the project job to the most appropriate members and makes a service contract with the client of the project. The cooperative then signs a service contract with the members to accomplish the project job and deliver a research outcome to the client once the project is completed. In this way, the cooperative assists the members by collecting information regarding research project order, building an effective network of female researchers, and providing administrative support. These activities are determined by board of directors which is composed of 4 members elected by general assembly of members. The cooperative earns income by charging fees on a project basis. Minimum requirements for membership include acquiring a share of one hundred thousand Korean won while board member of directors are required for obtaining ten shares of one million Korean won.<sup>7</sup> The by-law of KCWRC indicates that surplus if any is distributed mainly based on patronage refund which is determined by contributions of each member to performing projects. As of December 2015, the number of members has increased to 27 and revenue also increased since the cooperative was founded. However, the KCWRC has faced challenges in securing income for administrative staff and increasing the amount of research projects award, as well as their members without losing members' homogeneity in terms of the role of active members.

The Korean IT Developers' Cooperative (KITDC) was founded in February 2013 by five freelancers and small entrepreneurs who specialize in system integration, web agency, building e-commerce platforms, and providing IT consulting services. They had the common need to improve their job conditions in IT industry environments where many freelance or small IT developers suffer from their weak bargaining position in the prevalent work structure of multi-level subcontracting. The main objective of KITDC is to enhance compensation and work conditions for IT developers by directly awarding IT-related projects from the project-ordering entity, removing brokers' commission working on subcontracting structures. The main activities of KITDC include collecting information regarding demand for and postings of IT-related projects, organizing IT developers as members who are appropriate for target projects, and offering members administrative services, such as accounting, law, and industrial disaster insurance. KITDC also earns income from charging fees on its base of projects awarded. These activities are governed by four board members of directors which are elected by general assembly of members. An executive director has been playing a role of managing the activities. According to the by-law, surplus if any is allocated largely based on patronage refund.

The number of members has increased to 55, although the minimum requirements for membership include buying a share of one million Korean won. Revenue also has gradually increased. However, as most cooperatives are at the beginning stage, the cooperative has struggled to make enough income to secure professional staff offering services such as planning, collecting information and winning project contracts, accounting, etc.

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7 One million Korean won is equivalent to about US\$829 as of 1 February 2016.

#### 4 Organizational characteristics of freelancer cooperatives

As described above, freelancer cooperatives are a type of cooperative that freelancers aim to meet their common needs by pooling information regarding project markets, making contracts with clients on behalf of a group of members, allocating project jobs to appropriate members, making service contracts, and compensating for members' jobs on a project-by-project base. It is found that freelancer cooperatives recently established in South Korea are governed by board of directors which are elected by general assembly of freelancer-members. Because the Framework Act on Cooperatives in Korea recognizes capital stock cooperatives only, freelancer cooperatives should issue shares of common stock that are owned by freelancer-members. Surplus if any can be distributed by the principle of patronage refund after setting aside mandatory reserve stipulated by the FAC.<sup>8</sup>

Comparing freelancer cooperatives with worker cooperatives, they are similar each other in respect of their objective of members' job security but, they are different each other in terms of the way which the objective is realized and the nature of contracts made between a cooperative and the members. Freelancer cooperatives make service contracts with their members whereas worker cooperatives make employment contracts with their members. However, the two types of cooperatives are akin each other in respect of the nature of advantage of cooperatives. As being observed in most successful worker cooperatives, thriving freelancer cooperatives might take advantage of incentives for freelancers to reveal their preferences on work styles and specific capabilities of performing a project and to share information regarding project markets.<sup>9</sup>

Since freelancers can be regarded as a type of entrepreneurs, it is useful to compare freelancer cooperatives with traditional entrepreneur or producer cooperatives. Freelancer cooperatives are similar to traditional entrepreneur cooperatives in that both of them do make service contracts rather than employment contracts with their members. They are also akin each other in that the members in either entrepreneur cooperatives or freelancer cooperatives would like to pool the various resources that each member possesses to create mutual gains from cooperation.<sup>10</sup> However, freelancer cooperatives differ from entrepreneur cooperatives in that freelancer cooperatives purchase knowledge/skill intensive services from their members while entrepreneur cooperatives offer common procurement services or common marketing or processing services to their members. From this comparison among three types of cooperatives, it can be derived that freelancer cooperatives are a hybrid between worker cooperatives and entrepreneur cooperatives (see Table 4).

Freelancer cooperatives can be regarded as innovative if they contribute to creating employment suitable to changing conditions of labor suppliers in a post-industrial society where the type of employment is becoming diverse. In addition, freelancer

8 See Jang (2013a) for more details.

9 See Hansmann (1990) and Ben-Ner and Ellman (2013) for this line of study on worker cooperatives.

10 See Ménard (2004) and Ravensburg (2011) for theoretical arguments, and see Choukroun (2013) for the interesting cases of entrepreneur cooperatives which share over thirty percent of market shares in French commerce sector.

**Table 4 – Comparisons among entrepreneur cooperatives, worker cooperatives, and freelancer cooperatives**

	Entrepreneur co-op	Worker co-op	Freelancer co-op
Objective	To support members' business	To secure employment of members	To help increase the mean amount of projects and reduce variance of project distributions for members
Nature of contract made with members	Commercial contract	Employment contract	Commercial contract (service contract)
Economic rationale for co-op	Market power avoidance or adaptation to severe competition	Self-reliance on employment security or economic democracy	Self-reliance on job security
Nature of advantages of co-op	Aligning incentives of small entrepreneurs and co-op business in a value chain	Incentive alignment between the role of capital and the role of labor	Incentives for freelancers to reveal their preferences and share information

cooperatives may help save transaction costs associated with how freelancers seek projects by transforming individual freelancers' competition for securing projects into competition based on building open professional networks (Hwang et al. 2009).

However, freelancer cooperatives face several challenges. The main objective of freelancer cooperatives is to help increase the mean number of projects and reduce variation in project distribution for members. The case studies described in the previous section imply that the degree to which freelancer cooperatives achieve their objectives depends on whether they employ a coordinator specialized in securing projects for freelancers in specific fields and whether the portfolios of freelance members are of high quality. The probability of increasing the mean number of projects and reducing variance of project distribution for members may rely on whether a freelancer cooperative is composed of highly capable members and whether the capabilities of members are complementary to each other rather than substitutes. Based on this proposition, one may claim that appropriate rules on membership significantly influence the success of freelancer cooperatives.<sup>11</sup> In this regard, our proposition regarding the conditions required for freelancer cooperatives to thrive differs from those for the development of traditional producer cooperatives such as agricultural supply and marketing cooperatives and commerce cooperatives in that the latter includes economy of scale which

<sup>11</sup> The representatives of several freelancer cooperatives who were interviewed with the author consistently claimed that they are very careful when they review membership applications whether applicants are willing to share their information on project markets with other members and their specialty possessed are complements to existing members'.

requires continuous increase in the number of members, subject to its impact on the costs associated with governing the cooperatives.<sup>12</sup>

With regard to securing professional coordinators, freelancer cooperatives may face the predicament that freelancer cooperatives at the beginning stage may not be able to afford to employ professional coordinators because free-rider problems among freelancers may not be adequately resolved. In particular, the governance costs associated with running a freelancer cooperative might not be trivial because freelance members usually work in a spatially dispersed way where peer monitoring effects as frequently observed in thriving worker cooperatives may not be expected (Ben-Ner and Ellman 2013). Therefore, it is necessary for a freelancer cooperative's take-off for growth to have dedicated member leaders and professional coordinators which are willing to sacrifice themselves at the beginning stage of the cooperative.

## 5 Conclusions

This paper examined the reasons why freelancers have established cooperatives and what conditions are required for freelancer cooperatives to be sustainable. A review of the existing literature on both the demand for and supply of freelance jobs suggests that freelance work has been growing and is likely to expand continuously in the future. However, freelancers face non-trivial challenges associated with organizing work and moderating risk of income which requires an appropriate organization without significantly losing freedom benefitted from freelance job status. The extant literature on ways for freelancers to organize work and case studies on freelancer cooperatives recently established in South Korea identify that freelancer cooperatives have emerged in order to reduce members' job uncertainty and to moderate the time variance of projects assigned to freelancers.

Based on an analysis of organizational characteristics of freelancer cooperatives relative to entrepreneur cooperatives and worker cooperatives, we propose that freelancer cooperatives are a hybrid between entrepreneur cooperatives and worker cooperatives. This finding is comparable to the existing point of view that freelancers can be regarded as a hybrid between entrepreneur and wage labor. In order for freelancer-members to work together, freelancer cooperatives make service contracts with the members by pooling information on project markets and professional networks. Based on the case studies of freelancer cooperatives, we propose that the degree to which freelancer cooperatives achieve their objectives depends on whether the portfolios of freelance members is of high quality and whether they employ coordinators specialized in securing projects for freelancers in specific fields. Regarding the former factor, this implies that appropriate rules on membership may significantly influence the success of freelancer cooperatives.

Our paper is at the initial stage of research on freelancer cooperatives and is subject to several limitations. As described earlier, freelancers much differ each other largely depending on whether they are of free agency model or of marginalization model.

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12 See Schroeder (1992), Valentinov (2007), and Bijman and Iliopoulos (2014) for agricultural cooperatives and see Ravensburg (2011) and Choukroun (2013) for commerce cooperatives.

The paper did not apply this differentiation to the analysis of freelancer cooperatives. Empirical research on freelancer cooperatives in this direction may further contribute to enhancing our understanding of this new type of cooperative. Lastly, it would be interesting to investigate the potential effects of freelancer cooperatives on the outsourcing behavior of firms.<sup>13</sup>

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