



Choosing the Right Model for Managing & Paying Flexible Workers

A practical buyer's guide

(allwork)[®]

Flexible workers—independent contractors, temporary staff, project consultants, and field teams—are a core part of how companies operate. According to the U.S. Bureau of Labor Statistics' Contingent Worker Supplement (November 2024), 7.4% of employed people in the U.S. worked as independent contractors on their main job as of July 2023, representing about 11.9 million workers.



But scale creates complexity.

As your flexible workforce grows across functions and geographies, the questions start piling up: Who owns worker classification? Which team handles compliance? Where do your contracts, tax forms, and payment records actually live?

Without a defined management approach, these responsibilities fall into gaps—between HR and finance, between legal and operations, between what's needed and what's actually tracked.

This guide walks you through the primary models organizations use to manage flexible workers, how each distributes responsibility, and what to consider when you're evaluating the best approach based on your business.

Understanding your workforce

Before you can figure out the right management structure, it helps to know exactly what you're working with. Not all flexible workers are the same—and the distinctions matter, because each type comes with different documentation, payment, and compliance requirements.

Independent contractors:



Self-employed individuals engaged to perform specific work under their own business entity, typically setting their own hours, using their own tools, and working for multiple clients. Example: a software developer contracted to build a feature over 90 days.

Freelancers:



Similar to independent contractors (the terms overlap in legal classification), but they tend to work on shorter, project-based assignments. Example: a graphic designer hired to produce assets for a product launch.

Temporary staff:



Workers placed through a staffing firm for a defined period, typically to cover seasonal demand, leave coverage, or short-term capacity needs, with a staffing firm usually serving as the employer of record. Example: a warehouse team hired through a staffing agency during peak season.

Field or brand teams:



Workers deployed to represent your organization at specific locations: e.g., retail sites, events, or customer-facing environments. Example: brand ambassadors staffed across retail locations for a product rollout.

Project-based consultants:



Specialists engaged for a defined scope of work, often at a senior level, with engagements typically structured around deliverables rather than hours. Example: an operations consultant hired to redesign a supply chain process.

Statement of work (SOW) engagements:



Contractual arrangements where a vendor or individual agrees to deliver a defined output by a defined date, for a fixed price or fee. Example: a technology firm contracted to implement a new HR system.



One size doesn't fit all.

Determine your approach based on your mix of worker types to find the right onboarding, payment, and compliance.

A few internal questions worth answering before you go further (these tend to highlight where things are inconsistent or where they're starting to break down):

- How long do your typical engagements last?
- Are these roles tied directly to revenue or customer experience?
- Which team currently owns oversight of flexible workers?
- How many states or countries are involved?
- Where are your contracts, tax forms, and onboarding records stored?

Structuring your flexible workforce programs

Chances are, your flexible workers are frequently engaged across multiple teams, projects, and locations. One team might use a staffing partner, another hires contractors directly, or someone else runs SOW engagements through procurement—which works, but it’s not consistent.

Instead, you need coordination across HR, finance, legal, and operations. It's not exactly the most glamorous work, but establishing a consistent framework for how those responsibilities are managed is what keeps the program from quietly accumulating risk.

Many organizations find that the complexity eventually outpaces what spreadsheets and manual processes can handle.

When that happens, consolidating contracts, onboarding records, payment history, and compliance documentation into a single platform makes it possible for everyone—HR, finance, ops—to work from the same picture, standardize workflows, and catch gaps before they become liabilities.



Common workforce management models

There's no single model that works for everyone. Organizations typically use one of the following structures—or a combination of them—depending on their size, workforce mix, and operational needs.

Workforce management models at a glance

Model	Best for	Limitation
Staffing firms	Quickly filling roles with external talent	Limited visibility across vendors and spend
MSPs	Coordinating multiple staffing suppliers	Adds overhead; still reliant on staffing firms
Payroll providers	Paying full-time employees	Not designed for contractors or flexible work
EOR / AOR	Managing compliance, payroll, and documentation	Limited visibility into workforce usage and costs

Staffing firms

Staffing firms recruit and place workers into roles—most commonly for temporary assignments, seasonal demand, or rapid hiring needs. In many cases, the staffing firm also serves as the employer of record, handling payroll, taxes, and benefits for the workers they place.

The scale of staffing in the U.S. is significant: According to the American Staffing Association, U.S. staffing firms hired 12.7 million temporary and contract workers in 2023—so if you're using one, you're in good company.

- **Where it works well:** When you need to move fast. Staffing firms bring recruiting infrastructure and candidate networks that most internal teams can't replicate at speed.
- **Where it has limits:** A staffing firm manages their workers, but not your program. Cross-department reporting, consolidated spend visibility, long-term planning—those typically sit outside the staffing relationship. If you're working with multiple staffing vendors, you may find that coordinating across them becomes its own operational burden.

Managed service providers (MSPs)

Managed service providers (MSPs) oversee contingent workforce programs that involve multiple staffing vendors, coordinating supplier relationships, standardizing contracts, consolidating invoicing, and providing reporting across all your staffing vendors.

- **Where it works well:** If you're managing high volumes of contingent labor across multiple staffing suppliers, an MSP can significantly reduce the administrative overhead and give you better visibility across the program.
- **Where it has limits:** MSPs add a layer of governance—which also means a layer of cost, coordination, and complexity, especially if the governance isn't well defined or it doesn't fit a business' needs. Recruiting still runs through staffing firms within the program. For smaller or less complex programs, the overhead may outweigh the benefit.

Payroll providers

Payroll systems handle employee pay, tax withholding, and benefits administration. They're foundational to workforce operations, but they're designed for W-2 employment structures.

- **Where it works well:** For employees with straightforward payroll needs, a dedicated payroll system is often exactly the right tool.
- **Where it has limits:** Payroll systems aren't built for independent contractors or contingent labor programs. If you're routing contractors through your payroll system, you may be creating classification risk and visibility gaps without actually solving the underlying management challenge.

Employer of record (EOR) / agent of record (AOR)

An EOR is a third party that serves as the legal employer for certain workers—managing payroll, tax withholding, employment documentation, and compliance with labor regulations—while your organization directs the day-to-day work.

An AOR works similarly, but for independent contractors rather than employees. The AOR handles contractor onboarding, documentation, and payment administration while you retain oversight of the work itself.

- **Where it works well:** If you're engaging workers across multiple states or countries, where employment law varies significantly, an EOR or AOR can take a lot of jurisdictional complexity off your plate.
- **Where it has limits:** These models handle the compliance and administrative layer, but they don't replace a broader workforce management strategy. You still need visibility into who's working, under what terms, and at what cost.

Compliance considerations

Worker classification is one of the most important (and most commonly mishandled) aspects of managing a flexible workforce.

In fiscal year 2023 alone, the U.S. Department of Labor (DOL) recovered over \$24 million in back wages for more than 20,000 misclassified workers.

The IRS and DOL both publish guidance on classification, and several states have layered on stricter standards of their own. California's AB5 legislation, which took effect in 2020, established a more stringent "ABC test" for contractor status. Research from the Mercatus Center found that AB5 led to a 10.5% decline in self-employment among affected occupations. And in January 2024, the DOL issued a new federal rule under the Fair Labor Standards Act further tightening the definition of independent contractor, making it harder for workers to qualify under the old standard.



Beyond classification, here's what compliance typically requires in a flexible workforce program:

**Onboarding documentation:**

Collecting and verifying W-9s, I-9s, and contractor agreements before work begins.

**Tax reporting:**

Issuing 1099s for contractors paid above IRS thresholds, and making sure W-2s reflect accurate withholding for temporary employees.

**Jurisdiction-specific requirements:**

Tracking varying wage, hour, and benefits laws across the states and countries where your workers are located.

**Contract terms:**

Making sure your agreements clearly define scope, duration, payment terms, and IP ownership.

One more thing worth knowing: compliance requirements change often (and not always in obvious ways). A lot of updates can happen at the state or local level, which makes them easy to miss if you're not actively tracking them.

Regulations governing contingent labor have evolved significantly over the past decade, and if you're managing workers across multiple jurisdictions, you need a process for tracking those changes and applying them consistently.

Financial oversight

Flexible workforce spend is notoriously hard to track. It's distributed across departments, cost centers, and vendor relationships, and it often doesn't surface in consolidated reporting until someone's trying to close the books.

The scale of the issue is real: According to Staffing Industry Analysts (SIA), contingent workers generated \$1.4 trillion in B2B spend in the U.S. in 2023, making contingent labor one of the largest but least-visible cost categories in most organizations.

Here are the areas where organizations most commonly run into trouble:

Spend visibility:

Do you have a clear view of your total flexible labor costs across staffing vendors, direct contractors, and SOW engagements?

Flexible workforce usage:

Do you know how your different teams are using flexible talent—and what outcomes they're driving for your business (e.g., revenue, store coverage, project delivery, or something else)?

Invoice reconciliation:

Are you able to match invoices to approved work orders, especially when multiple vendors bill on different schedules and in different formats?

Budget adherence:

Is flexible workforce spend staying within approved limits across departments and projects?

Rate consistency:

Are you managing bill rates and markups across vendors to avoid significant variance for similar roles?

If individual hiring managers are engaging workers directly without centralized approval process, spend can accumulate faster than it gets reported. And, importantly, when costs add up quickly, it makes them hard to tie back to business outcomes.

SIA also noted in its report that contingent labor often represents 20–40% of total workforce spend at large organizations. That's a significant line item—one that deserves the same financial discipline you'd apply to headcount.

Systems and documentation

Your flexible workforce program generates a lot of documentation—contracts, onboarding forms, tax records, work orders, invoices—across workers, vendors, and engagements that may span years. Without a defined system of record, that documentation can end up scattered across email threads, shared drives, HR systems, and finance platforms. And when questions come up—about a contractor's classification, the terms of a specific engagement, a disputed invoice—you'll spend more time finding the answer than you should.

Here's what you should be able to find quickly:

Worker records:

Classification status, onboarding documents, tax forms, and engagement history.

Contract and SOW records:

Signed agreements, scope definitions, change orders, and renewal terms.

Vendor records:

Master service agreements, rate cards, insurance certificates, and performance history.

Payment and invoice records:

Approved invoices, payment confirmations, and reconciliation notes.

If you're managing this across disconnected tools, you're probably ^(aw) making it harder than it needs to be (and creating exposure you may not be aware of).

Common program gaps

Even organizations with defined workforce management structures often have places where things break down in practice. These gaps tend to compound quietly over time, which is what makes them worth naming directly.

For example, a retail team might be running in-store activations across regions using a mix of staffing agencies, contractors, and brand ambassadors. Each group is managed a little differently. Everything looks fine on the surface, but in reality, there's no single view of who's working, what's being spent, or how it's performing.

Nobody owns the program end to end

Flexible workforce management touches HR, finance, legal, and operations. But in many organizations, no single team owns it all. Recruiting sits with HR, vendor payments with finance, contract terms with legal, etc., with limited coordination among them. The program might function adequately in each silo, but it lacks coherence across the whole.

Workers start before documentation is finalized

This is one of the most consistent compliance risks you'll face: workers beginning assignments before contracts, tax forms, and classification determinations are done. It's usually a process problem, not an intent problem—approval workflows are slow, documentation is manual, and hiring managers just want to get the work started. A standardized onboarding process with clear gates before work can begin is the fix.

Classification decisions happen without centralized guidance

When individual hiring managers make classification calls on their own, you end up with similar roles classified differently across departments—or contractors gradually taking on responsibilities that shift their classification status, without anyone updating their records. If you're not auditing classification regularly, risk is accumulating quietly.

Spend doesn't show up until it's a problem

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Vendor relationships never got formalized

A lot of staffing vendor relationships started as a single hire and grew from there—without a formal master service agreement, defined rate card, or performance expectations. When something goes wrong—e.g., a bad placement, disputed invoice, or compliance question—the absence of documented terms makes resolution harder and slower than it should be.

Decision framework

The right model for your program depends on where you are today. Start with an honest look at how your workforce is structured, how work gets approved, and where things break down.

Your program has probably evolved in stages. Maybe you started with a handful of contractors managed informally. Maybe you've since added staffing vendors, expanded into new markets, or grown to the point where the old approach is straining. Where you are in that progression matters as much as the size of your program.

A few questions worth sitting with:

Where is the friction right now?

Finding workers, managing vendors, staying compliant, or getting visibility into costs? The area creating the most operational pain usually points toward the model that would help most.

Who actually owns your flexible workforce program?

If the answer is "nobody, really"—or if it changes depending on who you ask—that's as much a structural problem as a vendor problem.

How consistent are your processes across teams and locations?

If different departments are managing flexible workers differently, your compliance and reporting data will reflect that (and not in a good way).

Are your current tools and structures keeping up?

Most programs outgrow their original setup. What worked for a handful of contractors in one market rarely scales cleanly to dozens of vendors across multiple states. The strain tends to show up in compliance or costs before it shows up anywhere else.

Clear answers to these questions make it easier to choose the right model and simplify how your program runs. When that clarity is missing, the right system can help bring structure, visibility, and control.



Getting your flexible workforce program right requires visibility into who's working for you, clarity on how they're classified, and a consistent process for onboarding, paying, and tracking workers, across the whole program.

Flexible worker assessment

AllWork works with organizations to take a close look at their current flexible workforce structure and identify where gaps in visibility, compliance, or documentation are creating operational or financial risk. Our platform brings together onboarding, compliance, payments, and reporting so that teams can avoid the common pitfalls and costs associated with flexible workers.

If you're evaluating your current approach, we'd welcome a conversation (versus a generic audit) about how your program actually operates and where it could be stronger. We can walk through what's working, what's not, and where things tend to break at scale.

Request a flexible worker assessment at allworknow.com.

You can also follow us on [LinkedIn](#) to keep up with the latest trends in flexible work.

