Lifeguard’s ordeal is parable about outsourcing

By Steven Pearlstein, Saturday, July 14, 3:55 PM

By now you’ve probably heard the story of the young Florida lifeguard, Tomas Lopez, who was fired earlier this month because he left his station unmanned to help with a rescue in an unguarded section of the beach, in violation of his company’s standard operating procedures.

Over the Fourth of July holiday, this story played out in the national media as a parable about the foolish rigidity of business managers. Lopez, along with six other guards who were fired or quit as part of the imbroglio, were all offered their jobs back by an apologetic owner of the lifeguard management firm (they declined). And last week, Lopez was awarded the key to the city by Hallandale Beach’s elected leaders who vowed to not renew the contract with Jeff Ellis Management, the lifeguard firm that had brought such unwelcome attention.

From another angle, this is also a parable about outsourcing and how it is reshaping large swaths of the economy.

Jeff Ellis, it turns out, is something of a pioneer in the lifeguard business. He started out as a consultant to water parks, clubs and municipalities, training lifeguards and performing annual audits of equipment and procedures that include simulated drownings to test the guards and the equipment. Today that business has nearly 700 clients in 50 states and 14 countries. Insurers have been known to give discounts on liability policies to operators who use Ellis’s services.

About a decade ago, Ellis moved to extend his franchise by offering to hire, train and manage lifeguards for water parks, municipalities and pool owners that wanted to outsource that function. One of his first customers was Hallandale, which had up to that time put beach protection operations under its fire department. In the first year, Ellis says, his company cut the city’s annual $700,000 tab for lifeguards in half. In the nine years since, Ellis says there have been no drownings and his contract has been routinely renewed.

Hallandale is like many public and private enterprises that decided to outsource to contractors work that is not part of their core missions or competencies.

Because they are generally free from union contracts and the unwritten norms of pay equality that exist within any enterprise, contractors are able to pay lower wages and benefits — in many cases, a lot lower. That was certainly the case with Ellis and the Hallandale lifeguards.

The second big advantage that outsourcing firms enjoy is the economies of scale. A firm that specializes in one function and does a lot of it can generally do it at a lower cost simply by spreading fixed costs over a much larger base of business.

Simply by having more experience, a specialty contractor is also more likely to hit upon the most efficient and effective ways of doing things and can quickly adopt those improvements throughout its operations. Unlike in-house operations, outside contractors are also subject to the discipline of competition when contracts are up for renewal.
There is, however, an important trade-off that is made by outsourcing that contractors reflexively deny but is inherent in any firm that derives its competitive advantage from having carefully constructed systems for doing just about everything.

It is these systems — the rules, the procedures, in effect the operational software — that allow companies to take relatively low-skilled, low-paid workers with relatively little experience and have them do tasks that were once done by people with higher skills, higher pay and more experience. And it is the very nature of these systems that workers are discouraged, if not prohibited, from exercising their own discretion. Their only job is to follow rules, stick to the script and leverage the experience and expertise that are embedded in the system.

That’s why the person in the airline call center in Bangalore can’t do what is necessary to help you catch your honeymoon cruise after your flight has been canceled because a co-pilot failed to show up on time. Her computer simply won’t allow her.

It’s why the person from the credit card company can’t speak to you about your account until you put the cardholder — your recently deceased husband — on the line to give the authorization.

It’s why your company cafeteria won’t serve an Ethiopian option even if half the staff is Ethiopian.

It’s why the security guard won’t let you into the building you’ve worked in for 25 years because your identification card has expired — not even to go to the security office to renew your card.

It’s why, when you call the utility company to tell them your service is down for the third time that week, the person at the call center is completely uninterested in what you learned from the last two repairmen, assuring you that somebody will be out to check the problem and asking if there is anything else he can do for you today.

It’s why, when you call the 800 number for tech services while working at home over the weekend on a crucial project, they tell you they don’t support the application you are using and can’t find somebody who does.

And, yes, it’s why Tomas Lopez was initially fired by a supervisor who had ordered him to remain at his post until another guard arrived before responding to calls for help from a distant, unpatrolled part of the beach. (As it turned out, by the time Lopez arrived, the rescue had largely been made by another swimmer with a boogie board).

The reason these various systems can deliver reliable service at lower cost most of the time is precisely because front-line workers are willing and able to act like cogs in a machine. So when two of Lopez’s colleagues later told supervisors they would have done the same thing, they were fired as well.

If you want discretion and judgment, if you want workers who really understand and relate to customers, if you want the flexibility necessary to respond to individual needs or unforeseen circumstances, then you can go back to paying twice as much to have your own, longtime employees doing the work. That’s the outsourcing trade-off. It may be a good trade-off — most of the time I suspect it is. But it is an unavoidable trade-off, no matter how good the contractors or their systems.

You can see how this process bifurcates labor markets and increases income inequality. At the low end are the low-cost expendable cogs. At the high end are those whose experience and intelligence and training allow them to demand very good salaries for designing, creating and managing these systems. There’s not much in between — or even much of a ladder for getting from one to the other.
The manufacturing sector has already gone through this process, and most of the work that can be outsourced has been. Now a new phase is beginning. It turns out that if jobs are so routinized that they can be done by someone without deep skills and experience, then those jobs are also ripe for being done by robots or computer-run production processes. And that makes it possible to bring work back in house, or at least closer to home, by a fewer number of experienced workers who are higher-skilled and higher-paid. The revival of the U.S. steel and auto industry is predicated on this model, and I think we could eventually see it in parts of high tech and even consumer goods. In the service sector, the drivers will be the Internet, user-friendly interfaces and intelligent, interactive software.

Of course, there will always be work that can’t be easily automated or upgraded, and being a lifeguard may be one of those. But Tomas Lopez probably made the right decision to spend the rest of the summer focused on his studies at nearby Broward College. For all its faults, that’s still the best way to ensure that he won’t end up as a discretion-less cog in a low-wage machine.