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# Progressive Outsourcing on the Illinois Tollway

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PROGRESSIVE OUTSOURCING ON THE ILLINOIS TOLLWAY

by

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A Research Paper  
Submitted in Partial Fulfillment of the Requirements for the  
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A Research Paper Submitted in Partial  
Fulfillment of the Requirements  
for the Degree of  
Masters  
in the field of Public Administration

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TITLE: PROGRESSIVE OUTSOURCING ON THE ILLINOIS TOLLWAY

MAJOR PROFESSOR: Dr. LaShonda Stewart

The following study examines the case of outsourcing by the Illinois Tollway, specifically the Public-Private-Partnerships developed to manage the distribution and marketing of I-Pass, a revolutionary approach to tollway operation. The Illinois Tollway introduced the I-Pass; a device designed to pay tolls on Illinois tollways automatically in order to reduce traffic, expenditures, increase safety, and create a more effective tollway system. The I-Pass program was the Illinois Tollway's version of programs developed in other major metropolitan areas. Throughout the 2000s the I-Pass program grew significantly, impart due to a large plan for expansion. This expansion was accomplished through the implementation of a number of strategies; including a number of Public-Private-Partnerships that worked together to accomplish goals linked to distribution, advertisement, traffic management, and news alerts.

This study will examine these partnerships, and the outsourcing strategies employed by the Illinois Tollway during the course of this new campaign. The Illinois Tollway managed to accomplish their goals, of expansion and improvement, through the formation of a number of unique partnerships that helped improve their operation through a number of outsourcing ventures. These new and innovative techniques directly benefited the Illinois Tollway in a number of ways, but even more importantly represent the very potential and importance of outsourcing for the future, especially when dealing with public entities such as the Illinois Tollway. With the strains of the modern economic setting, and the financial restrictions that

have placed hardships on almost every public organization, new strategies such as outsourcing represent potential solutions that may offer significant relief and important solutions for these problems.

This study will present a critical portrait for the future of outsourcing. The Illinois Tollway developed innovative and unique forms of outsourcing that saved millions of dollars, and successfully reached a number of accomplishments, such as massive expansion, increased quality of service, and added innovations that would have otherwise been unobtainable under the current structure and scope of the Illinois Tollway.

Defining and demonstrating the true potential of public-private-partnerships in all facets of public administration is the role of this study, and will help demonstrate the broad and ever expanding potential of such a strategy. This study will answer questions such as, were there significant financial savings due to outsourcing, were new technologies and innovative resources obtained through these partnerships, and was the overall implementation of this outsourcing program successful to the Illinois Tollway? The innovation and creative partnerships examined in this study will provide an understanding of how the Illinois Tollway has pushed the limits of outsourcing, and have laid the ground work for the expansion and advancement of this technique for the future.

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## CHAPTER 1

### INTRODUCTION

The Illinois tollway introduced the I-Pass program and device as an innovative way to improve the performance and safety of the Illinois Tollway, one of the largest and most intricate tollways in the United States. This automated system was an important advancement in tollway technology, yet was not widely adapted by many of the regular users of these transportation systems. An I-Pass transponder eliminates the need for customers to stop at a gate by allowing them to drive in the open road tolling lanes, saving drivers an estimated two hours of travel time per week. Customers with I-PASS pay 50 percent less than customers who pay cash. I-PASS customers no longer need to worry about finding exact change when traveling on the Tollway. (Illinois Tollway, para. 1-4)

This program provided a device and system that greatly improved the service and cost of the tollway for the millions of customers of the tollway system that participated in this program. The I-Pass program and the I-Pass Device presented a large advancement in tollway travel and created a number of benefits both financial and in service quality for the users of this program and the tollway.

In the mid 2000s the Illinois Tollway instituted a policy that would dramatically change the I-Pass system, the Illinois Tollway, and potentially the implementation of public projects in general. It was during this time that the Illinois Tollway would choose to partner with Jewel-Osco, NBC, and FOX in order to outsource the marketing and distribution of I-Pass and the devices themselves. These partnerships were part of an overall program aimed at limiting

expenditures, reducing congestion, as well as increasing the use of I-Pass among tollway users (National Council on Public-Private Partnerships, 2005, para. 1-3).

These public-private-partnerships represented an innovative and unique perspective on outsourcing. These partnerships offered a number of potential benefits to each of the parties involved, and allowed the Illinois Tollway to accomplish a number of goals, related to expansion and improved service, many of which would have been very limited if not impossible without the involvement of private companies that had the ability to provide services and opportunities that were out of reach for the Illinois Tollway. These goals include the reduction of congestion within the tollway system, implementing new innovative services, such as new alert systems, and greatly expanding the I-Pass system itself (National Council on Public-Private Partnerships, 2005, para. 1-3). Outsourcing is not new to public management, yet the strategies and techniques incorporated by the Illinois Tollway in regards to the I-Pass program were unique and demonstrate the variety and diversity that can be incorporated into outsourcing models.

Aside from evaluating the overall success of outsourcing within this specific case there are additional motives behind this study. Demonstrating the role of outsourcing in relieving the financial burden of public agencies, as well as demonstrating the technological and innovative advantages that accompany these management strategies is also a core purpose of this study. The issue of poor funding within public management is discussed in relation to the potential role outsourcing can play in this dilemma, specifically the advantages this strategy can play in relation to efficiency, equity, quality, and cost effectiveness (Pessoa, 2009, p. 1). This discussion is directly related to the purpose of this study, and supports the need for this study to truly analyze and understand the potential role that outsourcing could potentially play in curbing the financial hardships facing many public agencies throughout all public sectors. The potential

that outsourcing offers in relation to technology and innovation is also beneficial. This study is needed to examine how these partnerships provided I-Pass and the Illinois Tollway access to a multitude of additional technologies and resources. Branco Ponomariov explains in his case study of a state transportation agency that a motive for outsourcing is to gain access to alternative technologies (Ponomariov, 2008, p. 253-254). This study will aim to add to this research and demonstrate the importance that outsourcing can play in accessing alternative and beneficial resources and technologies through partnerships with private partners.

This study will examine these outsourcing strategies, including the agreements, roles, and results of these partnerships in order to not only examine and determine the success in the case of I-Pass, but also to demonstrate the potential for future cases using similar strategies and techniques. The Illinois Tollway is not unique in the public sector in regards to being financially limited or faced with challenges in service delivery and the ability to tackle certain challenges, and this case provides an example of how to use these types of strategies to overcome these challenges. The techniques and strategies involved will be compared to the service and success of the program to determine the true level of success, and also to demonstrate what aspects or features of this case are important and critical not only to their success, but also for the success of these types of strategies in the future. This analysis will demonstrate that the innovative outsourcing strategies employed by I-Pass and the Illinois Tollway led to direct financial and operating benefits.

Outsourcing has long been a part of the public sector, yet examining cases such as the I-Pass program will only help advance this industry; and provide vital knowledge and insight into how to further perfect and advance these types of strategies and develop more effective and successful forms of public management. The case of I-Pass demonstrates innovative ways to

incorporate outsourcing, strategies that can provide valuable insight for future administrators, and provide lessons toward what types of strategies can be impactful and beneficial within public management.

### **Problem Statement**

A major concern in government management and more specifically public administration has been the ability to fund the countless tasks and responsibilities that go along with managing the affairs and needs of a given municipality, state, or other government entity. Funding these responsibilities is often challenging, and raises a number of concerns for modern managers (Pessoa, 2009, p. 1). A number of solutions exist to address these challenges, such as raising taxes, reducing services, and outsourcing. Outsourcing is a process of shifting public services, tasks, and responsibilities over to private enterprises and companies in order to reduce the cost on the government and therefore the tax payers. These relationships between the public and private sector are called Public-Private-Partnerships or PPPs. The National Council on Public Private Partnerships explains:

A Public-Private Partnership (PPP) is a contractual agreement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility. (para. 1)

With the implementation of this strategy has come an increase in the variety and diversity of the types of outsourcing and public-private-partnerships being implemented. With the current economic strains facing public organizations discussed by Pessoa, new strategies of management are a potential solution (Pessoa, 2009, 1). Outsourcing is a potential solution, but developing a

successful and safe way to implement this type of strategy is difficult, yet potentially important to the issue of public funding.

The lack of funding in the public arena has created a growing level of debate within public management, a debate which has increased focus on alternative routes to funding, including outsourcing (Pessoa, 2009, p. 1). With sources of funding becoming strained, public organizations are having difficulty funding all desired services and programs, creating a need for alternative solutions that can create more cost effective strategies. The lack of funding discussed by Pessoa provides support for why outsourcing needs to be studied further, in order to analyze the potential and impact of this management strategy. This current study provides a setting to examine examples of progressive outsourcing and determine its impact and potential in a realistic setting.

An additional motive behind this study is to examine how these partnerships provided I-Pass and the Illinois Tollway with access to technology and services that were not currently in reach of the agency through its current capabilities (Ponomariov, 2008, p. 253-254).

Demonstrating this relationship in regards to the I-Pass technology is an important aspect of this study, and can demonstrate the importance and potential of these types of outsourcing strategies.

This case study of the I-Pass program and the public-private-partnerships implemented by the Illinois Tollway will aim to answer three key questions. Has the Illinois Tollway's Public-Private-Partnerships provided substantial financial savings to the agency, and/or provided substantial levels of additional funding? Have the Public-Private-Partnerships between the Illinois Tollway and other private partners involving I-Pass provided access to new innovative services that would have been otherwise inaccessible? Was the overall implementation of this substantial outsourcing venture and the public-private-partnerships involved a successful and

significantly beneficial addition to the overall goal of the Illinois Tollway and the I-Pass program. This study will provide an in depth analysis of the Public-Private-Partnerships implemented in regards to I-Pass, specifically the financial and technological impact of these strategies, and the potential for these strategies in alternative settings. These partnerships represent significant outsourcing strategies that offer great potential for public management.

## **CHAPTER 2**

### **LITERATURE REVIEW**

Outsourcing has become a major issue in public management, and has been examined in relation to its impact on efficiency, effectiveness, and quality when in regards to public service (Pessoa, 2009, p. 1). Outsourcing can potentially be implemented in almost any area of the public sector, including that of public transportation. States and cities are constantly looking for ways to reduce expenditures, improve efficiency, and improve quality, and outsourcing offers an opportunity to accomplish this goal. When implemented correctly outsourcing can reduce costs, offer newer and more effective innovations, improve efficiency, and even improve quality. These are potential reasons to implement outsourcing into a public agency. In order to understand the true potential of outsourcing, especially in regards to quality of service and public responsibility it is important to understand and analyze the various impacts, both positive and negative, that may accompany such a strategy.

“In general, a PPP can be broadly defined as a contract between a public agency and a private firm to provide a facility or service to the public. This agreement seeks to involve the private sector in nontraditional areas of a project with risks and rewards shared in new ways” (Papajohn et al, 2011, p. 126). This definition specifically lays out the role of Public-Private-Partnerships, and their potential positive or sometimes negative impact. An important fact to remember in these arrangements is that both sides are taking risks and that although rewards will be divided between the two parties, negative results will also impact both parties as well (Papajohn et al, 2011, p. 126). This simple definition provides a foundation to begin an examination of outsourcing and public-private-partnerships.

**Financial Benefits:**

Outsourcing can be motivated by a number of reasons, one of which is the desire to lower the cost of services to the public. According to Jensen and Stonecash (2005) “Aside from any ideological preference for small government, proponents of out-sourcing contend that it should result in a more efficient allocation of resources, and thereby reduce fiscal pressure on the government (and thus taxpayers)” (Jensen & Stonecash, 2005, p. 770). This motivation is important when attempting to understand and implement outsourcing strategies. Although the quality and effectiveness of service is vital in the public sector the cost is just as important. The government entity must determine the most cost effective route by which service can be delivered at an acceptable level of quality. Outsourcing offers a potential solution to this challenge, since many private companies have the size and capabilities to provide services at a lower cost.

David Johnstone (2002) explains an additional benefit of outsourcing is the fact that the contractual relationship between the government body and the private company can act as a form of protection between the government body and the uncertainty of cost and revenue (Johnstone, 2002, p. 153). By guaranteeing a set cost for a set service in a Public-Private-Partnership agreement, the government body guarantees that rising costs will not endanger their ability to provide a given service. This benefit is not often considered, but in a time of rising costs and falling revenue public agencies can use these arrangements as an extra level of protection against economic pressures.

**Structure of Outsourcing:**

Outsourcing can be implemented in a number of forms, ranging in style and scope. Mengzhong and Jian (2012) explain that, outsourcing can be broken into four separate forms or

styles. In style 1, select service outsourcing, the organization outsources a single select service while keeping all other services in house, such as outsourcing just waste management within a municipality. In style 2, almost all services are outsourced, while a select service such as road maintenance is kept in-house, while keeping other services in the hands of private companies. Style 3, lower level outsourcing, is where all lower level services such as on the ground employees and service providers are outsourced, while higher level employees such as management is kept in house. Style 4, high level outsourcing, all lower level services and employees are kept in house, while high level employees, such as city managers, or outsourced (Mengzhong & Jian, 2012, p. 701-702).

Each style of outsourcing has its own potential and limitations. A lack of employees may require lower level outsourcing; where as a lack of highly qualified managers may call for higher level outsourcing. Different settings call for different styles, depending on the needs and goals of the community. It is important to remember that no matter the goal or need of the community for government in questions, an important step in all outsourcing efforts is to remember the goal of public service, which is to provide quality, effective, and efficient service at a reasonable cost to all members of the community, state, or nation.

### **Outsourcing and Transportation:**

Public transportation provides an opportunity to examine cases of outsourcing, due to the large rise in outsourcing within this industry over the last few decades. A number of reasons exist to motivate communities or states to outsource their transportation efforts. Eger and Samaddar explain, “In the past several decades, departments of transportation (DOTs) have explored outsourcing as an alternative to human resource development or as an enhancement to productivity” (Eger & Samaddar, 2010, p. 1). Eger and Samaddar provide just two of the many

motives that encourage government units to outsource their transportation. Human resource development is a costly industry, with training and salaries accounting for a large percentage of expenditures for any sector or department. Outsourcing allows the public entity to pass on the costs of human resources to the private contractor, presenting an opportunity for dramatic savings.

Productivity is an additional motivation for many communities to outsource the public transportation efforts. Private companies often have access to newer technology, advanced workforces, and advanced equipment, which can all lead to more efficiency and effectiveness, and therefore can enhance productivity (Ponomariov, 2008, p. 253-254). This access to technology and therefore productivity benefits not only the city or state, but also the public both through a reduced cost and improved service.

### **Technology and Innovation:**

Each year technology and innovation advance further and further, making current transportation technology more and more out of date. As previously mentioned this issue becomes a driving force behind outsourcing within the public sector. Ponomariov describes how, “The goal of outsourcing projects is not only to cut costs or to relieve organizations of “non-essential” functions, but also to facilitate access to and utilization of private sector innovation, technology, expertise, and skills” (Ponomariov, 2008, p. 253-254). Ponomariov brings up a number of important issues when dealing with outsourcing. Cutting-costs is essential, since a government would not choose to pay more for a service that it could perform itself for less, yet there are a number of reasons for outsourcing that go beyond directly saving money from eliminating the service. Another reason Ponomariov brings up is the elimination of non-essential functions, which refers to reducing the outlying tasks a government is responsible

for, in order to streamline their responsibilities, in turn making the government more efficient and effective in regards to its core responsibilities. Finally Ponomariov reiterates the issue of innovation and technology. Large private companies have the financing, freedom, research capabilities, and expertise to continuously improve and develop new techniques and equipment, and constantly improve its effectiveness and efficiency through these methods. These opportunities are highly enticing to public agencies and help increase the motivation to shift from public transportation to a privatized industry.

### **Quality of Service:**

The previously mentioned benefits are the main drive toward outsourcing, and can be advantageous to a government financially, as well as to the public, yet there are also additional issues that must be acknowledged. One of the core principles behind public service is to provide a quality service to the public. This topic is a potential area of contention when it comes to outsourcing, and must be addressed and understood to improve the potential for this strategy. Regardless of the financial and technical benefits of outsourcing, quality of service and public satisfaction are tied to the success of these endeavors.

Gottfridsson and Camen (2012) provide this example:

The business development manager of the same PTA supported this view with the following comment: Our mutual goal is the satisfaction of the customer-the traveler, who uses our services. To achieve this goal, it is important not to see the contractual parties as separate actors; rather it is important to create a good cooperative relationship in which the subcontractor does not see the PTA merely as its customer. In fact, the customer is the traveler. It's all about ensuring that the traveler is satisfied. (p. 31)

This comment by a Public Transit Authority manager explains the crucial issue of customer satisfaction, and how the public agency or government, as well as the private contractor must work collectively to ensure the satisfaction of customers and the quality of service, in order to successfully accomplish their mutual goals, and to ensure the success of their relationship. The customer or the public are the key to success, and must be satisfied with the performance and quality of service in order to justify the shift to privatization.

The previous discussion of satisfaction can be tied to a common issue of debate within outsourcing, which is the lack of control by the outsourcer. Peter Hasle (2007) explains that:

Outsourcing in the service industry is creating a new vertical division of labor because it is important for the outsourcer to retain control of the work and only outsource those operations that enhance product quality. The consequence is that the employer cannot exercise the same level of control and the outsourcer becomes a new “third party” between the employer and employees. (p. 96)

This explanation helps explore why quality and customer satisfaction can be such a concern when outsourcing is implemented. Outsourcing creates a situation where those performing the work are not under direct supervision of those responsible for the final results, such as in public management when the public manager is not directly supervising the private employee who performs the actual service or task. This is important to recognize and consider when dealing with outsourcing, and it is important to develop strategies to deal with this dilemma, or contract with companies that can provide acceptable standards for their employees.

When dealing with the key issue of quality of service it is important to recognize the key difference between public and private companies. Public agencies do not strive for profit and exist to provide necessary services to the public and their constituents, while private companies

exist to make a profit. This difference can potentially create conflict between these two groups when working together to provide a service. Gottsfridsson and Camen (2012) stated:

The unwillingness of the parties to collaborate in undertaking more extensive service development thus reflects the institutional environment in which the parties are forced to interact. The contractual situation, which is clearly governed by a framework of laws and regulations, creates an atmosphere of formality and inflexibility in which strict guidelines determine how the business should be conducted. (p. 32)

Businesses are less likely to strive to improve service or quality unless they feel that this move will lead to increased profit, while public agencies aim to provide a high quality service to the public at the lowest possible cost. This will often create a problem, where the public agency or government is far more concerned with quality and public satisfaction than the private company. This conflict is not always present, but is a definite possibility in these types of relationships. Gottsfridsson and Camen (2012) discuss another key issue related to this topic and that is contracts and strict environments. Since public entities are responsible for public welfare and public satisfaction it is important to recognize the importance of guaranteeing this responsibility, even when the service is privatized. Contracts and other regulations, put in place when the program or service is first outsourced will help insure that the private company follows certain protocols and adheres to certain standards, which will in turn protect the public and the quality of service.

**Efficiency:**

Successful public/private relationships will involve an agency or government that is thorough and effective in administering the outsourcing duties and a company that understands its role and realizes that, although profit is important, it is also important to acknowledge their

responsibility is not only to make a profit, but to meet the expectations of the public contractor as well. Hayward gives an example where, Warren Meyer, president of \*RRR\*, explains that the job of the private company is to follow the specific desires of the public agency, and that services should not fall or change, but should be followed to the detail with the requested goals of the department or agency in question. Money is made through efficiency, not the change or addition of services or projects (Hayward, 2012, p. 45-46). This explanation provides an example of how these private public relationships work.

Outsourcing is a growing trend amongst public agencies and local governments, and can affect every sector and area of public service bringing numerous benefits, but it is important to recognize the challenges and obstacles involved with this strategy. Outsourcing can be implemented to streamline performance and responsibilities, reduce costs, improve efficiency, introduce new technologies and techniques, and even improve service; yet this strategy can also limit the control over the service by the public entity and can lead to poorer quality and dissatisfaction by the public. It is vital for the success of any outsourcing effort to properly deal with these issues and recognize the challenges that can arise. Outsourcing can bring numerous benefits, but has to be implemented with proper strategy and care. The quality of service to the public is an important dimension to examine when dealing with public service (Kakouris & Meliou, 2001, p. 351). Balancing service and cost is critical and improving service, while reducing cost where possible is the main goal of all public management.

## **CHAPTER 3**

### **RESEARCH DESIGN**

This case study consists of an in-depth analysis of the case of I-pass, a program instituted by the Illinois Tollway; more specifically this study focuses on the initiation of a number of Public-Private-Partnerships in the mid 2000s involving the expansion and use of I-Pass and performance by incorporating expanded marketing, distribution, and operating strategies. The Illinois Tollway entered into a number of partnerships with private companies such as Jewel-Osco, NBC, and FOX. These Public-Private-Partnerships represent a unique case of outsourcing, involving a number of unique strategies that have allowed the Illinois Tollway to save large sums of funding, as well as gain access to certain services that are otherwise unfeasible with current Tollway capabilities.

This study involves examining the agreements between the parties involved, the strategies and techniques involved in the partnerships, and the results of these relationships. Understanding the intricacies, functions, operation, importance, and success of these partnerships is critical in order to understand the potential and possibilities of outsourcing, as well as demonstrating the potential for new and progressive types of outsourcing and Public-Private-Partnerships. The use of a single case study in the case of I-Pass is critical in demonstrating how properly implemented outsourcing strategies directly benefited this agency, as well as its partners, in a realistic real world setting. This case study analyzes the factual results of these strategies in a specific case, and the study provides an in depth analysis of outsourcing within a large diverse government agency. A case study provides a micro level analysis of a given subject, in this case a micro level analysis of outsourcing within the Illinois Tollway.

The first step of examining the PPPs involved is to examine the agreements between the Illinois Tollway, and the private partners. These agreements are tied to the success of outsourcing and lay out the role, responsibilities, and rules of each party. Every public-private-partnership involves an agreement, stating what responsibilities are placed on each party, and how these responsibilities will be carried out. These agreements are the first step of any outsourcing venture, and are tied to success. It is necessary to understand each agreement in the case of I-Pass in order to examine what occurred in each relationship, and how these initial agreements led to the ultimate success that occurred following implementation, or potentially the problems or challenges that arose from these agreements. The methodology used the Freedom of Information Act requests to gain copies of the various agreements between the Illinois Tollway and the various private partners, as well as news releases to analyze these agreements. The researcher examined these agreements to determine what roles each party was required to play, what their responsibilities were, what goals were outlined, and how these goals were accomplished. These agreements also provided estimates on the financial value for various services. Examining these agreements provided an understanding of the scope and detail of these agreements, as well as detailed the relationship from each party's perspectives, and their overall purpose. Understanding the success and operation of these partnerships is directly tied to this information.

After understanding the initial agreements, it will be important to understand what steps were taken to implement these outsourcing strategies; essentially what actions were taken by each party that led to the completion of the partnerships mission? What responsibilities and decisions were made that led to the ultimate goal? These actions and decisions are tied to success, and help to detail what steps were taken by each party. Outsourcing involves

contracting out work to another party, but in the case of I-Pass the outsourcing was not just as simple as paying for a service, but involved a certain level of commitment and participation by each party. The researcher collected news releases, from the Illinois Tollway website and the National Council on Public Private Partnerships, to examine the implementation and steps involved in the various partnerships, including data related to responsibilities and roles for each party. Websites for the two previously mentioned bodies supplied the required information, and provided information involving when and how these strategies were implemented. This information supplemented the data collected from the initial agreements and contracts. This information is necessary in understanding the true role of these partnerships.

The final outcomes or results are one of the two final factors of evaluating outsourcing, and public private partnerships. In addition to the outcomes and results, the financial effects will also be examined. Without successfully reaching the outcomes and intended results that were laid out in the initial agreements the entire purpose of the outsourcing strategy and partnership will be lost. It is important in every case of outsourcing to measure and monitor results in order to measure the success of the program, such as, in the case of the I-Pass program, how many devices were sold or how more efficient was traffic flow. By examining a number of measurements including number of customers, use of I-Pass, among others, the true success of the I-Pass Partnerships can begin to be understood. The researcher obtained data related to the outcomes of the various data through the Freedom of Information Acts with the Illinois Tollway, the National Council on Public Private Partnerships, as well as Public News Releases and Statistics on the Illinois Tollway website in order to compile a summary of the outcomes of these partnerships. This data includes number of users, impacts on traffic congestion, speed of travel, and convenience of use to the customers. This information is one of two final measures by

which these partnerships was evaluated, and necessary in determining success. An important question to ask during this step of the research process is, do the outcomes and results demonstrate equal or improved service to the customers or the public? In this case the question would be asking if the driving conditions, cost, convenience, and quality of services provided by I-Pass and the Illinois Tollway are better or worse as a result of the various Public Private Partnerships that were implemented during the course of this program.

Financial benefits are important factor in monitoring and evaluating a case of outsourcing. The financial results of any outsourcing venture are necessary in determining success. Economics is a dimension to consider when dealing with outsourcing. The inability of companies, governments, agencies, and other entities to supply a given service or good at a reasonable and manageable price is a potential cause for many to turn to outsourcing. Public-Private-Partnerships present an alternative that allows a given body to contract out a service at a lower cost, increasing profits, or in the case of public management limiting the use of public funding, and reducing the strain passed on to the tax payer. It is necessary to monitor and evaluate the cost of outsourcing in order to evaluate the success of the program. If a partnership provide adequate results and outcomes, but at a cost that was at or above the level that the public entity could have provided the same service for than the partnership did not provide a financial benefit to the public organization.

The researcher used the initial contracts obtained through FOIA requests, news releases, and a report by the National Council on Public Private Partnerships to obtain the financial results of these partnerships, including the funding saved from previous years services, as well as the value of additional new services provided. This financial data is the second portion of results that is necessary in measuring the success of the partnerships in question. The researcher examined

this data to determine and calculate the overall level of savings and financial benefit to the Illinois Tollway to determine the overall success of the partnerships. It is important in the case of I-Pass to evaluate the financial results individually as well as collectively to determine the value and success of each partnership, as well as collectively.

Due to the number of relationships and partnerships formed by I-Pass, the evaluation process is a multi-phase process. Each individual partnership needs to be evaluated and studied before a collective approach can be taken. The researcher used the data collected in previous steps to compile an analysis of each partnership on an individual level, examining the agreements, methods, outcomes, and results of each relationship to determine the level of individual success and impact. After each partnership was examined, the researcher compiled a summary of the agreements, including a combination of the outcomes and financial results to determine the overall impact and success of the entire outsourcing campaign.

Aside from concrete outcomes and straightforward financial information there were additional benefits found throughout the news releases, reports, and agreements which are more difficult to calculate. The researcher included a brief summary of this information such as the reduced congestion's effect on safety. This more objective data is still valuable and the researcher was sure to include a summary of this information, although its specific impact is less concrete.

This evaluation process was a beginning to end approach, examining the outsourcing process from the initial stages to the final results and outcomes are evaluated. Only when this process was complete was a holistic picture of the case of I-Pass outsourcing determined, and the level of success was decided. Not only was the program evaluated in terms of success or failure, but the process was examined and used to demonstrate the features of public-private-

partnerships, as well as the potential of these strategies for implementation in other areas, especially those of public administration.

## CHAPTER 4

### ANALYSIS AND FINDINGS

In the case of the I-Pass program outsourcing was implemented in a number of strategic ways, involving a number of partnerships with varying private companies that each played a vital role in the overall success of this case. In order to thoroughly understand the true design and impact of these Public-Private-Partnerships, and in turn the innovative and successful outsourcing techniques implemented within this case it will be important to analyze each one individually, and then move toward a collective broad understanding.

**Jewel-Osco:** The first and potentially most valuable partnership formed by the Illinois Tollway was with Jewel-Osco, a large commercial grocery and pharmacy chain located throughout the Chicagoland area. This partnership represented a unique approach to outsourcing and would prove to be a successful and important model for Public-Private-Partnerships. The agreement between the Illinois Tollway and Jewel revolved around the advertisement, sale, and distribution of I-Pass devices at area stores. In this agreement Jewel-Osco agreed to distribute the I-Pass device at local locations for no commission, even going as far as to in turn provide \$750,000.00 in advertisement, displayed in Table 1. This relationship differs greatly from the typical relationship between other tollways and third party distributors, where commissions are paid on a per unit basis. Jewel-Osco's motivation for this arrangement was based around their position as the exclusive distributor of I-Pass, attracting large numbers of customers that would be enticed into shopping at Jewel-Osco due to the I-Pass. This relationship is unique compared to most Public-Private-Partnerships due to the fact that no money is actually exchanging hands. Jewel-Osco agreed to distribute and advertise I-Pass at no cost to the Illinois Tollway in order to draw in customers by being the sole provider, and the Illinois Tollway agreed to exclusively allow

Jewel-Osco to distribute the devices in order to avoid paying commissions or paying for advertising. Another unique feature of this relationship related to the sale of I-Pass gift cards. Due to Jewel-Osco already being a large commercial sales hub, I-Pass began to sell I-Pass gift cards at the Jewel-Osco locations as well. This feature provided a number of benefits to not only the Illinois Tollway, but also to Jewel-Osco and the customers themselves. This arrangement limited administrative costs to the Illinois Tollway by cutting back on time spent on processing checks, since gift cards were processed more quickly and efficiently. Jewel benefits through the addition of another product to draw in customers, and customer's benefit, especially those with low or moderate incomes who do not have access to credit to provide a quicker easier way to pay one's account (National Council on Public-Private Partnerships, 2005, para. 12-16).

The contract that was created between the Illinois Tollway and Jewel-Osco is a necessary aspect of understanding the role and function of Public-Private-Partnerships. Examination of the contract demonstrates the detail and scope of the agreement. The contract between Jewel-Osco and the Illinois Tollway, a document that is over 6 pages long, details every potential aspect of the relationship, ranging from the role and duties of each partner to more minor issues such as the private company providing a drug free work place, and avoiding any tools or equipment made by minors (State of Illinois Contract: Illinois Tollway I-Pass Transponder Retail Placement, 2012). This contract represents the detail and scope of these agreements, considering every possible issue or conflict that could arise. These contracts lay out exactly what tasks each party is responsible for, the fashion in which these tasks are performed, the restrictions, laws, and regulations that must be followed, and all other issues of concern. The contract not only protects the public body, but also the private partner. The success and effectiveness of the partnership is directly tied to the quality and detail of the agreement.

The results of the partnership between Jewel-Osco and the Illinois Tollway demonstrate the dramatic potential of outsourcing within public management. The Illinois Tollway benefited financially through two separate sources in relation to this partnership. The national average for electronic tollway device sales is \$5.00 per unit, which when calculated with the over 1,000,000 units sold comes out to over \$5,000,000.00 dollars in savings. In addition Jewel-Osco provided over \$750,000.00 in advertising at no cost to the tollway. This partnership has also led to over 1,000,000 sales and moved the Illinois Tollway I-Pass System into first place within all national tollway systems in sales (National Council on Public-Private Partnerships, 2005, para. 12-16). With over a million customers served, over 5.7 million dollars in savings, and increased efficiency and effectiveness to customers and within the partners themselves, the partnership between the Illinois Tollway and Jewel-Osco demonstrates the dramatic and positive impact that outsourcing strategies can have within the public sector. This data is presented in Table 1.

This initial agreement between Jewel-Osco and the Illinois Tollway demonstrated such success that an additional agreement was formed in December of 2012. This agreement extended the current contract with Jewel-Osco and the Illinois Tollway an additional 5 years at a cost of 3.7 million dollars, in return for the distribution of I-Pass devices, I-Pass gift cards, as well as the provision of advertisement and marketing opportunities. This additional agreement was in large part due to the fact that Jewel-Osco has accounted for the sale of more than 2.4 million transponder sales, upwards of 1 million gift cards, and replaced an additional 500,000 outdated transponders (Illinois Tollway and Jewel-Osco Continue I-Pass Partnership, 2012).

**NBC:** The second initial Public-Private-Partnership entered into by the Illinois Tollway during this period of reform and outsourcing was with NBC. As with the initial partnership with Jewel-Osco, this partnership represented a unique relationship, where the agreement between the two

parties did not see any money change hands. In this partnership the Illinois Tollway sought a private company that would be an effective partner to outsource the task of advertisement to. NBC presented an opportunity by which to accomplish this goal. NBC provided a dual service, providing on the air advertising as well as providing a revolutionary alert service that provided up to date information on traffic condition to customers, including electronic updates through cell phones and other electronic devices. In turn for advertisement and alert services the Illinois Tollway would provided NBC access to over 100 traffic cameras that would provide NBC with exclusive traffic coverage, giving the channel a leg up on competitors when it came to up to date traffic news coverage (National Council on Public-Private Partnerships, 2005, para. 17). This agreement allowed the Illinois Tollway and its customer's access to advanced technological services that were previously inaccessible by both parties. This agreement guaranteed both parties unique opportunities that would otherwise be impossible with their current structure and resources.

As with the partnership with Jewel-Osco, the Partnership with NBC began with an extensive contract and agreement. This contract is over 75 pages in length and extremely detailed. This contract includes stipulations and rules regarding any potential issue of contention or concern, such as the rules regarding renewal, extensions, term limits, the value and quantity of each service provided, and an extensive list of additional details and regulations (NBC Subsidiary Inc., 2010).

This partnership resulted in over \$2,000,000.00 in free advertising costs for the Illinois Tollway, while their only cost was to allow NBC to have access to a camera network that was already in place, presented in Table 1 (National Council on Public-Private Partnerships, 2005, para. 17). This provided an opportunity for the Illinois Tollway to dramatically reduce costs,

while actually improving its performance. Not only was the relationship with NBC financially beneficial, but also the new alert system, largely made possible through NBC, with their access to diverse communication techniques, provided I-Pass with an innovative service that worked to not only draw in more clients but also to lead to less traffic and congestion, ultimately leading to safer driving environments. The direct benefits to I-Pass by way of the partnership with NBC resulted in dramatic financial savings, as well as safer and less congested roads.

As with the partnerships formed between the Illinois Tollway and Jewel-Osco, the successful arrangement between the Illinois Tollway and NBC spurred the creation of additional arrangements between these two parties, as well as a new arrangement between the Illinois Tollway and FOX. The new arrangement is expected to represent over 4.2 million dollars in savings to the Illinois Tollway, by way of advertisement being provided by both NBC and FOX news, comprised of television, radio, and internet ads, as well as information and advertisement through the use of social media, displayed in Table 1. In turn NBC and FOX will gain access to over 75 cameras that will provide up to date traffic news, give NBC and FOX the edge when it comes to traffic news (Illinois Tollway Partners with NBC and FOX, 2012). The addition of FOX as a partner with the Illinois Tollway and I-Pass provided an additional opportunity to gain beneficial services such as advertisement and promotional opportunities to the I-Pass program. FOX provided an additional market in which to promote I-Pass, as well as additional resources which could benefit the program. The expanded market and increased services gained through this partnership would only strengthen the successful approach demonstrated thus far through this outsourcing program.

**Trucking Industry:** A third Public-Private-Partnership was related to the goal of the Illinois Tollway to reduce congestion, therefore improving efficiency and limiting accidents and other

traffic related problems, such as rising emissions. This partnership represents another innovative strategy for the Illinois Tollway to accomplish its goals in an effective and efficient manner, actually managing to improve performance at a reduced rate. In this case the Illinois Tollway offered a special incentive to commercial truckers, a class of vehicle that accounts for over 13% of the Illinois Tollway's traffic. Commercial truckers that agreed to drive outside of the peak traffic hours received a 33% to 50% discount on their tollway fees, referenced in Table 1.

Although this strategy will slightly reduce the income from this percentage of the traffic flow, it will also greatly limit congestion, which in turn improves tollway performance and limits the harmful effects of congestion on the release of emissions and their effects on the environment (National Council on Public-Private Partnerships, 2005, para. 18).

**PACE:** Although the focus so far has dealt mainly with Public-Private-Partnerships in outsourcing, there are also inter-governmental relationships which present an alternative form of outsourcing. This partnership represented a way that two or more governmental bodies could outsource services to one another in an attempt to reduce the costs and/or improve service. In this case the Illinois Tollway formed an agreement with PACE, the division of the Illinois Transit Authority responsible for bus transportation. This agreement granted the Illinois Tollway the right to advertise I-Pass on the side of PACE buses, while PACE received the right to use the Illinois Tollway radio towers. This agreement presented each party with a service they could not have otherwise obtained without a significant rise in expenditures. The advertising provided by PACE to the Illinois Tollway is valued at over \$50,000.00, which is demonstrated in Table 1 (National Council on Public-Private Partnerships, 2005, para. 18).

**Wilton Partners, Tenants, and Exxon Mobil:** The last partnership involved with the new program initiated by the Illinois Tollway involved Wilton Partners, Tenants, and Exxon Mobil,

the private companies responsible for the development and occupation of the oases located throughout the Illinois Tollway system. This partnership involved the distribution of pamphlets by the private partners, which included advertisements for the Illinois Tollway and coupons and information pertaining to the various private partners. The tollway received free advertising while the private partners gained additional sales through the use of these coupons. The value of this project to the Illinois Tollway was valued at over \$20,000.00, and represents another strategy that spread the awareness and value of I-Pass to the public, as well as benefiting private partners, while providing valued savings to the Illinois Tollway, and in turn the people of Illinois and to Illinois Tollway customers, referenced in Table 1 (National Council on Public-Private Partnerships, 2005, para. 19).

**Collectively:** The 5 previously discussed partnerships have accounted for over \$12,000,000.00 in savings and additional services for the Illinois Tollway, displayed in Table 1. These savings greatly reduced the cost of operating and running the agency, and have led to the expansion of existing services, as well as the addition of new services, which have contributed to a lower cost and better experience for taxpayers and tollway users alike. Many of the services provided by these partnerships would otherwise be unattainable by the Illinois Tollway, and certain new services, such as gift cards and alert systems, would have been very difficult to incorporate without the help of these private partners. These five partnerships significantly expanded the scope and size of the I-Pass operations, and pushed this program into the national leader in automated tollway operations, an accomplishment that would have been impossible without the incorporation of these unique partnerships, and this large scale push toward the outsourcing of a number of tasks (National Council on Public-Private Partnerships, 2005, para. 1-23).

**Table 1:*****Total Savings***

Private Partner	Benefit/Service	Savings/Value
Jewel Osco	Distribution, Advertising, and Gift Cards	Over 5.75 Million Dollars
NBC	Advertisement and Alert System	\$2,000,000.00
NBC and FOX	Advertisement	\$4,200,000.00
Oasis Partners (Wilton, Exxon Mobil, etc.)	Advertisement	\$20,000.00
PACE	Advertisement	\$50,000.00
Trucking Industry	Reduced Congestion	Loss of 33%-50% in Selected Tolls
<b>Total Savings</b>		<b>\$12,020,000.00</b>

National Council for Public-Private-Partnerships. (2005). I-Pass public-private partnerships for Illinois tollway.

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## CHAPTER 5

### DISCUSSION, CONCLUSION, AND RECOMMENDATIONS

**Discussion:** The case of I-Pass is an example of how outsourcing can be incorporated into the operations of a public agency and lead to higher performance, diversified services, and lower costs to the agency and tax payers. This case demonstrates innovative and unique approaches to outsourcing, involving a diverse set of Private-Public-Partnerships that have performed beyond expectations and greatly improved the performance and effectiveness of I-Pass and the Illinois Tollway. The partnerships with Jewel-Osco, NBC, Pace, and other entities represent the opportunities that exist for public agencies and municipalities to partner with other organizations in order to contract out certain services or work together to exchange services. These unique partnerships demonstrate how outsourcing can be accomplished without raising expenditures, and how new programs can be instituted and created through cooperation and teamwork. These public-private-partnerships were responsible for saving the Illinois Tollway over 12 million dollars and prompting the formation of a successful and effective marketing and distribution campaign, as well as the addition of new innovative services and techniques (National Council on Public-Private Partnerships, 2005, para. 12-16).

One of the most important results to recognize and discuss is the fact that tollway users save an estimated 2 hours a week in travel due to the multitude of advancements and changes instituted by and for I-Pass (Facts, Figures, and History, 2013, para. 1-2). This savings is a direct benefit to the customer and users and demonstrates how the partnerships, innovations, and processes implemented by the Illinois Tollway not only save the tollway money and reduce expenditures, but also how the tollway has improved service to the tollway users as well. In addition to the improved traffic flow and reduced congestion, an obvious improvement for

tollway users, the new alert systems and reduced cost of tolls provided in large part through the partnerships formed with Jewel-Osco and NBC have provided additional services and improved quality of service that would otherwise have been unattainable. This result only further demonstrates the value of outsourcing and public private partnerships, not only in terms of value, but also quality of service.

Each of these partnerships represents how outsourcing can be incorporated into a public agency or municipality, and how outsourcing can be accomplished through cooperation and sharing, as opposed to the traditional pay for service type relationships. The Illinois Tollway has managed to enroll 86% of tollway users in the I-Pass program and has sold over 6 million I-Pass devices, institute a mass advertisement and marketing campaign, initiate a new alert service, and improve service and condition of tollway operations, all without directly spending funding, or increasing expenditures (Illinois Tollway, 2013, para. 1).

This case demonstrates the importance of outsourcing in management, especially in public management, where funds are restricted and access to various services and opportunities are limited. The Illinois Tollway managed to incorporate a widespread outsourcing approach to their current operation structure, specifically in relation to the I-Pass program in order to expand their client base, as well as to improve service, operation, and add additional services.

The partnerships formed within this case also aid in demonstrating the innovation and unique approaches that can be incorporated into outsourcing strategies. Outsourcing has been a controversial approach to management for decades, from a private international perspective down to a local public setting, yet this case demonstrates how outsourcing and Public-Private-Partnerships can greatly improve business and service, while not leading to negative

repercussions on the agency or business itself. These partnerships benefited both parties and allowed each to further their own goals through cooperation.

The cases of Jewel-Osco and NBC demonstrate the largest of these partnerships, where the Illinois Tollway and I-Pass were able to create partnerships that provided unique services by allowing the private partners to have access to services that were already in operation and required no additional work or effort on behalf of the tollway. Jewel-Osco provided advertisement and distribution of I-Pass devices, as well as the successful gift card program, a service worth millions basically free of charge, just due to the increase traffic that this program would bring through their 200 locations. NBC provided millions in advertisements, and provided an opportunity to implement the new alert system, for the simple cost of allowing NBC to have access to a camera system that was already in place (National Council on Public-Private Partnerships, 2005, para. 12-17). These partnerships do not seem very complex or futuristic at the surface, yet they are innovative within the public sector, and saved the Illinois Tollway millions of dollars, which does not even include the incalculable benefits that resulted from the reduced congestion created by the alert system, commercial traffic agreement, and I-Pass itself. Understanding the impact and role of these partnerships, as well as recognizing the often unique simplicity of these arrangements is a step in understanding how to push the boundaries of outsourcing and work toward using this strategy to further benefit within the public sector. I-Pass represented how simple cooperation can lead to huge benefits for all parties involved, and demonstrated the vital role and potential that outsourcing can play within any industry, but especially the public sector, which is so strained by financial limitations, policy, and public opinion.

The early success demonstrated by the Public Private Partnerships with Jewel-Osco and NBC, the two largest strategies employed in relation to I-Pass, justified the extension and expansion of these arrangements. The new arrangements with Jewel-Osco, NBC, and the new partner FOX represented millions of dollars in additional savings, as well as the extension and credibility of an innovative and successful program. The one problem that was brought to attention during this period of renegotiating agreements was that the arrangement with Jewel-Osco, which formally was not based around cash or fees, cost 3.7 million over 5 years. Although this is a new challenge and risk for I-Pass and the Illinois Tollway, the demonstrate benefit and success of this partnership, and the inarguable value that the partnership demonstrated justified this new expense (Illinois Tollway Partners with NBC and FOX, 2012).

This examination does not come without its weaknesses or challenges. It is difficult to demonstrate, within a single case study, the relation between strategy and result, especially when the strategies in question are new, let alone so diverse and innovative. The statistics and calculated benefits of this study are difficult to tie directly to practice, and cannot be concretely tied to the strategies that were examined. There are few if any cases available that demonstrate the implementation of similar forms of outsourcing and Public-Private-Partnerships, especially in terms of the public sector, public transportation, and automated toll systems. Although a concrete link is difficult to define between a specific strategy or agreement and a specific result, it is difficult to discredit the overall results of this program's venture into Public-Private-Partnerships and the influence that these outsourcing strategies had on the program and its results. Once these partnerships were formed and implemented the use of I-Pass skyrocketed, sales of gift cards were profitable from the initial start, and I-Pass became the number one

automated tollway system in the entire nation (National Council on Public-Private Partnerships, 2005, para. 1-23).

It is difficult not to recognize the relation between this rise to the forefront of the tollway industry and the implementation of such a wide range of outsourcing strategies. And not only was I-Pass successful in become the largest automated tollway provider, but also managed, largely through these partnerships, to successfully implement a number of innovative and unique new services that have also added significantly to this industry as a whole. This case study, regardless of its challenges, has demonstrated the role that outsourcing and Public-Private-Partnerships have had on its success, and has demonstrated the potential for these types of strategies in future public management.

The major point demonstrated by this case study of I-Pass and the Illinois Tollway would be that outsourcing and Public-Private-Partnerships have the potential to be very critical in the future of public management. I-Pass demonstrated the financial and operational benefit of these types of strategies, by saving over 12 million dollars while expanding operations and adding new services (National Council on Public-Private Partnerships, 2005, para. 1-23). Outsourcing has the potential to become a common feature within all industries, especially the public sector, and can be of great benefit to not only the public agencies, but also to the private partners, as well as to the public.

**Conclusion:** Outsourcing and the Public-Private-Partnerships that accompany this operating strategy are becoming a much more common and relevant subject within public administration. The case of I-Pass and the Illinois Tollway, along with the partnerships and strategies described within this case have demonstrated the value and importance of this technique within public administration. The strategies implemented by the Illinois Tollway portray the role that Private-

Public-Partnerships can play, particularly providing services that may otherwise be unobtainable, and by providing services at a lower cost and in a more efficient manner. The relationships with Jewel-Osco, FOX, and NBC provided I-Pass with access to services that the current infrastructure was not capable of providing on its own.

This case study demonstrates a number of progressive strategies that provide new examples of how Public-Private-Partnerships can be implemented within the public sector. The distribution and sales services provided by Jewel-Osco allowed the Illinois Tollway to distribute I-pass devices to millions of customers, in turn raising tens of millions of dollars. This partnership benefited Jewel-Osco by drawing in customers, and increasing sales, while the Tollway saved millions in costs associated with these services. The partnership with NBC and FOX provides another unique example of outsourcing. This relationship allowed the Illinois Tollway to receive millions in free advertising, while NBC and FOX gained access to unique and exclusive traffic footage and information. This mutually beneficial relationship demonstrates how outsourcing can go beyond simply paying for a service, but can be implemented in other unique forms as well. The Illinois Tollway and the case of I-pass is a case study of outsourcing, and the progressive and modern strategies that are being developed and implemented to benefit the public sector, increasing both the quality of service, as well as by limiting the financial strain placed on the public sector. With the increasing financial strain on public entities, as well as the increasing range of services technical demands placed on the entities in question new and progressive outsourcing strategies are necessary for success and effective performance.

A major recommendation developed from this analysis is that outsourcing does not have to involve significant expenditures or funding, but can be extremely beneficial through simple cooperation, with each partner providing a service or resource to the other in exchange for an

alternative service, opening a whole new arena of potential partnerships for both public and private partners. This fact was demonstrated through the millions in savings by the Illinois Tollway and the benefits to its private partners without the initial transfer of any funds or high levels of expenditures.

**Recommendations for Future Research:** The insight gathered from the previously examined Public-Private-Partnerships can be used to develop a number of recommendations for future administrators. Determining potential private partners that can offer a desired service is the first recommendation. Determining partners that offer a potential service is an important step, but so is determining a potential service that you can provide to the private partner. Determining both sides of the relationship is important to successfully implementing the type of Public-Private-Partnership that was introduced by the Illinois Tollway. Whether the public agency or the private agency designs this partnership is an option, as long as both sides benefit, and the responsibilities of the public agency are not jeopardized. Along with recommendations for the incorporation of these strategies, there are also recommendations for further research in this area of study. An additional study of a similar large metropolitan tollway system and the management of its electronic tollway system would be very beneficial to this area of research. This additional study would provide an opportunity to compare two similar settings and determine the differences and similarities in management between the two cases, as well as comparing the results in relation to these management strategies. Comparing two or more similar cases will increase the reliability of the results and aid in determining what strategies are most successful, and what strategies could be improved.

Along with the previously mentioned type of study, performing a study on an alternative public organization that implemented similar outsourcing strategies is also important. This

additional study would allow researchers to examine the success of similar strategies in different public sectors. This information would be beneficial in determining the potential value and use of various outsourcing strategies.

These recommendations, both for strategy implementation and further research, are valuable in the operation and examination of outsourcing strategies and public-private partnerships, can lead to more success in future outsourcing, as well as a better understanding of the potential and use of these strategies. Recommendations such as these can be beneficial to the future of outsourcing in public management.

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