



Manitoba Lotteries

TEAM PHOTO FROM LEFT:

(FRONT) Dale Falkingham, Summer Student; Tom Stokes CGA, Director of Financial Planning; Kate McLachlin CGA, Senior Financial Analyst; Nori Tse, Financial Analyst.

(BACK) Bob Bigwood, Capital Management Analyst; Cory Baron CMA, Senior Financial Analyst; Anthony Wusowicz, Financial Analyst; Tracy Graham CA, Executive Vice President of Finance & CFO.)

Tracy Graham

Chief Financial Officer
Manitoba Lotteries Corporation

Paul Jason, Public Gaming: *Manitoba Lotteries Corporation has complete jurisdiction of all gaming in Manitoba. What does that include?*

Tracy Graham: That includes two casinos in the city of Winnipeg which we operate ourselves. We have a network of approximately 6,000 video lottery terminals in about 550 sites. There are two First Nations (Native American) casinos in Manitoba. Under Canadian law, Manitoba Lotteries has conduct and management authority over those casinos. We own the gaming machines and ensure that they operate with integrity. So we have a very close tie and relationship with First Nations Gaming. Through our subsidiary, Manitoba Lotteries operates the lottery and so offers the national lottery products like Lotto Max and 6/49 plus some local lottery gaming options as well. In April of 2012, we were approved to do online gaming – so that will be a fourth gaming platform. We are working very quickly to hopefully launch e-gaming by February 2013. Manitoba Lotteries is diversified across all games and all channels of distribution, so when it comes to gaming and wagering in Manitoba, Manitoba Lotteries does it all.

What is the relationship between you and Western Canada Lottery Corporation?

PGRI Introduction: As a government entity, there is no getting around the fact that lottery operators will always be held to higher standards on every front. In ways that commercial corporations are not, lotteries are always subject to the court of public opinion and to the sometimes inscrutable will of a diverse political constituency. These are facts and this reality can be an impediment to operating as a market-driven consumer products organization. That is why I have been giving a lot of thought to how government lotteries can operate more entrepreneurially while staying true to their mission as public servants that function within a complex political system as well as a dynamic market-place.

I noticed an announcement that Manitoba Lotteries Corporation was awarded the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) of the United States and Canada. Being a sales guy, I have always thought of Finance as being the department that keeps score and holds the purse-strings to the resources I need to actually get the real job done. But then it occurs to me that perhaps the underlying processes that support operations might be a source to either drive business performance or at least liberate the organization to achieve peak business performance. Little did I know. I am so glad that I reached out to the CFO of Manitoba Lotteries to see how and why that is so true. My over-riding question is: How can lotteries create better alignment between the public policy objectives of political constituents and the goal for lotteries to act more entrepreneurially – and how can Finance and effective business process management support that objective.

T. Graham: Western Canada Lottery Corporation (WCLC) operates the games on behalf of, and at the direction of, the three provinces of Manitoba, Saskatchewan, and Alberta. The sales and revenues that happen in Manitoba belong to Manitoba Lotteries and the Province of Manitoba. As shareholders of WCLC, the three provinces share the costs, the allocation of costs being based on sales volume in the province.

So, the purpose of having the Western Canada Lottery Corporation support all three provinces is to gain the efficiencies and economies of scale.

T. Graham: Exactly. There is definitely a big benefit to collaborating with the other jurisdictions. Sharing infrastructure, sales, advertising, marketing, distribution, and operational costs reduces those costs for each province. Too, we share technical knowledge and other ideas and this promotes a 'best-practices' approach to the entire business for each of the provinces.

One of the progressive things you did to earn the GFOA award is to leverage the role of Finance and budgeting to promote better communication and collaboration between the different business units.

T. Graham: We have made it a top priority to integrate all of the functional departments so that we are all pulling in a singular direction; we are all driven by the same corporate mission. The Finance department is not endowed with authority over the other departments. But we are in a good position to facilitate the goal of creating alignment between all of the functional departments. The culture of our department and the one we promote through our budgeting process is one of service to the higher-level mission of the corporation. We have worked hard to transform the role of Finance and budgeting into a genuinely meaningful part of the business planning process translated into the actual project management aspect of the business.

How does an organization just decide to integrate like that?

T. Graham: Of course, leadership

from the CEO is vital and this push to integrate is all at the direction of our CEO. Winston Hodgins is very progressive and he sets the tone from the top. The corporation is actually structured so that we can't operate in our own separate silos. We are effectively forced to operate as an integrated team. Of course, we are all pleased to operate this way now that we see how much better the results can be when we collaborate and work together and support each others' efforts. We are all at the service of our corporate mission but, like all large organizations, we each have our individual responsibilities and assignments. Each department has its objectives but our ability to achieve those objectives is enhanced by a system of mutual support and collaboration.

I was struck by the cover of your annual report, which evokes an emotional, almost visceral feeling for commitment to stretch goals; the kind of ambitious approach more associated with highly caffeinated technology start-ups.

The Extra Mile – it is the expression that sums up our attitude toward each and every aspect of our business. It is the additional time and effort we take to get things right. The new technologies we implement. The innovation we constantly strive for and the service and support we provide to communities. From our exceptional customer service programs to our social responsibility commitment, let us show you how Manitoba Lotteries goes the extra mile – and then a little bit further.

T. Graham: Again, that comes from Mr. Hodgins. Our CEO expects us all to accomplish stretch goals and he has enabled us to understand that can only be done if we work together. We are all very grateful for his support, and that motivates us to truly embrace the opportunity to collaborate and exceed his expectations.

It causes us all to think about how our individual business units can buy into the budget and the business planning process. We want the whole process to be about more than just accountability. We want the process of budgeting to contribute to

Manitoba Lotteries Corporation was awarded the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA). The purpose of the GFOA is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

The GFOA established the Distinguished Budget Presentation Awards Program (Budget Awards Program) in 1984 to encourage and assist state and local governments to prepare budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's best practices on budgeting and then to recognize individual governments that succeed in achieving that goal. Documents submitted to the Budget Awards Program are reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public-sector budgeting. For more info about the Government Finance Officers Association, visit website <http://www.gfoa.org>.

OBJECTIVES OF THE GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA)

- **Expert Knowledge.** Continue to be recognized as a leading source of expert knowledge in public financial management by exercising leadership in research, recommended practice and policy development and information dissemination.
- **Education and Training.** Enhance the expertise and professionalism of financial managers and policy makers and provide recognition for their achievements.
- **Leadership Development.** Engage in efforts to assist finance officers to develop the skills and capabilities necessary to enable them to become organizational leaders as well as technical experts.
- **Raising Public Awareness of Sound Financial Policy and Practice.** Take leadership in promoting public awareness of policies and practices that enhance sound financial management of public resources.
- **Enhanced Cooperation.** Cooperate with and complement the services provided by other organizations (U.S., Canadian and international) to increase the effectiveness of GFOA.
- **Strategic Use of Technology.** Provide information and analytical tools to help governments identify and apply appropriate, economical technologies to support efficient resource allocation, quality services and effective decision-making and to promote citizen involvement.
- **Association Operations.** Conduct the operations of the Association in a manner that exemplifies the highest standards of financial management and member service.

productivity and effectiveness, to create a higher level of engagement with the tools that measure and monitor progress for the benefit of the business unit managers and, really, for everyone in the organization. It has actually resulted in much more even than that. It is an ever-changing work in progress, but we now operate as a fully integrated system, with twenty-two business units interacting and supporting each other to accomplish our corporate goals.

How does Finance and budgeting contribute to the goal of integrating the different functional business units?

T. Graham: We work to implement budgeting process that serves as the vehicle that brings us all together to decide how best to allocate resources to optimize performance and achieve the corporate mission. The budget itself is a 300-page document. While it is written by my department, it is the result of a ten-month process that engages the full participation of executives from all the functional departments. And it serves as our corporate business plan as well as our budget. It is the process of planning and sorting out all the issues, assessing the pros and cons of different initiatives and strategies, assigning values based on ROI and other considerations as the basis for then allocating resources, working together to clarify the objectives and how to allocate resources to best accomplish those objectives – these are the important things we accomplish in the process of planning and building the budget. The budget itself is almost a by-product of this much bigger undertaking. Granted, it is the document that serves as our business plan as well as a budget, but our purpose in Finance is to support an integrated approach towards helping all the departments embrace the corporate mission and their respective roles in pursuit of that mission.

I assume you start with input from the individual departments, their own estimate of what they need in the way of resources to accomplish their goals?

T. Graham: They do establish their own capital and operating business plans and budgets which need to be directly tied to our top-level strategic objectives. Each department has what we call a strategy map which helps them to ensure that every project that they're proposing is aligned with our corporate goals and strategies. They actually write a formal business plan, using our template to make them all consistent. But they

write it. Our financial planning and analysis group works very closely with the business unit managers to provide assistance to the business units, project-manage the process, analyze and vet the business plans. We appreciate that not everyone is trained in finance and we are there to help and support them. But it is their business plan to write, present and execute.

That addresses the relationship between Finance and the other departments. How about integration of the different departments among themselves, apart from Finance?

T. Graham: The whole process is as transparent as possible. There are huge cost-savings and efficiency gains by having a comprehensive inter-departmental approach on every level, not just with Finance. We meet with every department to share all the capital and operating initiatives planned throughout the corporation. For example - almost every department is always looking to implement projects that involve IT. This brings awareness to our IT department how to best budget their resources. Quite frequently, we identify similar IT initiatives brought forward by different departments with slightly different business needs. There is frequently an opportunity to merge common IT agendas that come from different departments. Customer service, sales, marketing, research, product development, communications, logistics, even manufacturing need to all work closely together to identify opportunities to improve performance and optimize our resources.

It is Finance's job to facilitate that inter-departmental communication. And we have a methodology for prioritizing all our capital and operating projects, and for scoring the projects for their alignment with the corporate strategic goals. The process is transparent so everyone understands why we scored a project 150 in a list of 200 projects and why the resources have been allocated to something else. It doesn't mean that everyone always agrees. But we all really do stretch to make the process transparent and responsive to the agendas of our colleagues. The process includes a Budget Review Committee comprised of the CEO, myself, and two or three executives from different departments. Apart from the CEO and me, the other committee members rotate every year. Our CEO does that for a number of reasons. One is for the Budget Review Committee to serve as a training ground for new executives so that they get

a big picture view of the corporation. The other is to keep people fresh and engaged in our business planning process.

The Budget Review Committee sets the key messages and guidelines at the beginning of the process. And then all twenty-two business units present their business plan in a formal presentation to the committee each fall. The process of absorbing twenty-two different business plans helps the committee have a deep understanding of where the leadership of this company wants to go in the next couple years. We challenge them, we ask them questions, and we drill down for more detail. It's really a great forum for the departments to sell their vision of what they want to do and support their budget requests. We then consolidate everything, apply the objectives of our stakeholders to the business plans, start prioritizing, make some tough decisions, and work towards a resolution and resource allocation plan that creates synergy and alignment between the objectives of each department and the highest-level mission of the business. After all that is completed, it is presented to the Board.

Dealing with limited resources and the fact that the business units probably never get all the resources they would like, does the process include mechanisms to encourage the development of additional options to unearth logistical synergies that perhaps extend the impact and utility of those limited resources?

T. Graham: Absolutely, all the time. In fact, that is the main purpose of the integrated approach. We all work together to find ways to mutually support each other and find ways to, as you say, leverage and extend the utility of our resources. As mentioned earlier, that is especially true for IT which crosses across all areas of the business. But really, there are significant synergies to be gained by breaking down the silos that separate marketing, sales, product development, advertising, promotion and all the other departments completely apart from IT. Marketing and Gaming both always have lots of great ideas on how to grow revenue, for instance, but they come at the question from quite different perspectives. The goal isn't to decide between one approach or the other. It's to find that third approach that brings to bear the talent and insights of both perspectives in ways that neither one might have done without the other. The process itself forces us all to

think bigger, to think outside of our own areas of expertise, to appreciate that we each see only one part of the picture and we need to work to understand the other parts that come from our colleagues in the other business units.

We then move into the project management stage. Our CEO formulated the interdisciplinary approach to identifying and implementing the most innovative projects and strategies. It is a continuation of the budget process in which we are all expected to rely on each other to ensure the optimal end result. I think everyone here has found that mutual support and collaboration not only produces better results, it is a much more enjoyable way to work.

The budget process, and by extension the Finance department, is integrated into the implementation and project management side of the business?

T. Graham: That is our CEO's vision, to create a holistic approach, a 360 degree view of the business which is only relevant if you preserve that inter-disciplinary approach when it comes to actually managing the projects. We have a project management office within a department called Business Transformation, charged with bridging the budget process and actual execution at the business unit level. Business Transformation also helps the business unit leaders become more efficient and build a 'best practices' approach towards managing change continual improvement.

So the budget process has become a vital tool to promote inter-departmental communication.

T. Graham: That's it exactly. It's used as an educational tool as well, and not just to groom younger executives for top level roles. Senior executives who in the past may not have participated in the budget process are involved now and I think this has influenced their perspectives in positive ways. The process really drives people from all different areas of the business to get on the same page and channel their efforts towards the same goals. That is the vision of our CEO, to eliminate silo'd decision making, to create a dynamic system where the thought process is always inter-disciplinary, and the execution is inter-departmental.

Lotteries operate so much differently than other governmental entities. And yet, you, as a lottery, are the ones who are being recognized by the GFOA.

T. Graham: It's true that lotteries must compete in a dynamic market-place and that is not the economic environment of most governmental services operate. Perhaps that is what drives us to look for new and better ways to leverage our resources to produce better results. But we learn a great deal from our association with the GFOA, and all of our colleagues in the field of managing the finances of government. For one thing, the GFOA gathers and organizes data to provide companies a set of key performance indicators we can leverage. We apply these all the time in every area of the business and they have proven to be a very valuable tool to ensure we are operating on track. And it isn't only to identify areas where we need to improve. We found it to be a most useful tool to identify areas of strength so that we can channel more resources there and take full advantage of the favorable tracking. The key performance indicators do enable us to instantly see where something is tracking unfavorably, enabling us to respond and remediate quickly. And so we've invested a lot of time and energy in our key performance indicators.

What's an example of a key performance indicator?

T. Graham: Let's look at the VLT (Video Lottery Terminal) business. Their maintenance department of technicians makes sure that the equipment is operating effectively because if it's not, then we're making less money and our siteholders are unhappy because they're not making money off the equipment. Maintenance involves countless tasks and actions that need to be done to ensure the machines are operating to peak capacity. One key performance indicator that tells us if everything is running smoothly is downtime-of-machines. Of course, we also monitor many other factors like hours of preventive maintenance and visits to sites. Collectively they tell us a lot of what we need to know about the inner-workings of the entire department. If downtime of machines is trending negative, then maybe we need to allocate more resources to preventive maintenance. If it is trending positive, maybe we are not achieving the optimal balance between preventive maintenance and downtime. Maybe we could save a little money on preventive maintenance and allocate some resources where they're needed more. Key performance indicators are not just about

catching mistakes or identifying under-performance. It's about having a minute-by-minute and 360 degree view of the business and seeing how to continually channel or redirect our actions to achieve the very best results.

I have always been surprised at how many smart business leaders cling to the tenets of a business plan constructed months ago and rendered obsolete by changing circumstances. We don't have 100% visibility into the future. That's my excuse, as a sales guy, for resisting pressure to spend time on such planning!

T. Graham: It is so true that things change, and often they change quickly. An effective business plan is definitely not a static document. Part of the initial charter of a good business plan is to anticipate change and plan for it. But it also has to include the mechanisms for updating in light of unforeseen changes in the business environment. The budget review committee does meet monthly throughout the year to constantly re-assess and redirect as needed. And we can make adjustments to our budget as needed throughout the year.

What was the most relevant or interesting part of the GFOA guidelines and processes?

T. Graham: The thing that ties everything together is communication. The trick of it is that in an organization with multiple business units and about 2,000 employees, you need a construct that enables communication and channels it for productive ends. That, along with the vision of our CEO, is what the GFOA provides. Of course, the most interesting thing to me in my capacity as head of Finance is to see the budget process become something that truly contributes to the success of everyone in the organization. It is thrilling to be an integral part of a successful organization like Manitoba Lotteries and in our fashion be a trail-blazer in making Finance become a valued part of the whole corporate mission and a valued partner to each of our business units. ♦