When Creativity Meets Control: A Fashion Industry Case Study

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THE INTERPLAY BETWEEN CREATIVITY AND CONTROL

The relationship between control systems and creativity has captured growing attention in recent years. Some studies have shown that formal management controls can have a positive impact within creative settings by providing the necessary structure to convert creativity into value that otherwise is dispersed into uncoordinated and unfocused efforts. Other studies build on work in psychology to suggest that formal management control systems may inhibit the intrinsic motivation that is needed to perform creative activities and that more unstructured and subtle mechanisms can work effectively in highly creative environments. The variety of results offered by the literature on management control systems and creativity calls for more research on the relationships between creativity and control. Such relationships are of particular interest within small and medium-sized enterprises, where the needs for creativity and informal controls are more evident and play a key role in influencing other types of controls.

Research on management control within small and medium-sized enterprises shows apparently contradictory results. Some research suggests that many small businesses lack what is regarded as conventional management control systems (i.e., formal strategic planning and performance measurement tools, pricing systems, cost analysis techniques, budgeting systems, etc.) in supporting decision-making processes, and that formal management control systems are introduced (and become more complex) as the company grows. In contrast, interpretive studies have shown that, in small and medium-sized businesses, informal management control practices are often able to support quite sophisticated decision-making processes. Such contradictory results call for more research on formal and informal controls within small and medium-sized enterprises.

Creativity can be defined as “the ability to make or otherwise bring into existence something new, whether a new solution to a problem, a new method or device, or a new artistic object or form.” So, in general, creativity refers to the generation of novel and useful ideas. But in business, originality isn’t enough. To be creative, an idea must...
also be appropriate—useful and actionable; it must somehow influence the way business gets done—by improving a product, for instance, or by opening up a new way to approach a process.\(^9\) In this respect, creativity requires control to become innovation.

The purpose of this article is to shed light on the relationships between creativity and management control systems in small and medium-sized enterprises operating in a highly creative setting. To achieve this goal, we focus on the interplays between the formal and informal (social) components of control systems, as well as on their evolution over time. In particular, we define formal controls as follows: purposefully designed, information-based, and explicit sets of structures, routines, procedures, and processes to ensure that an organization’s strategies and plans are carried out or modified appropriately. By contrast, informal controls (also referred to as social controls) are based on fewer rules and less standardized procedures to encompass more subtle and informal mechanisms. Social controls are often associated with “clan” controls and include culture, rituals, group norms, values, trust, identification, and social interaction.\(^10\) The next section gives a brief review of the literature on formal and informal systems of control.

**FORMAL AND INFORMAL SYSTEMS OF CONTROL: INSIGHTS FROM THE LITERATURE**

Several studies have explored management control systems (MCSs) as embodying a combination of various elements of control.\(^11\) This idea suggests that MCSs are composed of various elements that do not operate in isolation and are part of a broader control system. Aiming to identify the various components of MCSs, various classifications have been proposed. For example, by focusing on the object of control, Merchant identifies three typologies: results, actions, and personnel/cultural control.

*Results control* focuses on the outcome of individual actions, through setting strategies, plans, objectives, targets, incentives, and reward systems based on the measurement of outcomes. *Actions control* focuses on the prescription of the actions that need to be undertaken, through their codification into procedures and manuals. *Personnel and cultural control* focuses on the values, social norms, and beliefs shared by the various organizational participants and that influence their actions, by building on the natural tendency of individuals toward self-control. Results and actions control mechanisms are often associated with formal rules, standardized operating procedures and routines. Differently, cultural and social controls tend to be more flexible, responsive, richer in data, with fewer rules and standardized procedures, and tend to rely on more subtle and informal mechanisms.\(^12\)

Depending on their design attributes, Simons classifies formal management control systems into three categories: beliefs, boundary, and feedback and measurement systems. *Beliefs and boundary systems* rely (respectively) on the definition of ideals (through the definition of core values, purposes, and directions) and on the prescription of limits (through rules and standards, but also through strategic planning systems and directives) to delineate the acceptable domain of activities for organizational participants. Within this domain, *feedback and measurement systems* are used to implement intended strategy and to adapt to competitive environment.\(^13\)

Additionally, depending on the style of use (of feedback and measurement control systems), Simons distinguishes between *diagnostic* and *interactive* use of formal control systems. *Diagnostic (measurement) control systems* are used to implement intended strategy by supporting formal feedback, monitoring outcomes, and correcting deviations from standards and targets. They allow top managers to control subordinates at a distance. *Interactive (measurement) control systems* are used by top managers to involve themselves directly in the activities of subordinates, thereby providing subordinates with inputs and face-to-face directions to focus attention on strategic priorities, deal with uncertainty and emerging opportunities and threats, and stimulate learning for emergent strategies and innovation.

More generally, Simons defines control systems as formalized procedures and systems that use information to maintain or alter patterns in an organizational activity. This definition includes planning systems, reporting systems, and monitoring procedures that are based on information use. As argued by Collier, although the framework provided by Simons does not neglect the importance of informal systems, it focuses on formal information-based systems; it does not address explicitly the interplay between formal and informal controls.\(^14\)

Dekker focuses on interorganizational relationships to distinguish between formal and informal control mechanisms. *Formal*
Control refers to outcome controls (goal setting, incentives and reward structures, performance monitoring, and rewarding) and behavior controls (planning; adoption of procedures, rules, and regulations; and behavior monitoring and rewarding). Informal control refers to social controls (e.g., partner selection and trust).15

Despite the various typologies of management control systems proposed, the literature does not neglect the coexistence of various control mechanisms at work, with different natures and implications, the interplay among the various components of the management control package, as well as their evolution over time. These are underresearched areas. In particular, whereas the coexistence of formal and more subtle control mechanisms at work is well established in the literature, their interplays need to be better understood.16 Exploring such interplays becomes particularly interesting within small and medium-sized enterprises, where social control mechanisms are more evident and play a key role in influencing the other types of controls.

Next, we address these issues by looking at Monnalisa, the Italian medium-sized fashion enterprise mentioned previously. In particular, we focus on the way this company has drawn on formal (results control) and informal (social control) mechanisms to manage its concurrent and ongoing need for creative design and efficient production processes.

MONNALISA CASE STUDY

Background

Monnalisa is a medium-sized company located in Arezzo, in Tuscany, Italy. Founded in 1968, Monnalisa designs and sells garments and accessories for children.17 Monnalisa is wholly owned by a family whose members form part of the board of directors and are directly involved in management. Since its foundation, each line of products developed by Monnalisa has been characterized by the search for a high level of style creativity, differentiation, and production quality. Despite the increasing turbulence of the market environment, during the past 10 years Monnalisa has experienced considerable growth in terms of sales (from 2000 to 2010 Monnalisa’s sales tripled), reaching about 36 million euro in 2010. Significantly, 90% of Monnalisa’s customers come from Europe, and 54% from Italy. In 2012, the company employed about 65 people.

The traditional and core business for Monnalisa is to create and sell high-end fashion garments and accessories for girls, from babies right through to teenagers. Monnalisa bases its business on six main brands:

- Monnalisa Bebè, suitable for ages 3 to 6 months
- Monnalisa Girls, for ages 2 to 12 years
- Chic Monnalisa, for those 4 to 16 years of age
- Jakioo, a trendy brand for 6 to 16 years
- Ny&lon, a sportive brand for 3 months to 16 years of age
- Hitch-Hiker, the new brand for boys 3 months to 12 years of age

Recently, Monnalisa has diversified its business by entering the market for furniture and accessories for girls’ bedrooms, such as white beds with a vintage flavor, cabinets with soft spirals, sinuous chairs, and lamps.

The mission of Monnalisa, according to the company’s annual report for 2010, is “to create value and values over time with quality, fashion, and high-identity products for both customers (the retailers) and consumers.” The company’s annual report goes on to say that this mission should be fulfilled through “flexible, reliable, and customized service; a dynamic and challenging work environment; an ongoing and profitable relationship with suppliers; and sustainable company policy for the territory.” The vision to be accomplished by Monnalisa is as follows:

- “To excel in innovation, creativity, and practicality to gain new markets
- To drive a diffused managership inside the company to take on the challenges of the small and medium family enterprise successfully
- To expand worldwide both productively and commercially, maintaining the company’s values and identity to spread a culture of social responsibility” (Annual report, 2010)

Since February 2010, when the founder of Monnalisa formally retired, the company has been managed through a management committee18 chaired by the managing director that includes the heads of all the functions. The management committee, which meets every Monday, executes the strategy formulated by the board of directors, which is chaired by the founder. The strategic plan has a 5-year horizon and is based on two annual collections.

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Exploring Monnalisa’s Value Chain: The Process of Research, Design, and Development

Like most companies in the fashion industry, Monnalisa’s business and value chain is structured and managed around two collections of clothes each year, one for the autumn–winter season, and the other for spring–summer. Each collection kicks off with a collection briefing, a meeting where the heads of Design, Sales and Marketing, Production, and Finance identify and finalize the broad plan for the collection by listing the number of lines as well as the categories of products (for example, shirts, skirts, or shoes) that will feature the forthcoming collection.

Next, the Design Department carries out research and design of the collections, preparation of the prototypes, and the development of samples. Then the collections are presented to retailers in showrooms and at fashion shows. (Traditionally, Monnalisa has sold its products through independently owned single brand and multibrand shops, and department stores. Only recently Monnalisa has started to sell its products directly to the final consumer.) During the two main sales campaigns, a network of sales agents gather orders as well as feedback about the creations. In this context, the Sales and Marketing Department plays a key role, since it is responsible for providing accurate sales forecasts for the sales campaigns, as well as collecting feedback and comments from retailers and final customers on the style of the clothes. This information is communicated by the Sales and Marketing Department to the Design Department (for the style projects), as well as to the Production Department for production planning. Production is planned according to the orders collected during the sales campaigns.

Like other companies of a comparable size in the fashion industry, Monnalisa has a flexible production structure. The research, design, and development process, the purchase of raw materials, and the storage of materials and fabric cutting are carried out internally by the Production Department. In contrast, all the transformation phases (from raw materials to works-in-progress—and sometimes to finished products) are outsourced to small suppliers (named Façonists), which are mostly located in central Italy. Components, works-in-progress, and finished products are then delivered to Monnalisa’s premises in Arezzo, where the Production Department is responsible for the control and management of the logistic flow, the assemblage of components and works-in-progress, the quality and safety control of the garments, and storage and distribution of garments to national and international markets. All postsales activities are carried out by the Sales and Marketing Department.

The collection rituals dictate the rhythm of Monnalisa’s value chain. However, as stressed by the managing director of Monnalisa, “Our employees need to be flexible enough to manage the different key issues and milestones of multiple collections at the same time. For example, as we speak, we are delivering the 2012 Summer/Spring collection to stores and shops, gathering orders for the 2012 Fall/Winter collection and, finally, working on the initial briefing for the 2013 Summer/Spring collection” (see Exhibit 1).

Perhaps not surprisingly, creativity and innovation come from the Design Department. The research, design, and development process includes a number of activities generally...
structured around the following five phases: research, design, paper pattern drafting, prototyping, and sampling (see Exhibit 2).

1. **Research phase.** Here the designers try to familiarize themselves with markets and trends, and thus sense where fashion will be going in the coming season.

2. **Design phase.** Once designers have selected fabrics, colors, and patterns, the actual design phase starts. In this phase, the designers sketch preliminary designs. Initially, designers use pencils for their sketches, then translate it into digital blueprints using computer-aided design (CAD) systems.

3. **Paper pattern drafting phase.** This phase addresses technical aspects of the designs, which are extremely important in preparing for the production stage and for instructing the third-party Façonists. The paper pattern is the drawing on paper of the basic silhouette, indicating all the different parts and features of a garment.

4. **Prototyping phase.** Various prototypes are built using different materials or with small changes to the original pattern to experiment with various alternatives and styles. These prototypes are then tried on a human model to see how they fit and look, and then a decision is made on whether adjustments are needed.

5. **Sample phase.** Once the final adjustments and selections of the models have been made, the design phase ends with the development of

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Exhibit 2

**The Research, Design, and Development Process in Monnalisa**

Within Monnalisa this process is generally structured around the following steps: (1) research, (2) design, (3) paper pattern drafting, (4) prototyping, (5) sampling.
samples of multiple sizes for the each article. This activity is complex: not all the elements of an article grow in the same proportion and in predetermined ways to develop the different sizes.

Even if it is described as linear, the process of fashion research, design, and development is iterative in its nature. Fabrics, colors, and patterns can be reassessed in light of new information generated throughout the various phases in the process or collected from other internal and external sources. Notably, as the creative process unfolds, the Design Department is expected to interact constantly with other functions, including Sales and Marketing, Production, and Finance, all of which participate in the development of the collection by offering their support and evaluation on the implications for the company’s performance of what is being developed.

The founder of Monnalisa admits that creativity and control tend to collide during the research and development of a collection: “They need to be managed all the time. It is an ongoing trade-off that we have to reconcile as designers, marketers, product managers and, indeed, finance experts, all of whom may have a different ideas on what terms such as performance or efficiency actually mean to them.” He gives this example:

Please have a look at this beautiful black-and-white dress, which features a satin bow on the neck with diamond detailing and a large oval print of Olive Oyl surrounded by pearls and “Chic” written in glitter. …

This is certainly a great performance from a stylistic point of view, but the complexity of its production could have potentially threatened the achievement of our targets from an operational and financial standpoint … or take a look at that red and white floral dress with a red grosgrain ribbon waistband and red check hem and bow. Obviously, the production methods and cost could have been simplified here but, unless there are no other options, we are not inclined to set boundaries for our designers in efforts to find a middle ground between creativity and efficiency. …

At Monnalisa, the tensions between creativity and control have also been managed through a package of formal and informal mechanisms or controls.

Creativity Meets Control

At Monnalisa there is no intention to limit creativity. Increasingly, however, an effort is made to offer the designers a number of tools to manage—as the research and development of the collection progresses—the possible consequences dictated by design on the multiple performances of the company. As illustrated in the previous section, each collection kicks off with a briefing, a meeting that enables to define the broad objectives of the collection in terms of what to create (in terms of quality standards), when to create it (fashion weeks and availability at stores for the beginning of the appropriate season determine the timing of the various phases of the design, development, and production processes), and at what target cost.

To help, Monnalisa has recently introduced new software so that, following the discussions and decisions taken in the collection briefing, the designers can monitor, as ideas progress, the consequences of the creative process in financial terms (through cost cards) and in product-development terms (through technical cards). As the CFO emphasized:

With this tool we do not want to limit creativity. Actually, we want to maximize our creative potential … but we hope to minimize the problems we sometimes had in the past when collections ended up incomplete on stores’ shelves because we ended up deciding not to list and produce some low-margins prototypes.

Formal Controls: From Cost Cards to the Balanced Scorecard, and From Strategy Maps to the Intellectual Capital Framework

The main control tool used to monitor the financial return of a collection is the provisional budget, which includes the contribution margin by collection. As the research, design, and development of the collection progresses, the provisional budget relies on cost cards to monitor the variable costs of production and the contribution margin of the multiple garments to be offered by Monnalisa within a specific brand.

The variable costs of production are related to
fabric, accessories, and the cost of Façonists (outsourced production—see Exhibit 3). The contribution margins by product type included in the provisional budget represent major financial-driven milestones to be achieved since only models that meet the budget limits set in the collection briefing will be “listed” and therefore produced and brought to market. Additional analyses on the contribution margin of the overall collection, and of the different types of product (classified by brand) are undertaken at the end of the sales campaign (contribution margin “as sold”) and at the end of the process of distribution to store and shops (contribution margin “as distributed”).

Over the past 10 years, aside the rhythms of the financial-driven controls kicked off with the collection briefing and imposed by the fashion weeks and customer requirements, additional formal controls have been introduced at Monnalisa in an attempt to reconcile the expectations of the designers, product managers, and, most important, customers and final buyers. In particular, formal results control has experienced an increasing systematization and formalization through the adoption of various frameworks, such as:

- The social and environmental reporting framework (to control social and environmental performance).
- The balanced scorecard and strategy maps (to control strategy implementation).
- The intellectual capital framework (to control the...
cause-and-effect links. Finally, the adoption of the intellectual capital framework in 2005 helped Monnalisa to systematize a set of performance indicators concerning creativity and the capacity to innovate, but also individual abilities, motivation, and collaboration within the company.

Conversations and Co-creation With Stakeholders: The Integrated Annual Report

The social and environmental reporting framework, the
balanced scorecard and strategy maps, and the intellectual capital framework have recently been combined with the traditional financial statements into one single document, labeled the integrated annual report. Interestingly, the information and the key performance indicators presented in the integrated annual report are grouped and illustrated according to the main strategic themes of the company. The integrated annual report is co-created through conversations with Monnalisa’s main stakeholders. As the CFO of Monnalisa states:

> "The integrated annual report is the outcome of sharing. The idea underpinning the integrated report is to illustrate the multiple performance of our company from the stakeholders’ various perspectives … we have started to listen closely to the voices of our stakeholders since 2004, when we introduced the balanced scorecard and the strategy map. Since then this report is the outcome of this ongoing process of sharing."

"The integrated annual report is driven by our mission, vision, and strategic agenda and complemented by the expectations of our stakeholders,” claims the founder of Monnalisa. "Within this integrated perspective, creativity and innovation lay at the very foundation of what we are and want to be as a company.” The integrated annual report does include metrics and an index to capture and monitor the creative and innovating abilities of Monnalisa employees (formerly captured by the intellectual capital framework). Beside investments in research and development, an example of one metric that has been kept under control is the average age of the designers working in the Design Department, which has recently decreased with the hiring of a number of new local designers to preserve and further enhance the value of a “made in Italy” brand.

The consolidation of multiple performance measures at Monnalisa into one single document, the integrated report, provides decision makers with a formalized package of indicators. These are mainly used to monitor operations rather than to scrutinize the creative process. As a stylist in the Design Department says, “In our labs, we do not compromise on creativity … we put our imagination at the forefront and focus on our inspirations to innovate year after year.” As the founder of Monnalisa says, “We recently innovated by entering the business of furniture and accessories, like white beds with a vintage flavor, cabinets with soft spirals, sinuous chairs and lamps, etc. … We intended to create a background for the bedrooms of modern little princesses, and the last thing we wanted was to have the magic undermined by a set of formalized measures that kill our innovative processes.” Notably, formal indicators do play a more central role within the rest of Monnalisa’s value chain, where high efficiency and customer satisfaction are sought through the smooth implementation of high-quality processes.

**Informal Controls in Monnalisa**

At Monnalisa, designers are left free to interact and create, to explore their perceptions of social trends and moods. The aesthetic conception of the product, applied research, and the making of the garments are the creative engine of the company. In particular, the company’s research and development activities, consisting of a steady formal and informal exchange between Design and the other departments (especially Marketing), include spotting fashion trends, colors, and themes to be developed in every line; researching, selecting, and creating materials, fabrics, and appliqués; creating sketches for prints, embroidery, appliqués, and printed fabrics; and researching, selecting, and realizing specific accessories for each item and its packaging.

In this context, the uncertainty associated with the processes of innovation and the difficulty of predicting the results of such processes require informal control to be at the forefront. Formal control, predefined objectives, and rigid performance indicators do not offer the flexibility required to manage the variation, failure, and serendipity that may characterize these processes of creative discovery. Additionally, as discussed in previous sections, formal objectives may conflict across departments because tensions between Design, Production, and Marketing are likely to arise during day-to-day operations. Among the informal control mechanisms that exist in Monnalisa, it is worthy to mention the role of the founder, interfunctional workgroups, and focus groups.

The founder (still) provides the company with an excellent mechanism of control and integration as he exercises his leadership. This proved to be extremely important to manage processes of creativity and innovation. Objectives, interests, targets, and initiatives may collide across function from time
to time. Through his power and charisma, the founder works as a mediator across groups and communities of experts. “The founder is an essential element of our system of control,” suggests a product manager: “He knows when to back the creative spirit of the company or when to draw the attention on critical production, financial, or quality indicators.” Despite his recent retirement, the founder is still called upon to manage any attempt to reconcile the different point of views between Design, Production, and Sales. Sometimes these tensions are worsened by conflicting perspectives on what “a desirable performance” is, so the vision and championship of the founder is essential in resolving conflicts. “Disagreements are often related to the impact of new ideas on methods of production and on the bottom line,” claims a production manager: “He generally is inclined to support designers because he does trust the next item that hits the shelves is going to define the Monnalisa brand yet again. ... I guess he does understand that sometimes innovations and new collections may be extremely complex to manage from a production point of view, but he is always confident the customer will pay back for the value we offer.”

Despite the importance of the founder’s vision and leadership, other social mechanisms enable Monnalisa to manage the interplay between control, creativity, and innovation. Among these mechanisms, interfunctional workgroups and focus groups with relevant stakeholders play a significant role. Since 2009, interfunctional workgroups have been organized every week to coordinate across the value chain. These meetings proved to be extremely important for both explorative and exploitative innovations. As one designer says:

It’s important for us to be educated about the cost implications of our creation, to be aware of the financial repercussions that could be dictated by Design; however, when we conceive the idea, we would like to be left alone and be driven by inspiration. ... There is always time to sit down at a later stage and try to adjust the prototype in light of the requests of Production.

The interfunctional workgroups allow managers to spot early warning signals. As a production manager states:

Last week during one of our weekly meetings the creative director talked about the most appropriate combinations of straps, colors, and accessories for the next collection. ... It is always fascinating to listen to designers sharing their ideas and discussing their sources of inspiration. However, after few minutes, I immediately started to think about the production challenges associated with those new creations.

At Monnalisa, ad hoc focus groups with the relevant stakeholders represent an additional way to manage the interplay between sources of innovation and systems of performance management and measurement. In 2009, for instance, following the outcomes of a workshop with suppliers and the local community on environmental issues, the company launched an innovative research project on the theme of an “ecological T-shirt.” The idea was to produce a T-shirt made of organic cotton on which four endangered animals were shown: a panda, a Siberian tiger, a sea horse, and the arctic fox.

As a stylist explained, the organic cotton used for the T-shirt would come from land farmed according to the principles of organic agriculture. No genetically modified seeds or synthetic pesticides would be employed (though they frequently are used in conventional agriculture, often with negative consequences for the environment). Packaging would be made entirely of recycled materials and would include an educational game giving information about these four animals and their habitats. To reduce the impact on the company, the game would not be printed in color, but children could have fun completing it with an included set of ecological crayons. This project was co-created with suppliers and customers, as well as the Florence Polimoda Fashion Institute (a local institution of business and arts).

Interestingly, creative exploration was facilitated and guaranteed throughout the project, but all the stakeholders also clearly had in mind the environmental, social, and financial conditions that should have characterized the production of the new T-shirt. Focus groups enabled creativity and control to be reconciled in practice through ongoing social interaction that stimulated innovation as well as monitored the other performance dimensions concerning the various interests of all stakeholders.
FINAL REMARKS

The fashion industry provides an interesting setting for exploring creativity, innovation, and control. At Monnalisa, formal and social mechanisms are used purposively to make sure that novel ideas can be transformed into business value. As for formal controls, Monnalisa relies upon formal precollection meetings (such as the collection briefing) and formalized budgets and cost cards to monitor product quality, time-to-market, and costs. Other tools, such as the balanced scorecard, strategy maps, the intellectual capital framework, and the integrated annual report have been introduced progressively over the past decade. These tools help integrate and align the creative team with the company’s management system. Among the informal and social control mechanisms, this article highlights the role of the founder, interfunctional workgroups, and focus groups. At Monnalisa, the various elements of the package of controls contribute to making innovation possible by managing the concurrent and ongoing need for creative design, financial returns, and efficient production processes.

NOTES


17. Monnalisa is both the name of the company and the brand of clothes designed and sold by the company. See the web site, http://www.monnalisa.eu

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