They’re eternal questions in business: Does management control kill creativity? How can organizations manage efficiency within innovating processes? Do control and creativity call for a balance within processes of innovation—or is balancing a bad idea? The answers to these questions are probably bedeviling entrepreneurs and executives everywhere around the world. While a controlled working environment has its advantages, too much control can hamper the creativity, as well as the ability to innovate, that leads to new products and to growth and profitability. In this article, we address these issues by offering insights from a medium-sized company in the fashion industry that has used formal and informal control tools to manage its need for both standardization and innovation.
A Delicate Balancing Act

The relationship between control systems and creativity has captured the attention of a growing number of scholars 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 would be dispersed into uncoordinated and unfocused efforts. Other studies build on works in psychology to suggest that formal management control systems may inhibit the intrinsic motivation needed to perform creative activities and that more unstructured and subtle mechanisms would work effectively in highly creative environments. The variety of results offered in the literature suggests a deeper dive into the relationships between creativity and control within processes of innovation.

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,” wrote Teresa Amabile in “How to Kill Creativity,” a September/October 1998 article in the Harvard Business Review. “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.” Creativity can lead to innovation if it addresses and answers customer needs: “It is not enough for the firm to be creative. The intention behind the innovation needs to be focused on the creation of new offerings that answer needs that customers cannot get answered elsewhere,” according to Mark L. Frigo and Joel Litman in Driven: Business Strategy, Human Actions and the Creation of Wealth (published in 2007 by Strategy & Execution). The generation of new ideas also corresponds to the first stage of innovation, labeled exploratory innovation by authors Mary J. Benner and Michael L. Tushman in an April 2003 article, “Exploitation, Exploration, and Process Management: The Productivity Dilemma Revisited,” in the Academy of Management Review. Through exploratory innovation, companies seek to develop new capabilities and rely on individual creativity to explore new opportunities and new technologies to serve emergent customers or markets.

Nevertheless, creativity is a necessary but not sufficient condition for innovation, which also encompasses (at a second stage) the actual implementation of the new ideas as they move toward the production stage—exploitative innovation. Within this phase of innovation, the outcomes of creative thinking are structured and channeled through repetition of efficient activities to make sure that novel ideas are transformed into business value.

Today’s organizations experience intense pressure to exploit their existing processes, knowledge, and capabili-

Figure 1: The Relationship of Creativity, Innovation, and Control
ties, which fosters short-term results by satisfying the demand of existing customers. Still, companies’ ability to compete and prosper in the long run also depends on developing new capabilities (exploratory innovation) to satisfy the emerging needs of both new and old customers. These processes generally are based on new technologies and more radical innovation with a substantial departure from existing activities. Ultimately, while creative exploration calls primarily for diversity, variation, failure (yes, failure), and serendipity, efficient exploitation demands sameness, precision, consistency, and repetition.

Cut from a Different Cloth

Does the tension between control and creativity call for an injunction to do both, or does such balance represent the easy way out that leads to routine and little innovation? We believe the answer is a twofold purposeful imbalance: first between creativity and control, then among the various elements of a “package of controls” (see Figure 1). The idea of a package of controls suggests that these systems are composed of a number of formal and informal mechanisms that don’t operate in isolation and are part of the broader control system.

We address these issues by looking at Monnalisa, a medium-sized Italian company that designs and sells clothes and accessories for children. In particular, we focus on the way this company has used formal (results control) and informal (social control) mechanisms to manage its concurrent and ongoing need for creative design and efficient production processes.

Established in 1968, based in the Tuscany region of Italy, and operating in 50 countries, Monnalisa sells products characterized by a high level of creativity, differentiation, and quality. Despite the increasing turbulence of the global economy, from 2000 to 2010 Monnalisa tripled its turnover, which reached about €36 million in 2010. Significantly, 90% of Monnalisa’s customers come from Europe (54% from Italy). Today the company employs about 60 people.

Monnalisa is wholly owned by an Italian family whose members form part of the board of directors and are directly involved in managing the company. As such, the founder has always played a relevant role in monitoring and coordinating activities inside the company, managing the tensions between creativity and the continuous search for production efficiency. Nevertheless, the increasing turbulence and complexity of the market, as well as the company’s recent strong growth, have revealed that the founder’s leadership is certainly necessary, but it isn’t sufficient to ensure the smooth conversion of creativity into business value. For this reason, during the last decade the company’s board of directors has progressively introduced a number of formal mechanisms of control, and some other social mechanisms have arisen as well. More on those later.

Perhaps not surprisingly, creativity and explorative innovation within Monnalisa is centered in the Design department, which creates the clothing collections and prepares the prototypes. A network of agents then presents winter and summer collections to customers during campaigns and fashion weeks. In this process, the Marketing and Sales departments play an important role in collecting orders and feedback from customers (normally shops or department stores), as well as in assisting the Production department to develop production plans. According to the founder, “creativity and control tend to collide constantly in the value chain . . . they need to be managed all the time. It’s an ongoing trade-off that we have to reconcile as stylists, and product managers may have a different idea of what efficiency actually means to them.”

Examining the Formal Controls

The need to preserve and promote creativity is a top priority at Monnalisa. “I honestly do believe that the creative inspiration of our stylists is the main source of our competitive advantage,” the company’s CFO suggests. “But I’m also certain that this source would have already dried out without the effort placed by the rest of the company in channeling such creativity . . . You can say that control does play a role in guaranteeing creativity and continuing it creation after creation.” Controlling creativity is perceived as a challenging trade-off. As the founder argues, “Certainly we need to value and preserve the talent and inspiration of our stylists, but equally we need to make sure that the outcomes of these creative processes are
understood by the customers and channeled into business value.”

At Monnalisa, there’s no intention to limit creativity, but increasingly the company is trying to offer the stylists a minimum structure by running a series of internal meetings at the beginning of every collection. Each collection kicks off with a *collection briefing*, a meeting where the Design and Control departments, and also Marketing, Sales, and Production, define the broad plan for the collection by listing the number of lines as well as the product categories (for example, shirts, skirts, or shoes) that will be featured in the forthcoming collection. This collection briefing enables the team to define the objectives in terms of what to create (and its quality standards), when to create it (fashion weeks and availability at the shops for the beginning of the season dictate the timing), and at what target cost. Significantly, the company has introduced new software that allows the stylists to monitor the consequences of their creation(s) in financial terms (through cost cards) and in development terms (through technical cards) as ideas progress. “With this tool, we don’t want to limit creativity at all—actually we want to maximize our creative potential and avoid the problems we had in the past when collections ended up to be incomplete on the shelves because we decided not to produce some low-margin prototypes,” the CFO emphasizes.

During the last 10 years, Monnalisa has used additional formal controls in an attempt to reconcile the expectations of the stylists, product managers, and, most importantly, customers. Along these lines, 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), and
- The intellectual capital framework (to control the efficient and effective use of intangible assets).

### The Social and Environmental Report

The *social and environmental report* was divided into three main sections: corporate identity, financial performance, and social performance (related to employees, customers, suppliers, shareholders, lenders, local institutions, the local community, and the environment). The *balanced scorecard* and the related *strategy map* were articulated in the four traditional perspectives (financial, customer, processes, learning and growth). Key strategic objectives—such as product quality, product customiza-
tion, brand image, innovation rate, production and process efficiency, employee empowerment, EBITA (earnings before interest, taxes, and amortization) margin, and cost control—were embedded into the strategy map and connected through cause-and-effect links. Moreover, the intellectual capital framework helped Monnalisa systematize a set of performance indicators concerning creativity and the capacity to innovate, as well as individual abilities, motivation, and cohesion within the company (a sample of these performance indicators is illustrated in Table 1).

Co-Creation of the Integrated Annual Report
Monnalisa recently combined the social and environmental reporting framework, the balanced scorecard and strategy maps, and the intellectual capital framework with the traditional financial statements into one single document labeled the integrated annual report. Interestingly, the information and key performance indicators presented in the report are grouped and illustrated according to the main strategic themes of the company (see Figure 2). Perhaps most important, Monnalisa’s main
stakeholders—its employees—co-create the integrated annual report. As the CFO emphasizes, “The idea underpinning the integrated report is to illustrate the performance of our company from the stakeholders’ various perspectives. We started to listen closely to the voices of our stakeholders in 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 founder adds, “The integrated annual report is driven by our mission, vision, and strategic agenda and complemented by the expectations of our stakeholders. 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 includes metrics and an index to capture and monitor the creative and innovating abilities of the people working at Monnalisa. Besides investments in research and development, an example of a metric that has been kept under control is the average age of the stylists working in Design, 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. Creativity measures are combined with indicators of customer satisfaction and process efficiency, as well as with financial figures. “Production efficiency is fundamental to compete and prosper in the market,” the founder explains. “However, we can’t afford to let the search for higher levels of efficiency damage the creative spirit of the company. No matter what the costs, we need to preserve our creative culture.”

For these reasons, the consolidation of multiple performance measures into one single document—the integrated annual report—provides decision makers with a formal package of indicators that are used mainly to monitor processes of exploitative innovations rather than

Further Reading


creativity. As a stylist in Design explains, “In our labs, we don’t compromise on creativity. We put our imagination at the forefront and focus on our inspirations to innovate year after year.” As an illustration of this, the company has recently entered the business of furniture and accessories, such as white-washed beds with a vintage flavor, cabinets with soft spirals, sinuous chairs and lamps, and the like. “We intended to create a background for the bedrooms of modern little princesses, and the last thing we wanted is to have the magic undermined by a set of formalized measures that monitor productivity,” the founder says. Significantly, formal indicators play a more central role within the production stage, where efficiency and customer satisfaction are sought through the smooth implementation of high-quality processes.

**Informal Controls: Listening to Multiple Stakeholders**

Monnalisa’s labs are the main locations where creative and innovative (explorative as well as exploitative) style projects are developed. The aesthetic conception of the product, applied research, and product creation represent the creative engine of the company. In particular, the labs’ research activities, consisting of a steady exchange between Design and Marketing, are organized as follows:

- 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.

Within Monnalisa, labs stylists are free to interact and create—to explore their perceptions of social trends and moods. In this context, the uncertainty associated with the processes of innovation—and the difficulty in predicting the results of such processes—requires informal control to be at the forefront. Formal control, predefined objectives, and rigid performance indicators don’t offer the flexibility required to manage the variation, failure, and serendipity that may characterize these processes of discovery. Additionally, formal objectives may conflict across departments as tensions between Design, Production, and Marketing are likely to arise during day-to-day operations. Among the more worthy informal control mechanisms in Monnalisa are the role of the founder and the interfunctional workgroups and focus groups, as well as the “photo-stories” exercise and a number of other social mechanisms, which we’ll talk about soon.

Monnalisa’s founder provides the company with an excellent mechanism of control and integration as he exercises his leadership. Through his power and charisma, he works as a mediator across groups and communities of experts. “The founder is an essential element of our system of control,” says a Monnalisa product manager. “He knows when to feed the creative forces of the company or when to draw attention to critical production, financial, or quality indicators.”

**A Collaborative Process**

Despite the importance of the founder’s vision and leadership, a number of other social mechanisms enable Monnalisa to manage the interplay between control, creativity, and innovation. Among these mechanisms, interfunctional workgroups and focus groups play a significant role. Since 2009, interfunctional workgroups have met every week to discuss coordination across the value chain. These meetings have proved to be extremely important for both explorative and exploitative innovations. As a stylist explained, “It’s important for us to be educated about the cost implications of our creations, which could be dictated by design. However, after we conceive the idea, we would like to be left alone and be driven by inspiration. There’s always time to sit down at a later stage and try to adjust the prototype in light of Production’s requests.” The interfunctional workgroups also allow managers to spot early-warning signals, such as the challenges—related to both costs and logistics—that new creations present.

Monnalisa’s ad hoc focus groups represent additional
ways 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 on environmental issues, the company launched a line of environmentally friendly, organic cotton t-shirts featuring four endangered animals: a panda, a Siberian tiger, a sea horse, and the arctic fox. The project was co-created with suppliers, customers, and the local community, namely the Polimoda Institute in Florence, a well-regarded fashion design and marketing association.

In 2010, with the aim of better aligning the performance indicators in the integrated annual report, Monnalisa’s employees were asked to gather together informally and express with a series of pictures their understanding of certain strategic objectives included in the report. These photo stories proved to be extremely important in capturing and representing the main objectives of the company, especially those related to intellectual capital and to relations with stakeholders, and they helped to shed light on a number of critical issues. For instance, to make the creative process “visible” to everybody within the company, one series of photographs showed the main activities that take place end-to-end along the value chain. In short, the goal was to capture invisible and disconnected activities and make them visible and integrated.

A Twofold Purposeful Imbalance

We opened this article with a provocative question: Does control kill creativity and innovation? We believe the answer is, “No,” at least in principle. But to avoid the risk of hampering creativity, as well as the ability to innovate through an inappropriate design and use of management control systems, companies should consider having a twofold purposeful imbalance at work.

First, a purposeful imbalance is needed between creativity and control, whereas creative exploration and efficient exploitation need to be managed and monitored without dampening the creative fires. Second, a purposeful imbalance is required among the various elements of a package of controls, where formal (results control) and informal (social control) mechanisms help manage the concurrent and ongoing need for creative design and efficient production processes.

The fashion industry certainly provides an interesting setting in which to explore creativity, innovation, and control. Monnalisa uses formal and social control mechanisms purposefully to make sure that novel ideas are transformed into business value (see Figure 3). As for formal controls, Monnalisa relies on formal precollection meetings (such as the collection briefing) to monitor product quality, time, and costs. In addition, the company has progressively introduced tools such as the balanced scorecard and strategy maps, as well as the intellectual capital framework and the integrated annual report, during the last decade. The roles of the founder, interfunctional workgroups, and focus groups, as well as the photo-stories exercise, have also been integral to Monnalisa’s success.

Perhaps your company can benefit from some of these concepts. Financial professionals interested in employing and improving the formal and social control mechanisms illustrated in this article have a proven pattern to follow.

The authors gratefully acknowledge the support of the Babson Faculty Research Fund of Babson College in Babson Park, Mass., in developing the research that formed the basis of this article.

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