

# Monnalisa

## When Management Control Meets Creativity and Sustainability

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## Prologue

It is a beautiful and mild fall day in Arezzo (Italy) when, during a conversation on the theme of creativity, innovation and performance management, the Controller of Monnalisa suddenly emphasizes:

“Well, the need to preserve and promote creativity is a top priority for high end fashion companies such as Monnalisa. Indeed, there is no question that the inspiration of our stylists is the main source of our competitive advantage [...] but I am also certain that this source would have already dried out without the effort placed by the rest of the company in channeling such creativity into sustainable business value. I can certainly state that financial and non-financial mechanisms of control, both formal and informal, play a huge role in preserving creativity and its continuity through the years, collection after collection”.

Controlling creativity is perceived as a challenging trade-off throughout the process of developing the collections. As argued by the Founder and former CEO of Monnalisa:

“To survive and hopefully prosper in today’s turbulent market environments, we certainly need to make sure that the outcomes of our creative processes are understood by the customers at first, and then translated into sustainable performance, including solid financial results. For this reason, during the last fifteen years, we have progressively restructured and adapted our system of controls to monitor and manage the interdependencies between measures of creativity, customer satisfaction, process efficiency, and financial return, as well as the sustainability of our business model”.

Nevertheless, in spite of the awareness shown by the Founder on issues such as production efficiency and financial sustainability, his entrepreneurial gut and strong passion for the style of Monnalisa’s creations firmly re-emerged as we were about to end the conversation, when he states:

“However, we cannot afford that the obsessive search for higher level of efficiency or bottom line contribution end up damaging the creative spirit of the company. For example, if the talent and inspiration of our stylists suggests for them to use ribbons, pearls or glitter in their designs, we cannot sacrifice these components in the name of reducing the production complexity [...] no matter what the pressures and the possible implications are, we need to strive to preserve our creative culture above all”.

## Monnalisa's background information

Monnalisa is a medium-sized company located in Arezzo in Tuscany, Italy. Founded in 1968 by Mr. Piero Iacomoni, Monnalisa designs and sells garments and accessories for children<sup>1</sup>. The clothing sector has always played an important role in the economy of the Arezzo region. This brought significant opportunities for Piero in terms of networking and available know-how. To distinguish his company from competitors, Piero decided to focus on the higher quality segment of the market, offering coordinated articles of clothing (the so-called total look concept). Importantly, in 1978 Piero's wife (Barbara Bertocci) started work at Monnalisa as a designer.

Since its foundation, each line of products developed by Monnalisa has been characterized by the search for high level of style creativity, differentiation and production quality. Despite the increasing turbulence of the market environment, during the past fifteen years Monnalisa has experienced considerable growth in turnover (revenues) – from 2002 to 2017 Monnalisa's turnover has tripled and reached about 42 million euro in 2017. Significantly, about 90% of Monnalisa's customers come from Europe (more than 50% from Italy). In 2017, the company employed about 65 people (see appendices A for a summary of 2008 - 2016 income statements and balance sheets).

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 four main brands: *Monnalisa Bébé*, suitable for ages 3 – 6 months; *Monnalisa Girls*, for ages 2 – 12 years; *Chic Monnalisa*, for those 4 – 16 years of age; *Jakioo*, a trendy brand for 6 – 16 years and two newer brands, *Ny&lon* a sportive brand for 3 months -16 years of age, and *Hitch-Hiker* for boys 3 months - 12 years of age. Recently, Monnalisa has diversified its business by partnering with furniture and accessories manufacturers to market those products for little girls' bedrooms, like white washed beds with a vintage flavor, cabinets with soft spirals, sinuous chairs and lamps.

## Mission, vision and values

The *mission* of Monnalisa is “to create value and values over time with a quality, fashion and high identity product for both customers (the retailers) and consumers”<sup>2</sup>. According to the company's 2017 Annual Report this mission should be fulfilled through “a flexible, reliable and customized ser-

1. Monnalisa is both the name of the company and the brand of clothes designed and sold by the company. For the web site of the company please see [www.monnalisa.eu](http://www.monnalisa.eu) - see Busco, C., M. L. Frigo, E. Giovannoni and M.P. Maraghini, “Control vs. Creativity”, in *Strategic Finance*, n.8, August, (2012) pp.29-36. Giovannoni, E., and M.P. Maraghini, (2013), “The challenges of integrated performance measurement systems: Integrating mechanisms for integrated measures”, *Accounting, Auditing and Accountability Journal*.

2. Annual Report, 2017.

vice; a dynamic and challenging work environment; an ongoing and profitable relation with suppliers; a sustainable company policy for the territory”. The *vision* to be accomplished by Monnalisa embraces “(1) to excel in innovation, creativity and practicality to gain new markets; (2) to drive a diffused *managership* inside the company to take on the challenges of the small and medium family enterprise successfully; and (3) to expand worldwide both productively and commercially while maintaining the company values and identity to spread a culture of social responsibility”<sup>3</sup>. The fulfillment of the mission and the achievement of the vision should be sought by adhering to the four company’s *values*:

- *Respect*: for skills and competencies, diversity, pace of life and work;
- *Dialogue and participation*: meaning a stimulating work environment, connection with the territory and growth together with the connected industries and services;
- *Fairness*: meaning acknowledgement of everyone’s dedication to the relationship with Monnalisa and transparent decisions;
- *Responsibility*: towards customer satisfaction, efficient and effective use of all resources as well as transparent reporting of policies and strategies.

## Management evolution between succession and professionalization

Monnalisa is totally owned by Piero’s family<sup>4</sup>. Although Piero’s children acquired company shares in 1985, they only began to be involved in the business in 1995, when they had completed their education and training outside the company. Diletta, the daughter, who specialized in fashion design, started work in the design department with her mother. Dimitri, the son, who studied as a tour operator, is in charge of running logistics facilities for Monnalisa. The training of Piero’s children outside the company and their experience inside the company can be regarded as part of the professionalization process involving family members.

Piero has always been the actual head of the company. Until February 2010, he was the sole administrator and managing director and, although Barbara and the children (as owners and as members of the family) had the right to participate in the process of defining the company’s policies, they did not take an active part in the general management of Monnalisa. As confirmed by Piero, “Barbara has always taken care of the company’s creativity, by managing the design department [...] Our children, instead, have decided not to take an active part in the management of the Company, preferring to commit themselves to specific duties which are more in line with their capabilities”.

As testified by Piero: “I started planning my retirement many years ago – on a permanent basis from 2007 – and, ever since, I have worked a lot to prepare the company to continue without me, on its

3. Annual Report, 2017.

4. See Giovannoni, E., Maraghini, M. P., and Riccaboni, A. (2011) “Transmitting Knowledge Across Generations: The Role of Management Accounting Practices”, *Family Business Review*: 24(2),126-150.

own.” In effect, as underlined by Piero before his retirement: “I don’t want to go on setting rules when I am no longer working here.” In line with this, in July 2008 the family drew up an agreement in which they defined and formalized the company’s governance structure for the future. In particular, the agreement stated that all family members would join the board following the founder’s retirement from his position as sole administrator and managing director. Within the new governance structure, the management of the company was planned to be delegated to a staff guided by a professional managing director, appointed by the board, who (according to the agreement) “must have a master’s degree, relevant working experience and knowledge of, at least, two foreign languages”.

As acknowledged by Piero before the end of his tenure, “When I retire, all of us will have to learn something new! I will have to learn something new myself: how to look at my company at a distance, without being directly involved in its management. Besides continuing with their current tasks and activities (which they are already good at), my children will need to learn how to act as members of the board. In particular, they and the managing director will have to fully understand and assimilate the priorities, values and vision of the company, which are also mine”. From 2007, Piero was conscious of needing to prepare for his succession. For this purpose, he decided to be joined in his function of managing director by a specialized professional manager who would become the new managing director after his retirement. In 2009, he selected a former external consultant for this role, who was also a part-time lecturer in marketing and management at the University of Florence. From that point, the new professional manager started to assist Piero in his role as managing director, and all employees and managers were required to closely interact with him too. At the same time, Piero increased the decision-making authority of the managers to relieve the future managing director of some duties previously managed by the founder.

The whole succession preparation phase took place during 2007-2010. The transfer of ownership to Piero’s children has already taken place, as well as the transfer of leadership, which was formally completed with Piero’s retirement in February 2010. From an ownership point of view, the succession took place inside the family and did not involve external professional managers. From a leadership point of view, the succession preparation involved both family and nonfamily members, including an external professional manager who was trained to gradually take on a leadership role in the management. The transfer of leadership to family members (as part of the board of directors) and to a nonfamily professional manager (as the new managing director) formally took place in February 2010 but was substantially prepared by Piero throughout the succession preparation phase (2007-2010). Notably, for the first time in the history of Monnalisa, the letter of introduction to the 2010 Annual report has been written by the Board of Directors rather than by Piero.

Similar to succession, professionalization in Monnalisa has taken place both inside and outside the family. Family members (Piero’s children) were fully trained outside the company before entering

the family business, where they started to gain a situational experience in the business. Additionally, a qualified nonfamily member entered the business as a professional manager and acquired management and leadership experience. Professionalization and succession have been strongly intertwined in Monnalisa. On the one hand, the succession preparation has seen the significant involvement of professional managers; on the other hand, the professionalization processes have been stimulated by the need to prepare the succession within and beyond the family.

Since February 2010, when Piero formally completed his retirement, the company has been managed through a Management Committee, chaired by the Managing Director, and includes the heads of every function. The Management Committee meets every Monday and its purpose is to execute the strategy formulated by the Board of Directors (chaired by Piero). From July 2018, 25% of Monnalisa's capital is listed in the Milan Stock Exchange. The strategic plan has a five year horizon, and is based on two annual collections.

### **Organizational chart and Value chain: the collection as a “delicate balancing act”**

Similar to the majority of companies operating in the fashion industry, Monnalisa's business model and value chain are structured and managed around two collections of clothing per year, one for the autumn-winter and the other for the spring and summer seasons<sup>5</sup>. Each collection kicks-off with a collection briefing (see point [1] in the collection's business model and value chain - represented in [Exhibit 1](#)), which is a meeting where the heads of the Design, Sales and Marketing, Production, and Finance Departments identify and finalize the broad plan for the collection by listing the number of lines, as well as the categories of products (such as, shirts, skirts or shoes) that will be featured in the upcoming collection. Next, within Monnalisa, (2) research, design and development of the collection, and the preparation of the prototypes and samples are carried out by the Design Department in strict collaboration with the other functions.

Garment samples are then presented to retailers through (3) show rooms and fashion shows, as well as through a network of independent sales agents who work for Monnalisa during the two major sales campaigns, allowing for (4) the collection of orders and the first feedback on the new collections<sup>6</sup>. In this context, a key role is played by the Sales and Marketing Department, which is responsible for providing accurate sales forecasts for the sales campaigns and for collecting feedback and comments from customers (retailers) and (final) consumers on the style, quality and overall value of the clothing. This information is communicated by the Sales and Marketing Department

5. Fashion companies such as H&M and Zara, which compete in lower segments in the market, have decided to eliminate seasonal collection and to produce on a continuous basis.

6. Traditionally Monnalisa has sold its products through independently owned single brand and multi-brand shops, and department stores. Only recently Monnalisa has started to sell its products directly to the final consumer through its web-site and the first company-store in Arezzo.

to the Design Department (for style projects), as well as to the Production Department for production planning<sup>7</sup>.

Like a number of other companies of a comparable size operating in the fashion industry, Monnalisa has a flexible production structure. The purchasing and storage of raw materials (5), as well as the fabric cutting (6) are carried out internally by the Production Department. In contrast, all of the transformation phases (7) from raw materials to work-in-progress, and occasionally to the finished goods, are outsourced to small suppliers (referred to as *façonists*<sup>8</sup>) who are located primarily in central Italy. Components, work-in-progress and finished products are then delivered to Monnalisa's premises, where the Production Department is responsible for logistic flow control and management (8), component assembly and work-in-progress (9), quality and safety control of the garments (10), as well as their storage and distribution to national and international markets (11). All post-sales activities (12) are carried out by the Sales and Marketing Department (Exhibit 1). As suggested by the founder, the collection develops through a series of connected phases that require balancing throughout:

“The collection represents the very centre of our business model. It is a recurrent process encompassing a number of inter-connected phases that dictate the rhythm and the content of value creation within the company. [...] Overall, the collection is a delicate balancing act [emphasis added] that calls for confrontation and cooperation among the different parties and interests at stake. Ultimately it is a balance between creativity and efficiency that we need to achieve, at best, every six-months, if we intend to survive and possibly grow in the current market conditions”.

Notably, the phases of different collections overlap at various points in time. As stressed by Piero:

“Our employees need to be skilled and flexible enough to manage, at the same point in time, the different issues, concerns and fundamental milestones of multiple collections. For example, as we speak, we are delivering the 201X Spring/Summer collection to stores and shops, gathering orders for the 201X+1 Fall/Winter collection and, finally, working on the initial briefing for the 201X+2 Spring/Summer collection. And again, this aspect calls for balancing not only within a single collection, but also across time and throughout future collections” (see Exhibit 2).

7. Production is planned according to the orders collected during the sales campaigns.

8. The relationship with Suppliers (of fabric and accessories) and Façonists is managed by the Production Department (although Suppliers and Façonists are not involved in cross-functional teams). Around 50% of the Suppliers have a long-term relationship with Monnalisa, which is renewed collection after collection. This percentage increases up to 90% for the Façonists. The Façonists are paid according to the number of pieces (there is a specific rate associated to the different activities they perform irrespectively of the size of the garment).

## Operations: the process of research, design and development

Creativity and innovation within Monnalisa are carried out within the Design Department. The research, design and development processes include a number of activities generally structured around the following five phases: (1) *research*, (2) *design*, (3) *paper pattern drafting*, (4) *prototyping*, and (5) *sampling*.

- (1) *The research phase* – here the stylists try to familiarize with markets and trends, trying to sense where fashion will be going over the next season. The sources of information can vary, ranging from their own feelings to inspirations coming from the market based on trade shows; from their own contacts and networks in society to the industry trend reports that try to anticipate the styles, colors, and fabrics that are likely to be popular in the coming seasons; and finally, from their visits to textile and accessories manufacturers (raw material suppliers) to see and evaluate the possible fabrics, colors and patterns to be eventually included in the design of the collection.
- (2) *The design phase* – once stylists have selected fabrics, colors and patterns, the actual design phase starts. In this phase, the stylists sketch preliminary designs. Initially, designers use pencils for their sketches, but then translate it into digital blueprints with CAD (Computer-Aided Design) systems. Digital blueprints allow stylists to see sketched designs of clothing on virtual models and in different colors and shapes, thus reducing the time for possible refinements and adjustments in the later phases of prototyping and sampling
- (3) *The paper pattern drafting phase* - the technical aspects of the designs, which will be extremely important in preparing for the production stage and for instructing the third-parties Façonists, are addressed in this phase. The paper pattern is the drawing on paper of the basic silhouette, indicating all the different parts and features of a garment (for example, in a teen-age girl’s shirt, the neckline, the sleeves, the pockets, the cuts, the lengths, the draperies). The paper pattern is then cut to shape and placed on the fabric to guide the cutting.
- (4) *The prototyping phase* – a number of 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 for the first time to see how they fit and look and decide whether adjustments are needed. This process leads to the selection of the models that will be actually listed and offered for sale. At the end of this phase there is an important *financial-driven gate*: only models that are able to stay within (or reasonably close to) the budget limits decided during the Collection Briefing will be “listed”.
- (5) *The sampling phase* - once the final adjustments and selections of the models have been made, the design phase ends with the development of multiple sizes of samples for the same article. This activity is complex in that not all the elements of an article grow in the same proportion and in predetermined manners to develop the different sizes. Finally, the various samples of the articles using the actual materials are produced and marketed to retailers directly through fashion and trade shows, as well as through independent sales agents.



Even if described as linear, the fashion research, design and development process is iterative in its nature. Fabrics, colors and patterns can be re-assessed in light of new information generated throughout the various phases of 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 such as Sales and Marketing, Production, and Finance, which participate in the development of the Collection offering their support and evaluation on the implications for the Company's performance for what is being developed.

Piero 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 among stylists, marketers, product managers and, indeed, finance experts. Each may have different ideas on what terms such as performance or efficiency actually mean to them". He goes on to offer an interesting example:

"please have a look at this beautiful black & white olive dress (see [Exhibit 3](#) – point 1 and 2), featured by a satin bow on the neck with diamond detailing and a large oval olive print in pearl surrounding with "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 the set targets from an operational and financial standpoint. Also, take a look at that red and white floral dress with the red grosgrain ribbon waistband and red check hem and bow (see [Exhibit 3](#) – point 3). Obviously the production methods could have been simplified and costs could have been reduced here but, unless there are no other options, we are not inclined to bind our stylists to look for the middle ground between creativity and efficiency"

Within Monnalisa, the possible tensions between creativity and control have been managed also through a package of controls that includes both formal and informal mechanisms.

## **When creativity meets with formal and informal controls**

Within Monnalisa there is no intention to frame creativity but, increasingly, an effort is made to offer the stylists a number of supports to reflect – as the research and development of the collection progresses - on the consequences dictated by design on the multiple views of Company performance. As illustrated in the previous section, each collection kicks-off with a briefing, a meeting that enables the collection team to define the broad objectives of the collection 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 determine the timing of the various phases of the design, development and production process), and at *what target cost*. Notably, Monnalisa has recently introduced new software that, following the discussions and decisions taken in the collection briefing, allows the stylists to monitor the consequences of the creative process in financial terms (through cost cards) and in product development terms (through technical cards). "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 the shops' shelves because we decided not to list and produce some low margin prototypes”, emphasizes the CFO.

***Formal controls: from cost-cards to the Provisional Budget, from the Balanced Scorecard to Strategy-maps***

The primary ‘tactical’ formal control tool used to monitor the financial return of the collection is the *Provisional Budget*, which includes the contribution margin by collection – see [Exhibit 4](#). As the research, design and development of the collection progress, 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 Façonists (outsourced production) – see [Exhibit 5](#). The contribution margins by product type included in the provisional budget represent major financial-driven gates, since only models that are able to respect the budget limits decided within the Collection Briefing will be “listed” and, therefore, produced and commercialized. Additional analyses on the contribution margin of the overall collection, and of the different typologies 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”). [Exhibit 6](#) offers an example of cost-cards, and illustrate how the total direct material cost is built (including both the cost of accessories and fabric by size)<sup>9</sup>.

The primary strategic formal control tool today is the *Annual Integrated Report* (visit Monnalisa website to view complete report <sup>10</sup>). This tool evolved over the last ten years from three earlier tools:

- 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 efficient and effective use of intangible assets).

Published for the first time in 2003, the *social and environmental report* was divided into three main sections: corporate identity; financial performance; social performance (related to the key stakeholders: employees, customers, suppliers, shareholders, lenders, local institutions, local community, and environment). Introduced in 2004, the *balanced scorecard* and the *strategy map* were articulated into the four traditional perspectives (financial, customer, processes, learning and growth – see [Ex-](#)

9. Although the quality of the document in Exhibit 6 is not the best we decided to use the original documentation to illustrate how a real cost-cards looks like in practice.

10. Monnalisa is one of the first companies around the world, and the second in Italy, that pioneered the implementation of the Integrated Annual Report (from now onwards we will refer to it as *Integrated Report*). To download the 2011 Integrated Report use the following web link: [http://portal.monnalisa.eu/about\\_the\\_group\\_en/annual\\_report\\_en-US/annual\\_report\\_2011\\_en-US.aspx](http://portal.monnalisa.eu/about_the_group_en/annual_report_en-US/annual_report_2011_en-US.aspx).

hibit 7). Key strategic objectives like product quality, product customization, brand image, innovation rate, production and process efficiency, employees' empowerment, EBITA margin, cost control, were embedded into the strategy map and connected through 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 originally identified and developed through the implementation of the Balanced Scorecard (a sample of these performance indicators are illustrated in [Exhibit 8](#)). Although, at present, these indicators are not formally tied to compensation, the aim of the Company is to refine this system of control and performance evaluation to be in a position to implement a structured scheme of incentives in the foreseeable future.

Nowadays, as described later, the strategy and key performance achieved are presented within the Integrated Report, where Monnalisa's results are grouped and illustrated according to the main strategic themes of the company. The Integrated Report was co-created through conversations with Monnalisa's main stakeholders. As emphasized by the CFO of Monnalisa, "the idea underpinning the integrated report is to illustrate the 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 our annual integrated report is the outcome of this ongoing process of sharing".

"The Integrated Report is driven by our mission, values, vision and strategic agenda and complemented by the expectations of our stakeholders", claims Piero, who then adds, "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 Report does include metrics to capture and monitor the creative and innovating abilities of the people working in Monnalisa. Beside 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 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.

## Informal Controls in Monnalisa

Within Monnalisa, stylists are left free to interact and explore their perceptions of social trends and moods. The aesthetic conception of the product, applied research, and the making of the garments represent the creative engine of the company. In particular, the research and development activities, consisting of a steady formal and informal exchange between the 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 ad printed fabrics; 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 to predict the results of such processes require informal control to be at the forefront. Formal control, predefined objectives, rigid performance indicators do not offer the flexibility required to manage the variation, failure and serendipity that may characterize these processes of discovery. Additionally, as illustrated in previous sections, formal objectives may conflict across departments as tensions between design, production and marketing are likely to arise during day-to-day operations. For these reasons, it is interesting to observe how control systems are completed by a number of informal mechanisms at work. Among the informal control mechanisms in Monnalisa, it is worthy to mention the role of Piero, the inter-functional workgroups and focus groups, as well as the very recent “photo-stories” workout<sup>11</sup>.

Piero, in retirement, 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, Piero works as a mediator across groups and communities of experts. “Piero is an essential element of our system of control”, suggests a product manager, who then adds, “He knows when to back the creative spirit of the company or when to draw the attention on critical production, financial or quality indicators”. Piero is still called upon to manage any attempt to reconcile the different point of views among design, production and sales. Sometimes these tensions are worsened by conflicting perspectives on what “a desirable performance is”, and Piero’s vision and championship is essential for conflict resolution. “Disagreements are often related to the impact of new ideas on methods of production and on the bottom line,” claims a production manager, who then adds, “he generally is inclined to support stylists because he does trust the next item that hit the shelves is going to re-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 final consumer will be willing to pay for the value we offer”.

Despite the importance of Piero’s vision and leadership, a number of other social mechanisms enable Monnalisa to manage the interplay between control, creativity and innovation. Among these mechanisms, inter-functional workgroups and focus groups with relevant stakeholders play a significant role. Since 2009, inter-functional workgroup meetings are organized every week to discuss coordination across the value chain. These meetings proved to be extremely important for both explorative and exploitative innovations. As argued by a stylist, “it is important for us to be educated about the cost implications of our creation, to be aware of the financial repercussions that could be dictated

11. The “photo-stories” workout is an exercise that aims to enhance integration, sharing and awareness across functions by picturing and visualizing the characteristics of the different roles and job positions across the Company’s value chain. It is built on a series of internal workshops where the main organizational processes are described through a series of commented pictures.

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 inter-functional workgroups allow managers to spot early warning signals. As emphasized by a production manager, “last week, during our weekly meeting, 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 stylists sharing their ideas and discussing their sources of inspiration, however, after few minutes, I could not stop thinking about the production challenges associated with those new creations”.

Within Monnalisa, *ad hoc* focus groups with the relevant stakeholders represent additional ways to manage the interplay between sources of innovation, and systems of performance management and measurement. In 2009, for instance, following the outcome of a workshop with suppliers and the local community on environmental issues, the company had launched an innovative research project on the theme of ecological t-shirts<sup>12</sup>. “The idea is to produce a t-shirt made of organic cotton on which four endangered animals are printed: a panda, a Siberian tiger, a sea horse and the arctic fox. The organic cotton used for the t-shirt would come from lands farmed according to the principles of organic agriculture, without using either genetically modified seeds or synthetic pesticides, which are generally used (according to industry surveys confirmed by meeting with key suppliers) in conventional cultivation with negative consequences for the environment. Packaging would be entirely made of recycled materials and comes with an educational game which gives more information on the four animals and their habitats. To reduce the impact on the company, the game is not printed in color, but children can have fun completing it with an included set of ecological crayons”, suggests one of the stylists. This project was co-created with suppliers, customer, as well as the local community (namely the Florence *Polimoda* Fashion Institute). Interestingly, creative exploration was facilitated and guaranteed throughout the project, but all the stakeholders had also clearly 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 at stake.

In 2010, with the aim of improving the alignment among performance indicators in the Integrated Report, Monnalisa’s employees were asked to gather together informally and express with a series of pictures their understanding of certain strategic objectives which were included in the report.

12. Although the type of production process and the location of the company organization do not involve specific physical risks linked to climate change, Monnalisa is actively involved in limiting its environmental impact. For this reason, among the others, the following aspects are monitored and reported within the Integrated Report: business trips and deliveries (people mobility and goods mobility); fuel, water and power consumption; raw material consumption for packaging; greenhouse gas emissions (direct and indirect). Additional information on Monnalisa commitment to Sustainability and on the way to monitor and report it can be found in the 2018 Integrated Report.

The “photo-stories” workout proved to be extremely important to capture and represent the main objectives of the company, especially those related to intellectual capital and to relations with stakeholders. “These objectives,” explained the CFO of Monnalisa, “are generally the most difficult to digest, since their practical consequences may be distant and not immediate... additionally, not every single person within the organization has the experience or the background knowledge to understand the interplays across functions and their consequences for the company as a whole and its stakeholders”. The effort of trying to convey individual perceptions through a photo story helped Monnalisa’s employees to shed light on a number of critical issues characterizing the cause-and-effect relationship among the performance indicators used to monitor the result across the internal value chain. Again, from creative design to production and distribution all functions were called upon for increasing their awareness of the overall management system of the company.

### **The evolution of corporate reporting: from social and environmental to an integrated report**

Published for the first time in 2003, the social and environmental report released by Monnalisa was originally divided into three main sections: corporate identity, financial performance, and social performance (offering information related to the relationships with the key stakeholders of the company, i.e. employees, customers, suppliers, shareholders, lenders, local institutions, local community, and the environment). However, it is with the 2005 report that Monnalisa introduced a substantial innovation in its way of communicating annual results to its stakeholders. In particular, in the 2005 report the company integrates, for the first time, the disclosure of financial and social-environmental performances. Within this report financial, social and environmental information are strongly integrated with each other on the assumption that the company's financial performance depends directly on the social responsibility policies that are implemented, and vice versa.

Due to this innovation, Monnalisa was awarded with the Italian annual report Oscar in 2006, a prize that is given to companies that distinguish themselves for excelling in corporate reporting<sup>13</sup>. Building

13. Since 1954, the Annual Report Oscar has been assigned to companies that have carried out the best economic, social responsibility and environmental communication. The award has been created and administered by FERPI - The Italian Federation of Public Relations - under the Patronage of the President of the Italian Republic. This prize is the only national award recognised by the Italian economic-financial community as promoting a culture of transparent and exhaustive reporting. In particular, the motivations that were released by the jury in 2006 in support of awarding Monnalisa were the following: “The report is clear, complete, transparent and well structured. The integration of documentation providing all the necessary information both of an economic-patrimonial and socio-environmental nature was particularly appreciated. In this latter area, proposed objectives and results obtained have been clearly highlighted with an interesting focus carried out with suppliers that has permitted both dialogue with subcontractors and a complete control of the entire production. The document is exhaustive and proportioned, with clear graphics, preceded by an index which facilitates easy consultation. The successful effort put into improving the communicative and informative impact of the report from year to year emerges clearly”.

on this acknowledgement, the 2006 annual report suggested that Monnalisa focus on intangibles. At the time, Monnalisa felt the need to communicate, and make evident to stakeholders, what is an invisible and not always fully perceived and acknowledged value. As a result of this need to unveil and discover the intangible, the company accompanied the financial statement with a narrative that offered an account of the people, the ideas, the values, and the resources of trust, which distinguish and make Monnalisa unique in comparison to any other company.

On its 40th anniversary since its inception, Monnalisa presented the 2008 Annual Report by giving its employees the opportunity to have their say. This was possible through the adoption of a double method: interviewing and, by means of a suggestion box, gathering ideas that each employee had regarding the past and future of the company. Additionally, with its suppliers, Monnalisa decided to discuss a shared topic which could be summarized with the question “What can we do together (we, at Monnalisa and you, the suppliers) about environmental issues?”. The company’s commitment to reporting its environmental performance was confirmed and strengthened. Impact analysis of every production process stage has been maintained, turning subsequently to field experts for a third-party evaluation of this impact on the surrounding environment. Finally, the 2008 Annual Report presented an extended analysis of corporate risks, divided into “remote/possible” and “external/internal”.

The 2009 annual report was characterised by a very innovative layout. In this document, for the first time, the economic, social and environmental performance were reported and illustrated by using a particular lens: the areas of interest and the perspectives of the stakeholders. The identification of these interests and perspectives started in 2003 as Monnalisa began a process of engagement and dialogue with stakeholders. During meetings and open sessions with the key stakeholders, some major issues and areas to be monitored emerged. This also led to a clearer identification of the objectives to be achieved in order to satisfy the needs of the stakeholders. This process, which unfolded over the last ten years, was realized on the basis of the principles of materiality and correspondence of the AA1000 international standards. These standards suggest combining the stakeholder’s requests with the mission and the values of the involving company. Overall, seven issues were identified. They currently represent the chapters of the Integrated Report, as well as its key of interpretation. These seven issues are: (1) maintain a strong identity, (2) guarantee economic sustainability, (3) guarantee a high quality, (4) excel in innovation, (5) promote valorisation, (6) communicate and involve in a transparent and effective way, and (7) contribute to the development of the territory.

In 2011, for the second time, Monnalisa was awarded the Italian annual report Oscar. In this case, the process of integration was considered a fundamental element for awarding Monnalisa’s annual report. As the jury commented, Monnalisa’s 2010 IR is an “excellent example of integrated reporting in which economic and sustainability information exist together and find the right space. The docu-

ment is complete, analytic and integrated with all the elements of corporate social responsibility. The document is also complete relating to the relationship with all the stakeholders... The innovation section is particularly interesting as a means for creating value”.

As discussed above, since 2009 the information and the key performance indicators presented in Monnalisa’s Integrated Report reflect a combination of the areas of interest and the perspectives of the key stakeholders within the main strategic themes and objectives of the company. This is an IR that includes the EU format of the Annual Report as well as the triple bottom line reporting that characterizes sustainability Reports. However, integration goes beyond the simultaneous publication of these two documents, as it includes the real connectivity of all information related to the issues identified. This allows an understanding of the relationships between strategic objectives and the capacity for creating and maintaining value over time, keeping in mind external factors that influence the company, including risks as well as relations the organization has with its multiple stakeholders. Finally, the 2016 Integrated Report is consistent with the latest GRI Standards guidelines, and in terms of thoroughness and depth of the report (for which the standard has set two different options identified as core and comprehensive), Monnalisa has continued in the ongoing improvement process by moving on to the comprehensive mode as of 2015.

## **Stakeholder engagement and the process of identification of material matters**

Monnalisa formalized its engagement with stakeholders through the implementation of a rigorous process of determination of materiality that is illustrated in the Integrated Report. Developed in line with the GRI guidelines and then audited independently, the analysis helps to identify the material aspects for Monnalisa and its stakeholders, while at the same time separating them from non-material issues. Following the GRI standards for Monnalisa’s material aspects, are those that “reflect the organization’s significant economic, environmental and social impacts; or that substantively influence assessments and decisions made by the stakeholders” (G4 Reporting Principles and Standard Disclosures, p. 92).

The Materiality analysis started in 2014 when Monnalisa followed a structured process to identify key issues and prioritise them in terms of “significance for the company” and “significance for the stakeholders”. The degree of significance for Monnalisa was derived from the company’s perception of the potentials for each issue in generating risks and opportunities, as linked to company objectives in the short, medium and long term. Priority was assigned using a qualitative and quantitative scale that gave higher scores in connection with Monnalisa’s higher level of commitment on each issue. The results obtained were integrated with the perception of Company Management, collected through interviews, and on the capacity of each issue to have an impact on the company’s strategic objectives. In a similar vein, the importance perceived by the stakeholders regarding each issue



was assigned after applying a qualitative and quantitative scale that assigned higher values as the importance given to issues by stakeholders increased. This data emerged from the numerous initiatives involving stakeholders carried out by Monnalisa, and by specific field-related documentation as well.

The data produced through such a structured process led to the development of a Materiality Matrix that enables Monnalisa to combine, and further analyse, the issues that are considered highly significant by both the company and its stakeholders (see [Exhibit 9](#)). Within the 2015 Integrated Report, such highly significant issues were: risk management; consolidating CSR in company processes; growth management; product distinctiveness; safety and guarantee of product quality; employee health and safety, and supply chain management. “Far from being set in stone, the Matrix shall be updated annually through the ongoing contribution of all relevant parties” suggests the CFO of Monnalisa.

During 2016 the Materiality Matrix engaged internal and external stakeholders in a dialogue that led to further refinement of the model. Thus, for example, following a climate analysis developed with the internal workforce, the material issue “company welfare system” was repositioned in the most relevant area of the Matrix. Similarly, the “environmental performance” material issues were discussed with stakeholders such as retailers and agents and led to the identification of initiatives - such as Replace all vehicles with 100% electric ones, or set up a new packing line that will use lighter cartons having the same yield as the current ones - to be implemented by the organization in the attempt to identify sustainable strategies and solutions for Monnalisa and the relevant communities the company has an impact on.

## **Measuring and visualizing sustainable value within the Integrated Report**

Monnalisa’s mission to create value and values over time is the underlying driver informing company strategy and operations. According to the company’s 2017 Annual Integrated Report, this mission was to be fulfilled through flexible, reliable and customized service, a dynamic and challenging work environment, an ongoing and profitable relationship with suppliers, as well as a sustainable company policy for the territory. As claimed by a Monnalisa’s sales manager, “since the early years, the founder’s creed has put value creation for all the relevant stakeholders at the core of our business model, of our decision-making process. This was clear to us even twenty years ago when our management tools were far less developed. But now, with the new, more comprehensive and inclusive reporting practices this is somewhat visible to everybody”.

Although the role of the annual integrated report is quite clear as presented as “the means through which Monnalisa periodically reports to its internal and external stakeholders on choices made, activities carried out and results obtained, indicating the resources used and the added value generated

in financial terms, as well as the impact on society and the environment” (Monnalisa 2016 Annual Integrated Report, p.6), however, the understanding of what *sustainable value* really is, was yet to be agreed upon since this varied according to the multiple stakeholders and their concerns. The aesthetic aspirations of the stylists, the financial focus of the accountants, the efficiency concerns of production, as well as the expectations of sales managers, agents and clients were just a few of the elements featuring discourses around *sustainable value* creation, which also extended to “the numerous social and environmental performances that have been part of the company DNA for the last fifteen years, at least” (CFO Monnalisa).

Few years ago, when Monnalisa’s CFO participated in a conference to present the company’s journey in terms of IR adoption, the event also featured an exhibition of integrated reports, including a number of pages from the most recent annual integrated report framed and displayed in an exhibition hall. In Monnalisa’s section of the exhibition, several printed copies were made available for consultation on the spot. Interestingly, a business analyst attending the event began to look through the pages of Monnalisa’s integrated report, and then commented:

“I see this integrated report as a document where literally anything can happen. It is a piece of contrasts. It is a document where the rigorousness of the financial reporting standards for disclosing the most recent financial performance is combined with the flexibility of reporting information regarding the other resources and capitals used. It is a document where compliance and freedom co-exist, where despite the generally accepted practices you can suddenly spot a bunch of indicators, or a diagram such as the business model, which seem to be included not because they have to, but because they make sense and serve the purpose of telling the story of how sustainable value creation is sought in such an uncertain and complex business scenario. And this is new, at least to me”.

Similar to many, the architecture and the contents of Monnalisa’s Annual Integrated Report rely massively on a series of charts, diagrams and tables in which the messages that the organization aims to convey are visualised and supported by a multitude of diverse performance indicators. During a conversation with a production manager, this aspect became the centre of the discussion: “During the last 10 years, we have progressively introduced a number of key performance indicators that monitor the financial and non-financial results we have achieved through our collections”, explained the production manager, who then added, “what you see on the annual report now are the consequences of the discussions, confrontations and decisions that characterised our meetings involving the development of our collections”. Then, he chose the 2015 annual integrated report to use as an example.

Within the illustration chosen by the product manager (see [point A in Exhibit 10](#)), Monnalisa’s value is portrayed as having been created through the development of “a quality, fashion and strong ident-

ity product for both retailers and final consumers”. To support this claim, financial and non-financial data are then drawn upon: the 13.57% increase in turnover, the consolidation of 75.9% of the customers and the ability to commercialize 92% of the models in the collection. This integrated presentation of mission, vision and measures of performance has had an effect within Monnalisa. As argued by a production manager:

“This inevitably informs people’s behaviour during the phases of the development of the collection. For example, you can see that our ability to create value depends on a ‘flexible, reliable and customized service’ [see point B in Figure 10 in the 2015 report]. And this is measured by the average number of shipments per order, per customer, the number of returned items and the development of an e-commerce channel. As you can imagine, it is difficult for us in the production department to avoid looking at these trends as the various collections are developing.”

As the CFO argues, “the vision, mission and values of Monnalisa are translated in one key measure, the value added, and our IR offers a detailed calculation and distribution of the *sustainable value* we create and distribute”. The statement of added value produced was generated following a revised version of the guidelines of the Italian Study Group on Company Reports. However, in developing this statement, it was decided to consider affiliated companies, subcontractors and agents as ‘recipients’ of the added value created by the company, rather than as a source of internal costs (as suggested by the Study Group). In Monnalisa’s Integrated Report, this is illustrated through a graphical (and numerical) visualization of ‘flows’ of added value, which are distributed across Monnalisa’s stakeholder map (see [Exhibit II](#)).

### Case Questions

1. What is Monnalisa’s business? How is it organized?
2. What is the relationship between Control, Creativity and Innovation? Does Control kill Creativity and Innovation in Monnalisa?
3. Identify the formal controls in place at Monnalisa using the “Action”, “Results”, “Resource” categories – assess their impact on either encouraging or stifling innovation.
4. What are the informal control mechanisms at work in Monnalisa? How does Monnalisa’s package of controls look like?
5. Prepare two balanced scorecards for Monnalisa management: (1) for Piero as Chairman of the Board of Directors, and (2) for Barbara as Director of Design. For each, limit the number of measures to 3 – 4 for each dimension of the balanced scorecard.
6. What are the potential tensions among departments generated by the competing strategic objectives within Monnalisa? How is possible to manage these tensions?
7. Prepare a Provisional Budget for the Monnalisa Girls collection for Fall/Winter 20xx using the information provided below:

MONNALISA GIRLS COLLECTION FOR FALL/WINTER 20XX					
PRODUCT TYPE					
	JACKETS	PANTS	TOPS	SKIRTS	DRESSES
UNITS	2,000	14,500	26,500	8,700	6,200
GROSS PRICE/UNIT	€ 45.00	€ 24.50	€ 18.00	€ 27.000	€ 33.00
FABRIC COST/UNIT	€ 4.30	€ 3.60	€ 2.90	€ 3.40	€ 6.30
ACCESSORIES/UNIT	€ 1.30	€ 0.90	€ 0.70	€ 1.10	€ 1.20
FAÇONISTS/UNIT	€ 13.80	€ 8.20	€ 5.40	€ 8.10	€ 10.80

Assuming the target contribution margin for all collections is 36%, what would you recommend to Monnalisa management?

8. What is “Integrated Reporting” and why it has gained so much relevance over the recent years? In which way has Monnalisa approached “Integrated Reporting”? How well does it reflect Monnalisa’s key strategic initiatives?

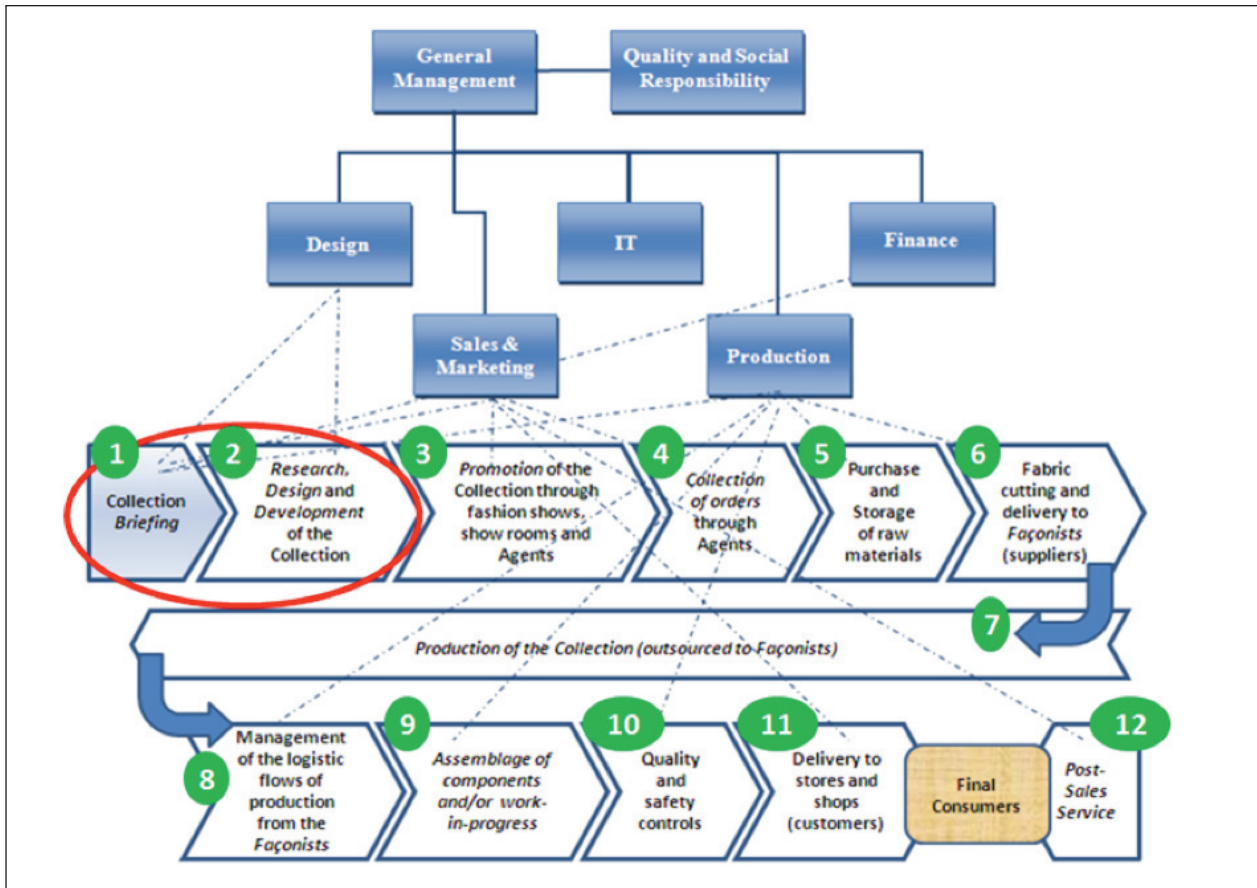


Exhibit 1 – Monnalisa’s organizational structure and value chain  
 (Source: elaborated by the authors on the basis of the information offered by the company)

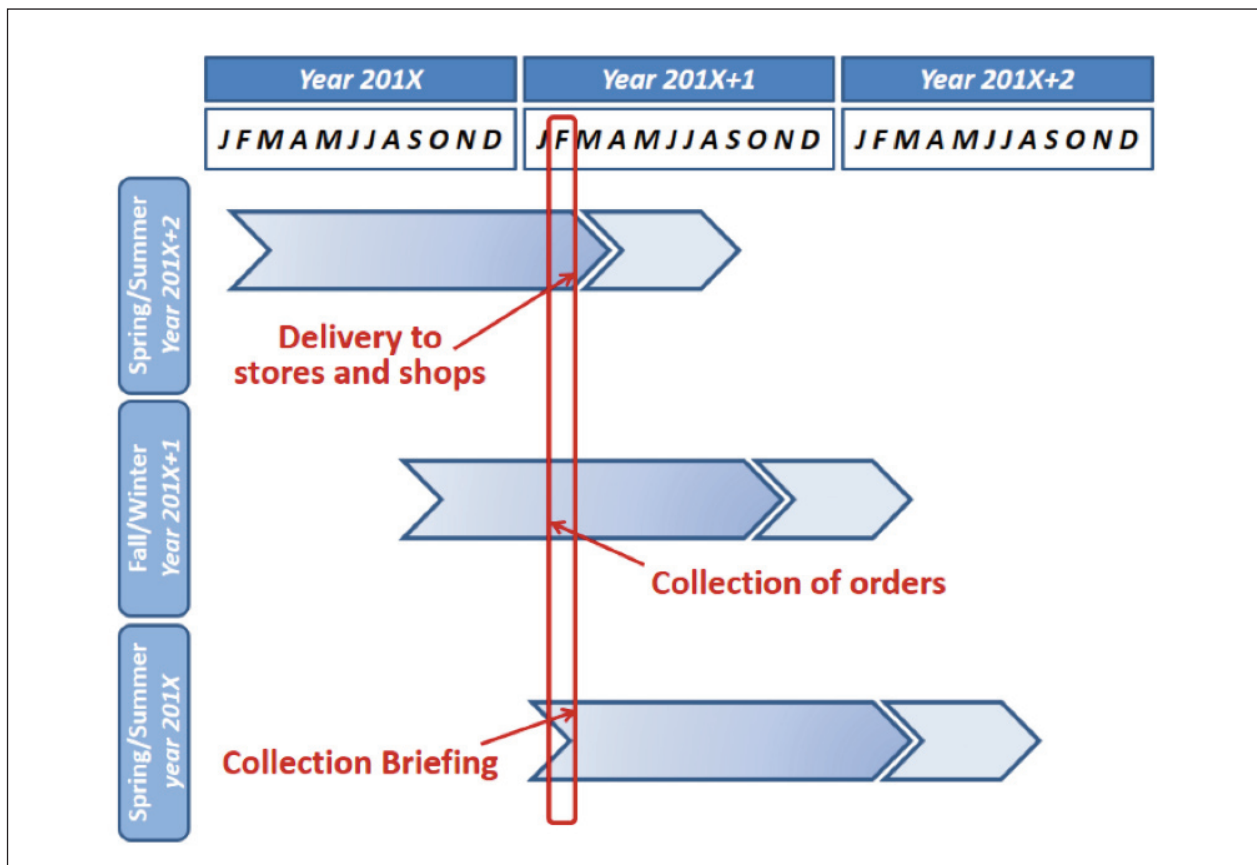


Exhibit 2 – Example of Monnalisa’s Collections time-frame  
 (Source: elaborated by the authors on the basis of the information offered by the company)



Exhibit 3 - Examples of creative style and production complexity in Monnalisa  
 (Source: elaborated by the authors on the basis of the information offered by the company)

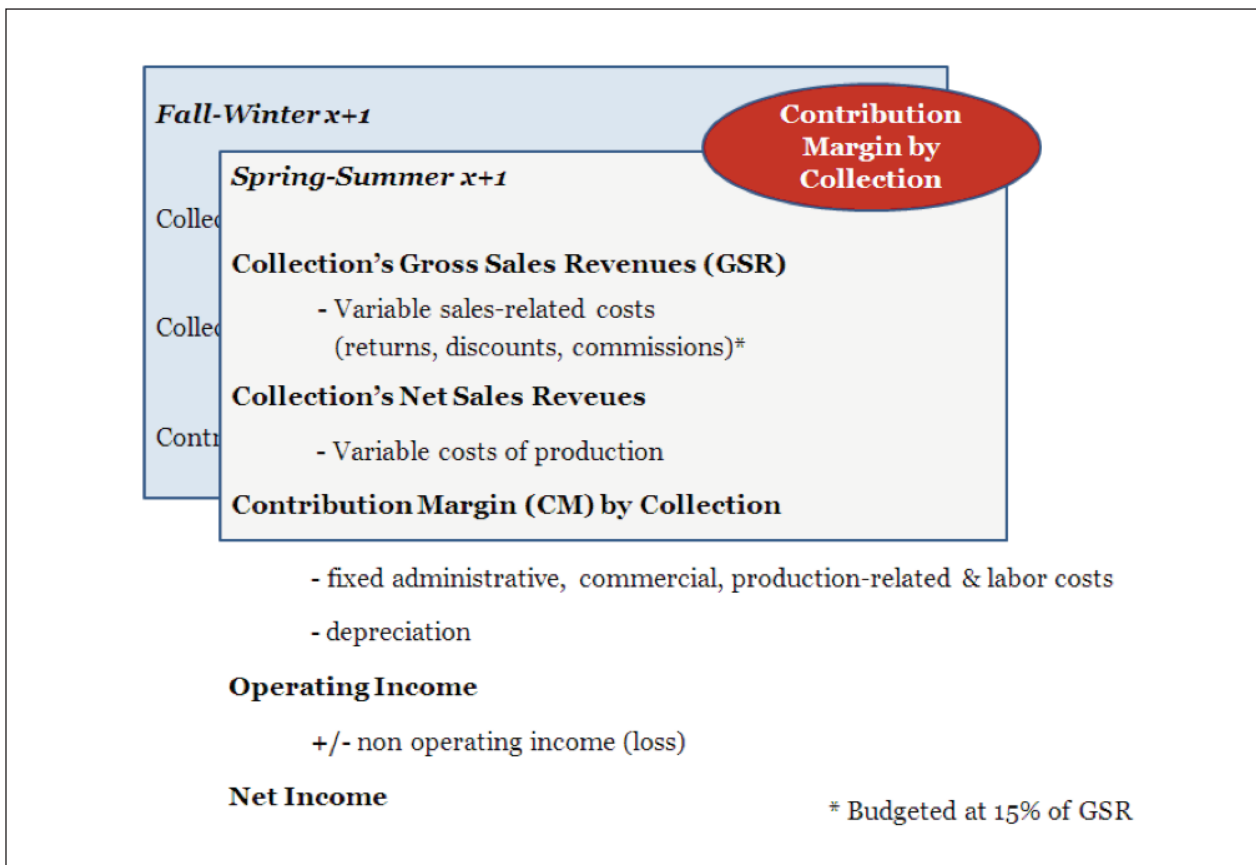
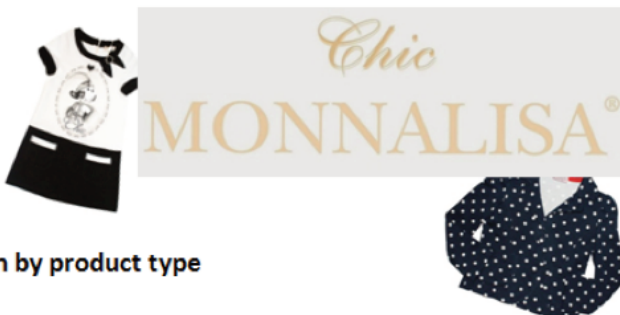


Exhibit 4 - Monnalisa's Budgeted Income Statement and Contribution Margin by Collection  
 (Source: elaborated by the authors on the basis of the information offered by the company)

**Previsional Budget**  
**Collection Spring/Summer X + 1**

**Brand - "Monnalisa Chic"**

**Provisional Budget\*: contribution margin by product type**  
(Real data have been disguised)



Product type	Units	Fabric Costs (per unit)	Accessories Costs (per unit)	Faconists (ousourced production) Costs per unit	Variable Costs of Production (per unit)	Gross Sales Rev (GSR)	CM	CM%	# of models
jackets	3.500	3,26	1,47	13,22	17,95	41,22	17,09	41,45%	7
leggings/trousers	24.600	3,12	0,60	4,73	8,45	21,15	9,53	45,05%	30
t-shirt/top	32.600	2,58	0,47	4,21	7,26	19,46	9,28	47,69%	37
dress/jumpsuit	8.900	5,19	1,04	8,09	14,32	32,30	13,14	40,67%	13
Skirt	11.200	2,90	0,98	6,72	10,60	25,14	10,77	42,84%	14
Blazer	4.400	4,45	2,37	6,94	13,76	28,80	10,72	37,22%	9
<b>TOTAL</b>	<b>85.200</b>								<b>110</b>

\* Monnalisa's budget is based on "variable sales-related costs" equal to 15% of GSR

**Exhibit 5 - Monnalisa's contribution margin by product type**  
(Source: elaborated by the authors on the basis of the information offered by the company)

Garment components (Accessories "A" + Fabric "T")			Quantity and Total Costs of a single component by size											
Componente	Unit costs			2 / 3		4 / 8		7 / 8		10 / 12				
	Divisa	Costo Unitario	UM	Qta	Importo	Qta	Importo	Qta	Importo	Qta	Importo	Qta	Importo	
A BIANCO 80/84 - 80/84 2/84	EUR	0,0128	N.	1,00	0,0128	1,00	0,0128	1,00	0,0128	1,00	0,0128	1,00	0,0128	
A BT. LAVAGGIO (A SECCO CON FERRO)	EUR	0,0080	N.	1,00	0,0080	1,00	0,0080	1,00	0,0080	1,00	0,0080	1,00	0,0080	
A BOTT.AUTOMAT.2 REC.COPERTI(UM.36)	EUR	0,4489	N.	3,00	1,3468	3,00	1,3468	3,00	1,3468	3,00	1,3468	3,00	1,3468	
A BOTT.PERSONALISSA(ARVIL.UM.43)	EUR	0,3767	N.	4,00	1,5068	4,00	1,5068	4,00	1,5068	4,00	1,5068	4,00	1,5068	
A CIVILTURA IN TESS.EL.UMS X10G-8	EUR	4,0000	N.	1,00	4,0000	1,00	4,0000	1,00	4,0000	1,00	4,0000	1,00	4,0000	
A CIVILTURA IN TESS.EL.UMS X10G-12	EUR	4,0000	N.	1,00	4,0000	1,00	4,0000	1,00	4,0000	1,00	4,0000	1,00	4,0000	
A CANTSELLINO MONNALISA MADE IN ITALY	EUR	0,2779	N.	1,00	0,2779	1,00	0,2779	1,00	0,2779	1,00	0,2779	1,00	0,2779	
A ETICHETTA CUBITEMADE IN ITALY	EUR	0,0215	N.	1,00	0,0215	1,00	0,0215	1,00	0,0215	1,00	0,0215	1,00	0,0215	
A CANTSELLINO 9/8000	EUR	0,0179	N.	1,00	0,0179	1,00	0,0179	1,00	0,0179	1,00	0,0179	1,00	0,0179	
A ETICHETTA TAGLIA 2 ANNI	EUR	0,0309	N.	0,50	0,1545									
A ETICHETTA TAGLIA 3 ANNI	EUR	0,0309	N.	0,50	0,1545									
A ETICHETTA TAGLIA 4 ANNI	EUR	0,0309	N.			0,33	0,0607							
A ETICHETTA TAGLIA 5 ANNI	EUR	0,0309	N.			0,33	0,0607							
A ETICHETTA TAGLIA 6 ANNI	EUR	0,0309	N.			0,33	0,0607							
A ETICHETTA TAGLIA 7 ANNI	EUR	0,0309	N.					0,33	0,0607					
A ETICHETTA TAGLIA 8 ANNI	EUR	0,0309	N.					0,33	0,0607					
A ETICHETTA TAGLIA 9 ANNI	EUR	0,0309	N.					0,33	0,0607					
A ETICHETTA TAGLIA 10 ANNI	EUR	0,0309	N.							0,33	0,0607			
A ETICHETTA TAGLIA 11 ANNI	EUR	0,0309	N.							0,33	0,0607			
A ETICHETTA TAGLIA 12 ANNI	EUR	0,0309	N.							0,33	0,0607			
A BLANCO MORBIDO MIL.35	EUR	0,0017	CM	111,25	0,1902	122,50	0,2083	130,00	0,2402	154,50	0,2713			
A POCOCO OPPIO GROW VILCOUR DA CUORE	EUR	1,5000	N.	1,00	1,5000	1,00	1,5000	1,00	1,5000	1,00	1,5000	1,00	1,5000	
A ETICHETTA MONNALISA MADE IN ITALY	EUR	0,0284	N.	1,00	0,0284	1,00	0,0284	1,00	0,0284	1,00	0,0284	1,00	0,0284	
A MARCO MONNALISA PER GRUCCE	EUR	0,0284	N.	1,00	0,0284	1,00	0,0284	1,00	0,0284	1,00	0,0284	1,00	0,0284	
A GRUCCE CAPCIPALLA CM.30	EUR	0,1700	N.	1,00	0,1700	0,33	0,0561							
A GRUCCE CAPCIPALLA CM.34 88-ATM	EUR	0,2070	N.			0,66	0,1366			0,33	0,0663			
A GRUCCE CAPCIPALLA MIS. 36/80 SUST	EUR	0,2749	N.					0,66	0,2414			1,00	0,2417	
A GRUCCE CAPCIPALLA CM. 35	EUR	0,2487	N.											
A BLUSA SINGONATA MIS.80-64-66-80-82-85	EUR	0,0584	N.	1,00	0,0584							1,00	0,0587	
A BLUSA SINGONATA MIS.85-64-66-100-103	EUR	0,0882	N.			1,00	0,0882	1,00	0,0882					
A BLUSA SINGONATA MIS.85-64-66-100-103	EUR	0,1189	N.								1,00		0,1189	
A BLUSA CON MINI PISP CM. - 6b	EUR	0,0389	N.	1,00	0,0389	1,00	0,0389	1,00	0,0389	1,00	0,0389			
A NASTR. RINFORZ. RINF. TO MIL.5 DF	EUR	0,0923	CM	143,75	0,0672	155,00	0,0618	169,00	0,0672	192,50	0,0726			
A NASTRO VILCOUR CM. 1,5	EUR	0,0923	CM	114,25	0,0579	124,00	0,0443	137,00	0,0621	150,00	0,0586			
A ROLINO RINF.ATO MIL.70	EUR	0,0984	CM	57,00	0,4942	58,00	0,4827	60,00	0,5007	62,00	0,5362			
A nast. Adesivo cm. 40 su 37/46 d.f.	EUR	0,0905	CM	40,00	0,3620	50,00	0,0279	53,00	0,3286	57,00	0,0215			
A NASTR. ADESIVO POLYESTER H.M.40-50M.	EUR	0,0905	CM	59,50	0,2558	65,00	0,0371	65,00	0,2596	67,25	0,0425			
A NASTRO GROSSGRAIN H. CM. 3,7 (DMA)	EUR	0,0229	CM	61,00	0,2590	65,00	0,2423	69,00	0,2814	70,00	0,2911			
A NASTRO GROSSGRAIN H. CM. 3,7 (DMA)	EUR	0,0221	CM	60,00	0,1373	60,00	0,1273	60,00	0,1273	60,00	0,1273			
<b>CCOFO Accessori</b>				<b>Total cost of Accessories ("A") by size</b>	<b>2 / 3 years</b>	<b>4 / 8 years</b>	<b>7 / 8 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	
T Velour	EUR	0,1277	CM	19,00	2,0447	19,00	2,0447	19,00	2,0447	19,00	2,0447	19,00	2,0447	
T Federezano	EUR	0,0279	CM	3,00	0,0838	3,00	0,0838	3,00	0,0838	3,00	0,0838	3,00	0,0838	
T Velour	EUR	0,1277	CM	2,00	0,2555	2,00	0,2555	2,00	0,2555	2,00	0,2555	2,00	0,2555	
T Velour	EUR	0,0417	CM	104,50	4,3677	125,33	5,2384	154,18	6,4454	196,25	7,7971			
T Federezano	EUR	0,0279	CM	67,50	1,8692	85,00	2,3594	102,33	2,8998	128,00	3,5385			
T Adesivo cap.papila	EUR	0,0944	CM	10,18	0,9458	11,89	0,0824	14,27	0,9681	17,49	0,0799			
<b>CCOFO Tessuti</b>				<b>Total cost of Fabric ("T") by size</b>	<b>2 / 3 years</b>	<b>4 / 8 years</b>	<b>7 / 8 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	<b>10 / 12 years</b>	
<b>CCOFO MATERIALE</b>				<b>Total Material Costs by size</b>	<b>19,4965</b>	<b>19,6027</b>	<b>22,1764</b>	<b>24,2345</b>	<b>24,2345</b>	<b>24,2345</b>	<b>24,2345</b>	<b>24,2345</b>	<b>24,2345</b>	

Exhibit 6 – Cost Card (direct material: accessories and fabric costs) by product type and size  
(Source: elaborated by the authors on the basis of the information offered by the company)



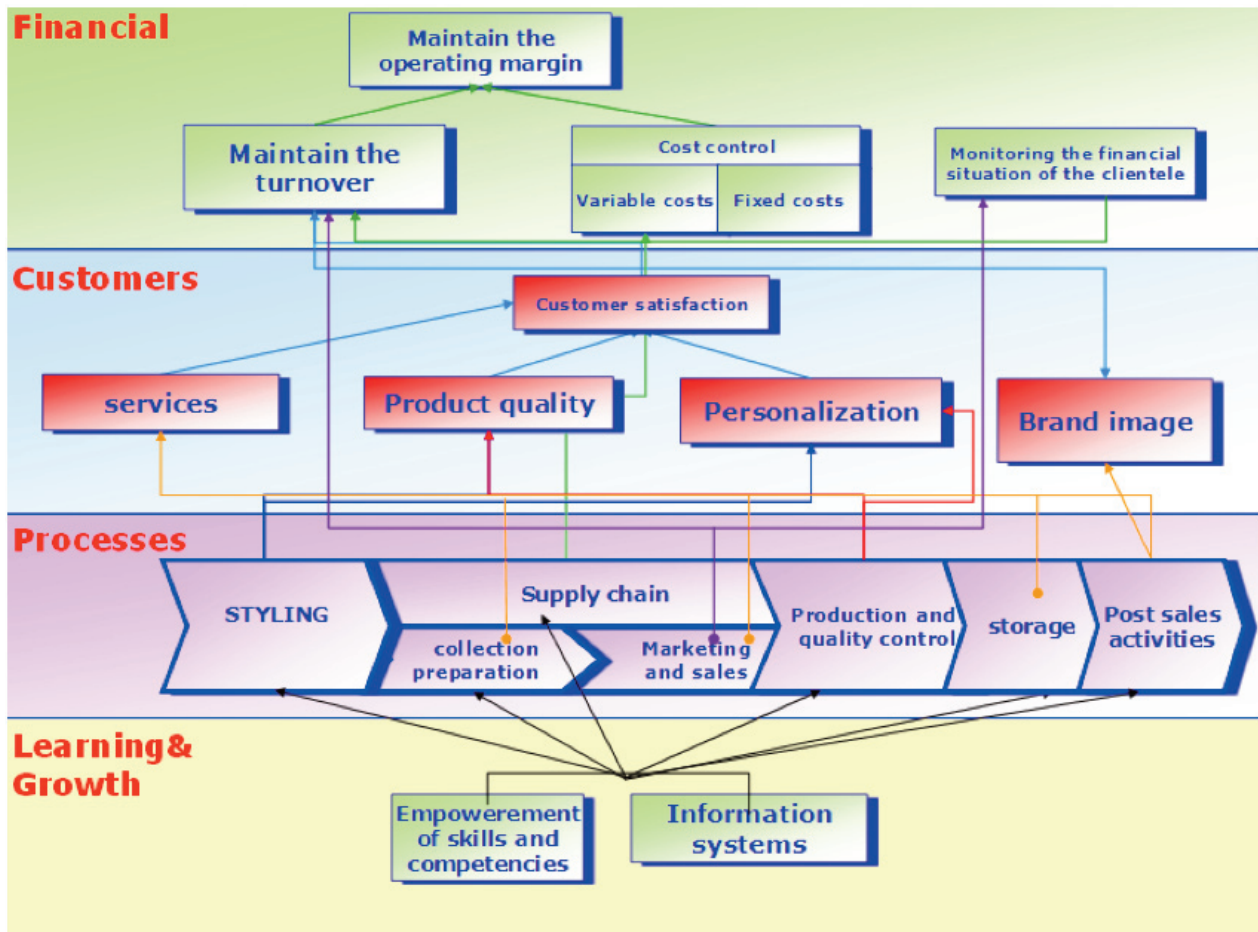


Exhibit 7: Monnalisa's 2004 Strategy Map  
 (Source: company's own document provided to the authors)

KEY FACTOR	KEY FACTOR (SECOND LEVEL)	PERFORMANCE INDICATOR
TRAINING	TRAINING INVESTMENT	- TRAINING INVESTMENT <i>PER-EMPLOYEE</i> - TRAINING INVESTMENT/TOTAL REVENUES
	SPECIALIZED TRAINING	- # OF TRAINED EMPLOYEES - # OF TRAINING SESSIONS
ATTRACTIVENESS	OPENING TO NEW RESOURCES	- # OF NEW EMPLOYEES YOUNGER THAN 30
INTERNAL CLIMATE	EMPLOYEES SATISFACTION	- % OF EMPLOYEES WHO CONSIDER THE SYSTEM OF PERFORMANCE MEASUREMENT USEFUL
PROFESSIONALIZATION	VARIETY OF SKILLS	- # OF EMPLOYEES WHO HAVE ACCOMPLISHED DIFFERENT TASKS WITHIN THE COMPANY
VISIBILITY	NEW CUSTOMERS	- # OF VISITORS TO THE STAND AT FASHION WEEKS
	BRAND	- # OF COUNTRIES WHERE THE BRAND IS REGISTERED
RELIABILITY	SHIPMENTS QUALITY	# OF SHIPMENTS BY ORDER
	POST-SALES SERVICE	# OF EMPLOYEES IN THE MARKETING DEPARTMENT DEVOTED TO POST-SALES ACTIVITIES
TECHNOLOGIES DEVELOPMENT	E-COMMERCE	# WEB-ORDERS
CREATIVITY	TURNOVER OF THE STYLISTS	AVERAGE AGE OF THE STYLISTS
	DESIGN R&D	DESIGN R&D INVESTMENT/TOTAL REVENUE

**Exhibit 8 – A sample of KPIs Used to Monitor the Intellectual Capital in Monnalisa**

(Source: company’s own document provided to the authors)

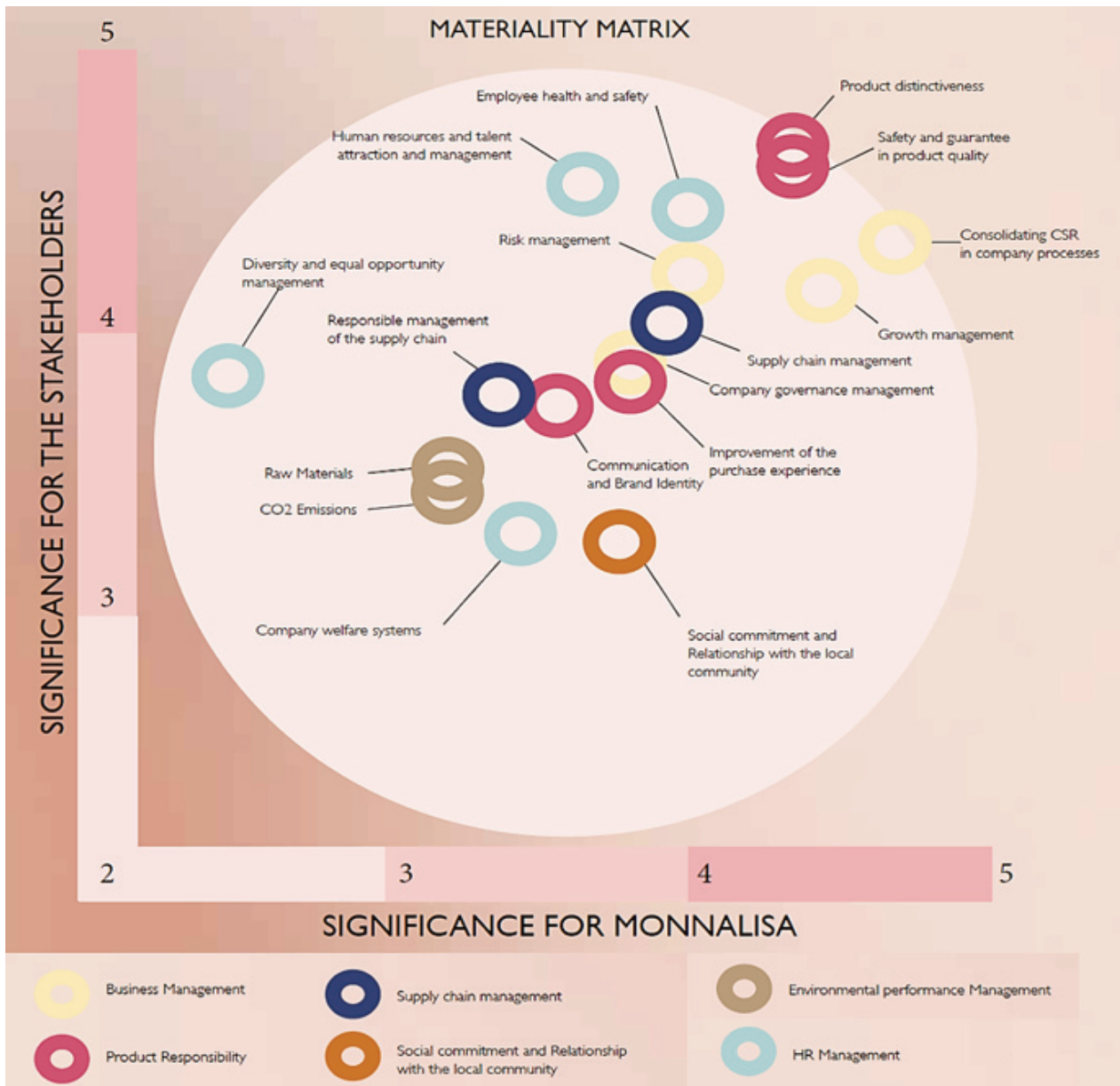


Exhibit 9: Monnalisa's Materiality Matrix  
 (Source: Annual Integrated Report 2015, p.8)

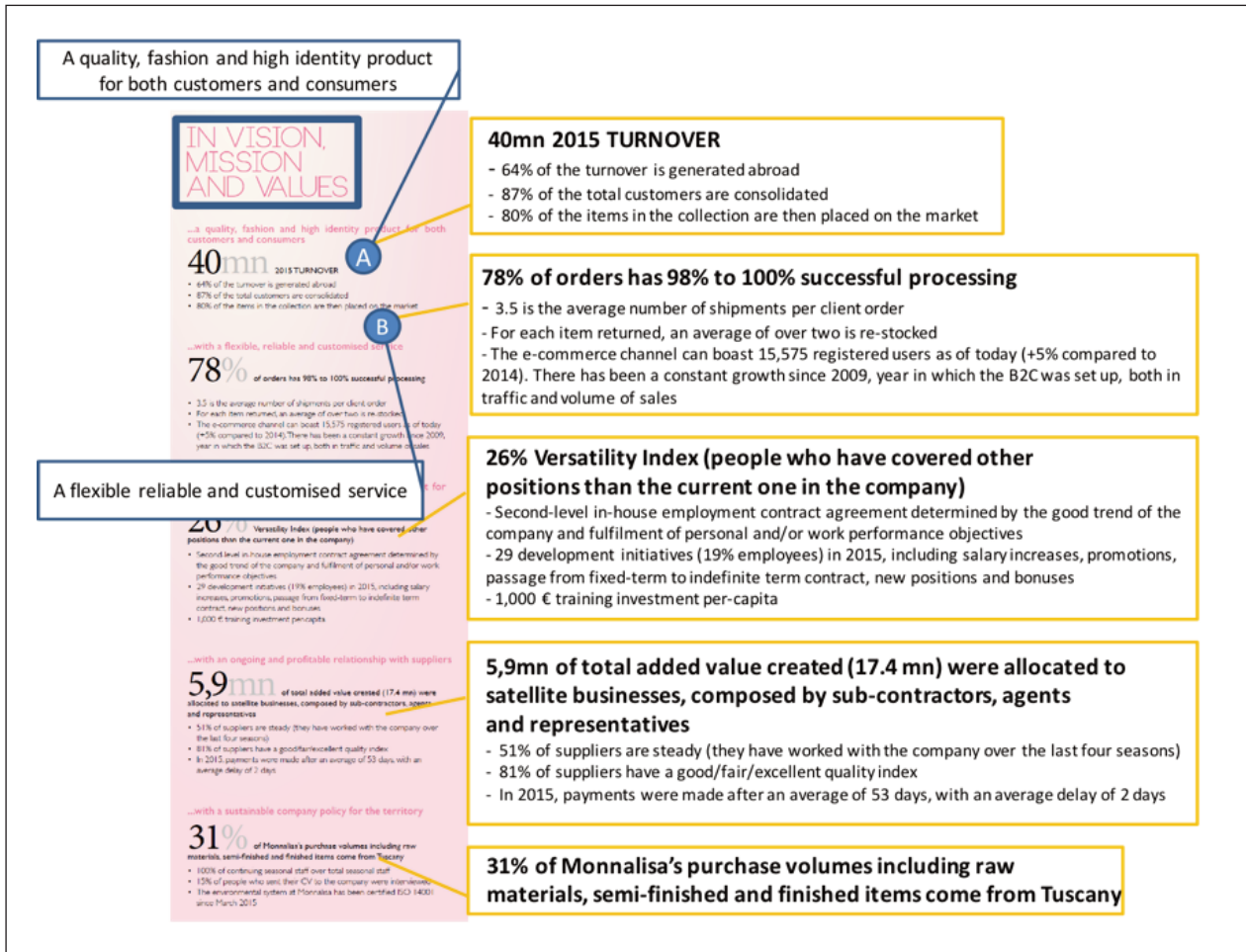


Exhibit 10: Monnalisa's vision, mission and values textually and graphically articulated (Monnalisa Annual Integrated Report, 2015: p.14)

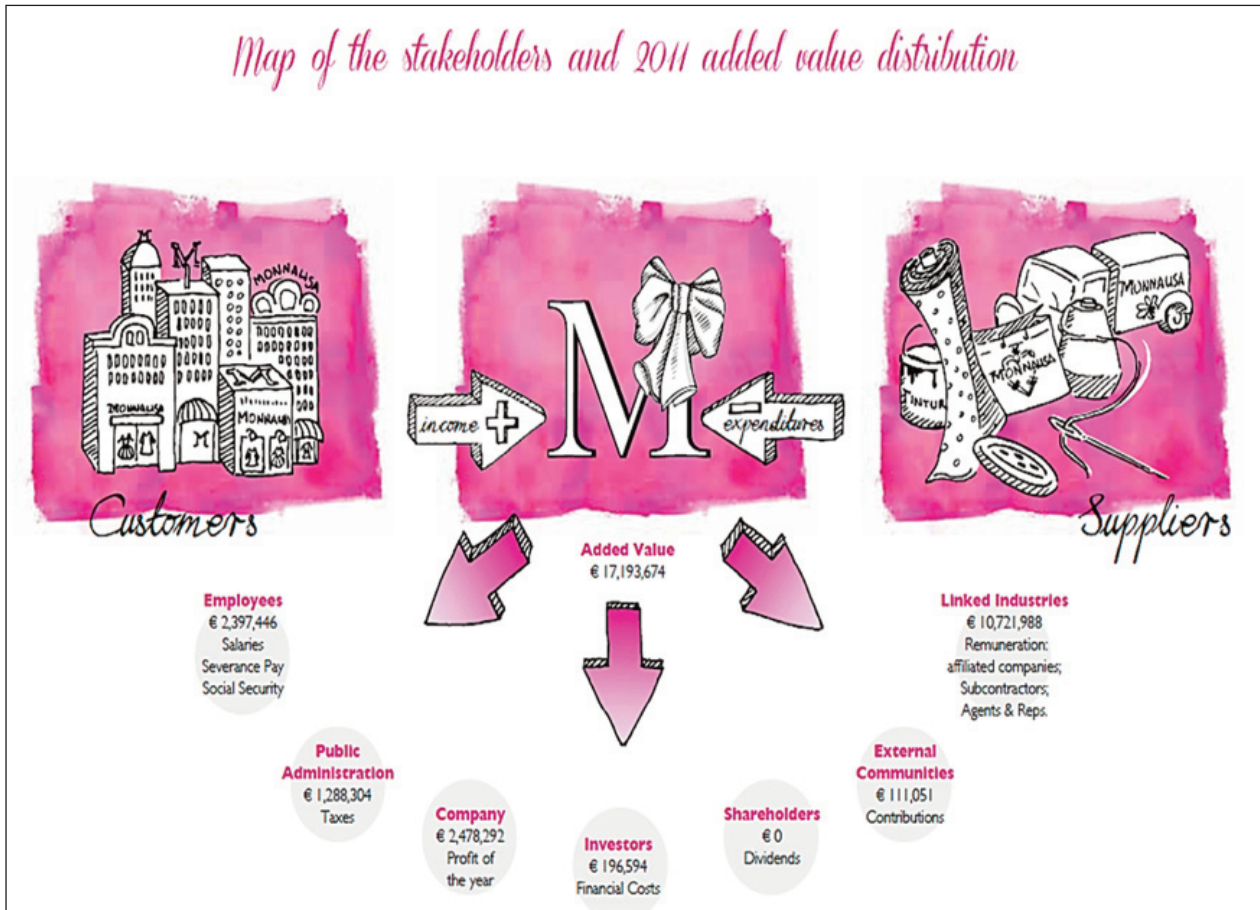


Exhibit II: Monnalisa's representation of the added value distribution among stakeholders (Monnalisa Annual Integrated Report, 2011: p. 27)

## Appendix A - Monnalisa Financial Summary 2008 - 2016

Income Statement (Euro Thousands)	2008	2009	2010	2011	2012	2013	2014	2015	2016
			Note 1		Note 2		Note 3		
Turnover (Revenue)	29.718	30.623	36.558	41.518	37.964	38.849	38.681	39.601	39.495
Internal Production	792	(516)	875	877	402	934	1.501	228	396
Production Value	30.510	30.107	37.433	42.395	38.366	39.783	40.182	39.829	39.891
Cost of Sales	26.422	26.458	31.339	37.146	34.033	34.275	33.412	34.308	35.223
Gross Operating Margin	4.088	3.649	6.094	5.249	4.333	5.508	6.770	5.521	4.668
Depreciation & Provisions	547	724	877	976	1.345	1.343	1.139	1.967	1.445
Operating Results	3.541	2.925	5.217	4.273	2.988	4.165	5.631	3.554	3.223
Other Adjustments + Income Taxes	1.213	774	1.511	1.795	1.479	2.360	2.412	658	727
Net Result	2.328	2.151	3.706	2.478	1.509	1.805	3.219	2.896	2.496
Balance Sheet (Euro Thousands)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fixed Assets	6.152	7.282	6.956	9.056	9.420	8.858	8.824	11.356	19.712
Short Term Current Assets	16.589	19.290	23.837	27.489	25.923	26.109	30.534	30.364	31.869
Invested Capital (Total Assets)	22.741	26.572	30.793	36.545	35.343	34.967	39.358	41.720	51.581
Equity	11.801	13.730	17.232	19.358	20.584	22.246	25.464	27.010	28.016
Non Current Liabilities	1.254	990	1.013	1.222	1.444	1.402	2.214	3.795	3.034
Current Liabilities	9.686	11.852	12.548	15.965	13.315	11.319	11.680	10.915	20.531
Financing Capital (Liabilities + Equity)	22.741	26.572	30.793	36.545	35.343	34.967	39.358	41.720	51.581
Gross Operating Margin/Revenue	13,8%	11,9%	16,7%	12,6%	11,4%	14,2%	17,5%	13,9%	11,8%
Return on Assets (Oper. Results/Inv. Capital)	15,6%	11,0%	16,9%	11,7%	8,5%	11,9%	14,3%	8,5%	6,2%
Return on Equity (Net Result/Equity)	19,7%	15,7%	21,5%	12,8%	7,3%	8,1%	12,6%	10,7%	8,9%
Return on Sales (Oper. Results/Revenue)	11,9%	9,6%	14,3%	10,3%	7,9%	10,7%	14,6%	9,0%	8,2%
Asset Turnover	1,31	1,15	1,19	1,14	1,07	1,11	0,98	0,95	0,77

### Notes to Appendix A - Monnalisa Financial Summary 2008 - 2016

**Note 1:** Piero retires February 2010

**Note 2:** From the 2012 Annual Report, p. 19 “2012 was a troubled year at a world level for children's garment market, worsened by Italy's poor conditions of the distribution sector. Therefore Monnalisa's turnover has decreased by 8.5%, even though it is higher than the level before 2011 and has suffered a lower decrease compared to that of its main competitors.”

**Note 3:** From 2014 Annual Report, p. 20 “2014 was a positive year for Monnalisa. While noticeably consolidating its turnover, it marked a significant increase in earnings with a 70+% growth in Gross Result compared to the previous year.”