

# Chapter 53

## Managerial Tools and Techniques for Decision Making

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### **ABSTRACT**

*The main aim of this chapter is to explain what are considered managerial tools and techniques for decision making in the area of management accounting and how they developed and evolved over the time. This chapter is intended to help us document the innovation, evolution, and the adoption of a variety of relatively new management accounting techniques and practices in organizations. The chapter also looks at primary tasks/services performed by managerial techniques and tools to capture a wider range of techniques/tools that contribute to the conduction of managerial tasks/services but may not be listed as managerial tools in the literature.*

### **INTRODUCTION**

The main aim of this chapter is to explain what considered as managerial tools and techniques for decision making in the area of management accounting and how they developed and evolved over the time. This chapter is intended to help us document the innovation, evolution and the adoption of a variety of relatively new management accounting techniques and practices in organisations. The chapter also looks at primary tasks/services performed by managerial techniques and tools to capture a wider range of techniques/tools that contribute to the conduction of managerial tasks/services but may not be listed as managerial tools in the literature. In doing so, the article first reviews the introduction of management accounting techniques of the past few decades in the literature and then investigates their implementations in practice. Exploring the levels of organizational satisfactions with adopted management accounting innovations in practice, the article finally discusses the level of associations between the adoption of management accounting innovations and organisational satisfaction

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## **BACKGROUND**

There is no universal consensus on what techniques constitute management accounting practice and innovations (Cadez & Guilding, 2008). It is argued that many management accounting techniques are drawn from other disciplines such as engineering and economics (Miller, 1998; Miller, Kurunmäkii, & O’Leary, 2008). According to Miller, et al. (2008), practices such as standard costing, discounted cash flow (DCF), break-even analysis, and much more have been drawn from disciplines other than accounting and then adapted, and constituted as the core of accounting. Contributing to our understanding of what techniques constitute management accounting practices and innovations, this chapter reviews the most prevalent management accounting changes introduced in the literature over the past 70 years. It then examines the adoption and diffusion of latest management accounting innovations in organisations. And finally, the chapter discusses the levels of association between organizational satisfactions and adopted management accounting innovations in practice.

## **MANAGEMENT ACCOUNTING INNOVATIONS**

We may refer to relatively new managerial techniques (introduced over the past three decades) as ‘innovation’ in this chapter. Rogers (2003) defines innovation as an idea, practice, or object that is perceived as new by an individual or another unit of adoption. Further, he suggests that if the individual has no perceived knowledge about an idea and sees it as new, it is an innovation. Likewise, Damanpour and Gopalakrishnan (1998) define innovation as the adoption of an idea or behaviour new to the organisation. The common criterion in any definition of innovation is newness. According to Rogers (2003), newness in an innovation might be expressed not only in terms of new knowledge, but also in terms of the first persuasion, or decision to adopt. Wolfe (1994) explains the diffusion of innovation as a way the new ideas are accepted (or not) by those to whom they are relevant. Rogers (2003) extends this definition to consider diffusion as a process by which an innovation is communicated through certain channels among the members of a social system. In line with above definitions, we may refer to the process of the evolution and the adoption of relatively newer managerial techniques as ‘diffusion’ in this chapter.

## **LITERATURE REVIEW**

Johnson and Kaplan (1987, p.12) claim that most of current managerial techniques have been developed during the nineteenth century and the first quarter of the twentieth century. They list the most popular techniques and practices developed by 1925 as follows: cost accounts for labour, material, and overhead; budgets for cash, income, and capital; flexible budgets, sales forecasts, standard costs, variance analysis, transfer prices, and divisional performance measures. According to Chandler (1977), management accounting systems (MAS) first appeared in the United States during the nineteenth century. Johnson & Kaplan (1987) reported that before World War I, the Du Pont Company was using almost all of the management accounting procedures for planning and controlling purposes, known until the 1980s. As with the USA, according to Fleischman & Tyson (2006), the use of cost accounting information was first used in a managerial and purposeful fashion in the New England textile industry in the UK during the

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