Property rights, regulation, and government involvement are present throughout *The Origins of Value* but, disappointingly, are never directly addressed as essential elements of the origin of value and financial innovation. Without a well-defined legal structure to enforce conduct, history would show a less impressive record of efficiency in payment of interest and contracting of future outcomes. Comparative economics suggests that well-developed capital markets are no accident; they are tightly bound to systems of laws and cultural values. For example, the Roman invention of stock shares was lost with changes in government. The editors discuss issues of path dependency and accidents in innovation but do not fully explore the legal environment that appears vital to progress in financial methods.

A further shortcoming of *The Origins of Value* is its limited investigation of the catalysts for innovation—namely, trade and the need for capital. The cradles of finance, both the Italian city-states and Amsterdam, were outgrowths of trade. What enabled trade to flourish, notwithstanding the supreme status of gold throughout the world, was the acceptance of paper money. How did this happen? The book details the development of paper money in China, where it arose in connection with the Silk Road trade, but not in other parts of the world. There are other regrettable omissions, especially in the areas of banking, insurance, and the simple concept of trust.

On the positive side, several articles on China provide a valuable cross-cultural perspective that is lacking in most discussions of financial history. In addition, the editors' selection of illustrative historical incidents is astute. Unfortunately, the contributors vary widely in the quality of their writing and some fail to establish a connection with the overarching themes discussed in the introduction. Overall coherence might have been better served by organizing the book thematically rather than chronologically.

Aside from the introduction, *The Origins of Value* conveys little of the passion that has been a hallmark of the best books on science and innovation. Too often, a dry focus on the facts leaves the reader without a sense of the competitive struggles that forced modern finance to grapple with issues of risk and uncertainty.[1] Readers who expect from the contributors a flair for storytelling together with the erudition will be disappointed.

Any book that attempts to cover such a vast historical range will necessarily emphasize particular topics and, as a consequence, generate controversy. Gaps will necessarily arise as a function of the selective research interests of the authors. We hope these editors will continue to study financial history and further address some of the issues that get short shrift in the present work.

Nevertheless, given the wealth of possible topics, the very fact that this book will cause controversy makes it useful. Like a good work of art, *The Origins of Value* gives rise to strong opinions. That trait alone may make it worth the price.

—M.S.R.

Notes

1. For example, Sidney Homer and Richard Sylla's *A History of Interest Rates* (John Wiley and Sons, 4th edition, 2005) has a more interesting discussion of the time value of money. Peter Bernstein better captures the excitement of finance through *Against the Gods* (John Wiley and Sons, 2nd edition, 1998) and *The Power of Gold* (John Wiley and Sons, 2000), which directly address the problems of uncertain futures. These books are very accessible, and they display a sense of historical conflict as the cause of change, which may explain their popularity.

***Outperform with Expectations-Based Management: A State-of-the-Art Approach to Creating and Enhancing Shareholder Value.* 2005. By Tom Copeland and Aaron Dolgoff. John Wiley & Sons, Inc., +1 (201) 748-6011, www.wiley.com. 358 pages, $29.95.**

Reviewed by Mark S. Rzepczynski.

This unique book provides practical advice on how to incorporate expectations into the corporation's decision processes to enhance shareholder value. Surprisingly, the literature on investment management pays little attention to shareholder value from the perspective of the relationship between corporate managers' behavior and investors' expectations. Similarly, corporate finance research often sidesteps the issue of how management actions affect investor expectations and stock price discovery.

Anyone dealing with Wall Street understands that beating expectations drives shareholder value. Even so, embedding this message in corporate managers' behavior is difficult. Incorporating expectations into fundamental management

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behavior, beyond guidance on quarterly earnings, is particularly problematic because it requires corporate managers to adopt an unaccustomed mindset and focus.

Although, integrating investor expectations with management behavior is a tall order, the authors of *Outperform with Expectations-Based Management: A State-of-the-Art Approach to Creating and Enhancing Shareholder Value* prove more than up to the challenge. Tom Copeland is a distinguished financial scholar who has moved to consulting, and Aaron Dolgoff is an associate principal of consulting firm CRA International. Their premise in this book is that managing based on beating expectations through a systematic decision process is the best way to increase shareholder value.

Copeland and Dolgoff divide the book into three major parts:

1. measuring performance with expectations,
2. managerial implications of expectations-based performance, and
3. the expectations-based model from viewpoints other than management's.

The first section of the book examines the validity of expectations-based management (EBM) through the simple test of determining which management approach is most correlated with increases in shareholder value. The authors test several well-known value-creation alternatives—top-line growth, earnings (bottom-line growth), the top-line and bottom-line growth combination, return on investment capital, and the spread between return on capital and the cost of capital. None of these can explain variance in shareholder return as well as the expectations-based approach. This powerful research was previously published in a leading accounting journal, but the authors have expanded it here to provide clear descriptions of the alternative approaches.

EBM's underlying intuition is almost too simple: To create value, managers must beat the expectations embedded in stock prices. Merely achieving what analysts already predict about the company will not create value. The challenge is determining how EBM can be incorporated into everyday operating behavior.

In the second main section of the book, the authors argue that expectations count. This claim is backed by clear research and good examples of how expectations can be incorporated into decisions. The corporate manager's job is to identify investors' most important expectations and systematically include them in all aspects of company behavior. Copeland and Dolgoff argue that EBM is not a simple lesson but a way of thinking that must be translated into action throughout the company.

For example, the authors explain how a company should evaluate a new investment proposal. The projected return on investment must exceed not only the cost of capital but also investors' expectations for returns on existing projects. This section of the book contains a helpful discussion of the relevance of weighted average cost of capital and the need to adjust it to incorporate expectations. All budget processes, say the authors, need to be consistent with the EBM approach.

Copeland and Dolgoff argue that managers need to reverse-engineer the value of the company to determine what the market thinks returns should be. The market's expected return is the hurdle rate that must be met, not for a given quarter but over multiple periods. The stock price and analysts' views signal the market's expectations. Management has to send a signal indicating what the company is doing to match or exceed expectations—not in a given quarter but from a longer-term perspective. Clarifying a company's actions to exceed market expectations is the key role of management.

A chapter on investor relations explains how to reduce noise in signaling what is happening inside the company. The authors also contend that expectations can become truly operational only if a clear set of incentives motivates all managers. Top management has to be driven to beat expectations, rather than rewarded for rising stock prices that merely reflect a general market increase.

The third section, which deals with other points of view, further examines investor relations from the investor's perspective. This section also contains a discussion of public policy issues associated with the information that investors receive about the company's behavior. The book ends with a persuasive summary argument for the authors' approach.

Copeland and Dolgoff follow the consulting profession's time-honored custom of writing about their key strategic theories. The result, however, is much more than marketing material for new business. Their book offers a well-reasoned framework for embedding expectations in the budget and management process. In addition, it is refreshingly free of consulting platitudes. The authors make a compelling case, which they present in a clear and forceful manner.

In summary, *Outperform with Expectations-Based Management* is a practical handbook for managers who have a solid grounding in the paradigm of rational expectations and efficiency as well as the basics of corporate finance. At the same time, it is a highly useful book for investment analysts. It provides clarity for managers on using expectations and gives investment analysts a framework for evaluating the actions of management.

—M.S.R.