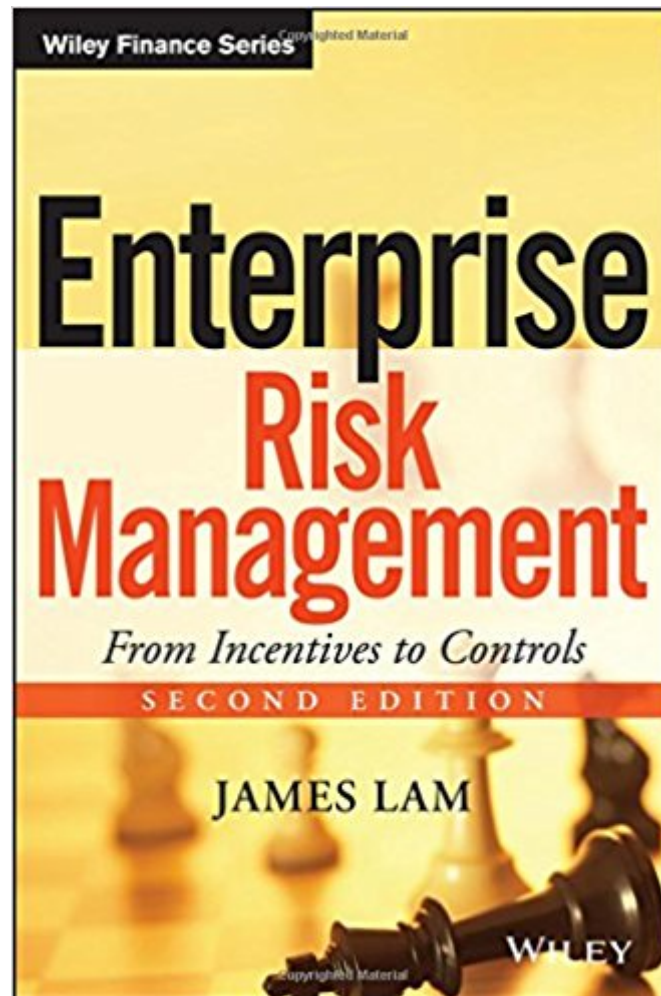




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# Enterprise Risk Management: From Incentives To Controls



## Synopsis

A fully revised second edition focused on the best practices of enterprise risk management Since the first edition of *Enterprise Risk Management: From Incentives to Controls* was published a decade ago, much has changed in the worlds of business and finance. That's why James Lam has returned with a new edition of this essential guide. Written to reflect today's dynamic market conditions, the Second Edition of *Enterprise Risk Management: From Incentives to Controls* clearly puts this discipline in perspective. Engaging and informative, it skillfully examines both the art as well as the science of effective enterprise risk management practices. Along the way, it addresses the key concepts, processes, and tools underlying risk management, and lays out clear strategies to manage what is often a highly complex issue. Offers in-depth insights, practical advice, and real-world case studies that explore the various aspects of ERM Based on risk management expert James Lam's thirty years of experience in this field Discusses how a company should strive for balance between risk and return Failure to properly manage risk continues to plague corporations around the world. Don't let it hurt your organization. Pick up the Second Edition of *Enterprise Risk Management: From Incentives to Controls* and learn how to meet the enterprise-wide risk management challenge head on, and succeed.

## Book Information

Hardcover: 496 pages

Publisher: Wiley; 2 edition (February 18, 2014)

Language: English

ISBN-10: 111841361X

ISBN-13: 978-1118413616

Product Dimensions: 6.4 x 1.5 x 9.3 inches

Shipping Weight: 1.6 pounds (View shipping rates and policies)

Average Customer Review: 5.0 out of 5 stars 14 customer reviews

Best Sellers Rank: #98,176 in Books (See Top 100 in Books) #30 in [Books > Business & Money > Insurance > Risk Management](#) #210 in [Books > Textbooks > Business & Finance > Finance](#) #235 in [Books > Business & Money > Finance > Corporate Finance](#)

## Customer Reviews

Successful risk management requires balance—of risk and reward, controls and culture, art and science. In the fully revised and updated *Enterprise Risk Management: From Incentives to Controls*, Second Edition, James Lam leads you on a thorough exploration of ERM from the unique

perspective of one of the world's foremost authorities on risk and business management. With an abundance of first-hand experience, Mr. Lam provides practical guidance from his work as a chief risk officer, a trusted board advisor and management consultant, and a public company director. Throughout the book, he provides case studies and real-world examples—every aspect of risk management is distilled and discussed—from the perspective of highly effective and proven corporate leadership. Business executives and risk management professionals are tasked with identifying and taking intelligent risks. In this book, Mr. Lam explains how an over-reliance on quantitative risk measurement has directly contributed to some of the high-profile risk management failures of recent years. Most risk models are simply incapable of accurately predicting the complex scenarios that could lead to financial disaster, which is why *Enterprise Risk Management: From Incentives to Controls, Second Edition* posits that your company's risk profile—and ultimately the success or failure of its risk management strategy—is driven by the decisions and actions of its leadership and employees. Based on direct experience with more than 50 ERM programs, Mr. Lam explains how to establish best practices and overcome common barriers. In this updated Second Edition, a new section dedicated entirely to ERM Implementation articulates the importance of effective board risk oversight, risk assessment, risk-based decision making, and risk dashboard reporting in a way that is accessible for board members, business executives, risk professionals as well as their employees and stakeholders. *Enterprise Risk Management: From Incentives to Controls, Second Edition* takes you far beyond quantitative risk measurement and predictive modeling to a comprehensive understanding of how to build and nurture a corporate culture that encourages successful enterprise risk management.

Praise for *Enterprise Risk Management, Second Edition* —“The concept that it takes a lifetime to build a company but that it takes moments to destroy it is a very valuable mantra for business leaders. The impact of the recent financial crisis brought that perspective into sharp and, for some, painful relief. Companies, however, need to innovate and grow and to take appropriate risks to do so. The joy of James Lam's new book is that it recognizes the need for innovation and growth but also acknowledges in a very practical way the role of the ever-evolving risk framework around that growth. The book offers a credible and implementable nexus between growth and risk control, and as such, will be a highly valued tool for boards and management everywhere.” —Rodger A. Lawson, Chairman of the Board of Directors, E\*TRADE Financial, Member of the Board of Directors, UnitedHealth Group, Retired President, Fidelity Investments —“All too often, organizations focus on the process of risk management at the expense of incorporating risk

management principles into the governance, leadership, and management of their enterprises. James Lam is a long-time leader in risk management and his substantial experience has enabled him to produce a comprehensive and practical guide for anyone committed to creating an organization capable of effectively evaluating risks versus returns.

•Matthew R. Feldman, President and Chief Executive Officer, Federal Home Loan Bank of Chicago

“A key success factor in any ERM program is practical and effective implementation. In order to provide sustainable, long-term enterprise value, risk management must be integrated into an organization’s governance model, business analytics, strategic and tactical decisions, and dashboard reporting. Based on his hands-on experience, James Lam has very clearly outlined and articulated the best practices and implementation requirements for ERM. I highly recommend this book to anyone who is engaged in ERM oversight and implementation.”

•Paymon Aliabadi, Executive Vice President and Chief Risk Officer, Exelon Corporation

When the first edition of *Enterprise Risk Management; from Incentives to Controls* appeared in 2003, it seemed as if the business world - at least in the U.S. - was in disarray. The bankruptcy of Enron in 2001, the collapse of WorldCom in 2002, the shutdown of Arthur Anderson - the auditor of both companies - and the arrests of the senior management of Tyco were resonating in the marketplace. Risk management, previously something that might have been considered an accounting specialty, now demanded the attention of senior managers and their corporate boards. It had gotten to the point that even if board members and management might have been inclined to continue to hand off their risk-oversight responsibilities, the Sarbanes Oxley Act of 2002 wasn’t going to let them; and their outside auditors, the ones surviving after the vaporization of Arthur Andersen, were insisting that management take accountability so that no more scandals would crop up on their watches. Management was facing a risk-management learning curve and they needed guidance if they were to begin to make informed risk decisions across their organizations. It was into this environment that James Lam published his book, *Enterprise Risk Management; from Incentives to Controls* and it was a business best seller. It introduced the background and concepts that were wanting for most managers and the boards they answered to. In his book, Lam gave risk a business context, advanced a risk-management framework applied to business and then drilled down into the three principal forms of business risk: credit risk, market risk, and operational risk - all the while supporting his approach with references to real-life examples and case studies. Among the many valuable insights the author delivered in that first edition was the concept

of the risk portfolio in which risks are treated like investments or assets. He showed how a portfolio of risks can recast the perspective and thus the approaches available to management. Grouped into a portfolio, some risks will likely offset each other and minimize aggregate risk, while others will correlate and amplify aggregate risk, and still others will offer opportunities for increased return on investment. The message was simple. Risks can be managed. And further, not all risks are bad because, in business, without risk there is no reward. In the second edition of his book, James Lam has built on the first edition starting with an expanded index, a bibliography, and an entirely new section, "ERM Implementation". In the new section he addresses the practical implications of establishing an ERM program, from implementation to management to decision making to reporting, and includes a Risk Assessment Self-Evaluation List to help direct the effort. The new section rounds out the ERM story. Now all the most compelling questions, what should we do and how should we do it, are addressed in a single volume. But there are numerous other updates in this second edition to consider as well. They include the expansion of chapters, notably those on Line Management, Stakeholder Management, and Operational Risk Management, and the addition of new case studies including Ford and Airbus and Boeing. Furthermore, I can't think of anywhere else you will find a better explanation of risk appetite, a term frequently employed by ERM practitioners but rarely if ever adequately explained. And that is not to overlook the inclusion of one of the best explanatory definitions of risk and enterprise risk management that you will find (see page 53). To my mind, "Enterprise Risk Management; from Incentives to Controls" remains the single best source of information for managers on every level and for board members contemplating risk management on an enterprise-wide scale. Up until the 21st century, risk might have been left to the finance department or managed heuristically, but the collapse in 2001 and 2002 of high-profile businesses that stood at the time for a new age of innovation led to demands for new accountability. The first edition of James Lam's book arrived with impeccable timing and helped to lay the groundwork for risk management as a business practice, and the second edition has improved on the first. It is not a theoretical book. With its timely updates and additions and a new section on implementation, this book has made risk and risk management something that can be assimilated and practiced in any business in any industry worldwide.

This is a must read for anyone who is either in the risk management profession or intends to learn the state of the art of enterprise risk management. Personally, I own both the 1st Edition (released in 2003) and this updated 2nd Edition. As a risk management executive in the finance industry with

10+ years of experience, I truly appreciate the accessibility, depth, and comprehensiveness of this book. James Lam is the renowned first ever Chief Risk Officer and a visionary leader in the industry. After reading the book several times, I really appreciate the insightfulness and the wisdom distilled from life-long experiences of one of the best practitioners in the field. I started my career on the quantitative side of enterprise risk management, such as pricing financial derivatives, modeling consumer behavior, etc. As I rose from silo-based quantitative risk management to general enterprise-wide risk management, this book (1st Edition) offered a priceless introduction to the area of risk integration and aggregation, the impact of corporate risk management culture, etc. Over the last few years, I have become more appreciative of the quantitative side of risk management discussed in the book. Even extremely experienced executives in the risk management field can still receive great benefit and insights by reading it. In summary, this is a must read for anyone who is interested in enterprise risk management, from MBA students to quantitative analysts to experienced corporate executives.

The book is written in an excellent style not too jargony but explains things sufficiently to ensure you appreciate and understand the facts and concepts of the Risk Management Framework. As a Business Architect working in Risk for Banks I find the book an excellent source of reference to ensure my own logic is sound and to complete any gaps I may have mistakenly omitted in the designs.

This book was a lifesaver for school. So expensive everywhere else, but leave it to Amazon to solve that problem. It came in perfect condition and really helped me get through a tough course. Very happy with my purchase. Would buy books from here again!

Quite expanded and improved from the previous edition.

Excellent.

I will open a new course on corporate risk management and need a textbook for students to read. Having searched and reviewed many books on risk management and ERM in particular, I found this book very engaging and insightful. The author has more than 30 years of hands-on experience in the area and coined the term "Chief Risk Officer" (CRO) for his position during his career. The book starts with his own story at Fidelity in which the

then CFO told him what to expect from his job as CRO. The book integrates the guidance and insights with numerous cases to help the readers to learn lessons from the failures and best practice in the real world. Yes, this is REAL! The book also shares some interesting inside stories. In discussing the culture of the market risk function (Page 229), the book mentions the story of a trading desk manager firing a trader on spot who made daily profit but could not explain why he exceeded the limit. Very cool!

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