“LAFARGE HAS NEVER RUN AWAY:”

A STUDY OF CORPORATE POLITICAL RISK MANAGEMENT

IN THE SYRIAN CIVIL WAR

By

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Author’s Declaration

I, the undersigned **Paul Schipul** hereby declare that I am the sole author of this thesis.

To the best of my knowledge this thesis contains no material previously published by any other person except where due acknowledgement has been made. This thesis contains no material which has been accepted as part of the requirements of any other academic degree or non – degree program, in English or in any other language.

This is a true copy of the thesis, including final revisions.

Date:

June 15, 2018

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Abstract

The subject of my thesis is the study of political risk management practices and how they relate to decision-making for corporate actors in emerging markets when areas of operation become conflict zones. The case study I look at is Lafarge Cement Syria, a recently lost cement production facility in Syria that was forced to contend with the outbreak of the Syrian Civil War. The company decided to maintain operations despite the decision of other multinationals to vacate the country. I argue that its internal political risk management practices, no matter how well designed, likely would not have changed Lafarge's decision to stay during the conflict, to the eventual detriment of the company, its employees on the ground, and several of its executives. I do this through exploring other political risk management practices as well as Lafarge's conduct.

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Introduction

There are many definitions of 'risk' in the context of corporate firm risk management. One of the broadest is from political scientists Ian Bremmer and Preston Keat who describes risk as "the probability that any event will turn into a measurable loss" (Bremmer and Keat 2010, 4). The field of risk management covers a large and growing variety of risks to firms operating within their borders or over international borders—also known country risk—which includes losses that "arise as a result of the interruption of repayments or the operations of entities engaged in cross-border investments caused by country events as opposed to commercial, technical, or management problems specific to the transaction" (Toksoz 2014, 23). Risks occurring domestically or internationally include credit risk, liquidity risk, market risk, operational risks, and those categories are themselves sub-categorized into many other types of risk (Dionne 2013).

Political risk, however, escapes a solid definition. The variety of firms that practice political risk management mostly adhere to their own definitions, but one definition that is particularly authoritative is the one that was part of a 181-state agreement called "The Convention Establishing the Multilateral Investment Guarantee Agency" which defined political risk as "associated with government actions which deny or restrict the right of an investor/owner (i) to use or benefit from his/her assets; or (ii) which reduce the value of the firm" (Kansal 2015). This definition, while widely and officially accepted, is too narrow when it comes to helping define firm risk in the face of terroristic and non-state actors like the ISIS and Al-Qaeda. While older forms of political risk were more concerned with government expropriation and nationalization, (Usher 1965) the dynamics of modern political risk mirror the problems of global governance, in which states share more and more influence over international affairs with corporate, NGO and other non-governmental actors.

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As Vishrut Kansal points out,"…the concept of political risk is dynamic and its contours ever expanding…," because the identification or risk can lead to a "paradox" where risks could be industry-, region- or firm-specific—"systematic or unsystematic" (Kansal 2015). One of the main reasons for this lack of definition is the wide-spread recognition that there has been a recent expansion of political risk beyond the "classical political risks of CEND – confiscation, expropriation, nationalization, and deprivation…political risk is now a more complex, multidimensional phenomenon, which requires broader analysis of the political, policy and institutional risks that weaken a country's payments performance and undermine the viability of investments" (Toksoz 2014, 103) Without a firm definition, academics and practitioners alike have been free to define the 'contours' of the field on an almost individual basis. Paradoxically, as the field becomes less defined, the importance of this field to modern corporations who find themselves operating overseas or over national borders in recent years has grown in the face of a variety of politically- or people-derived uncertainties.

Conceptual Framework

Political risk management is just one part of a much larger field of *risk management.* This field developed initially in the form of insurance practices that commercial firms would acquire on ventures where a certain amount of *risk*—basically defined as a situation that carries at least some degree of exposure to danger or loss—was expected. Earlier forms of risk management in the 17th, 18th and 19th centuries were mostly what we may recognize as political—dangers of piracy, expropriation, war and environmental factors (Zachmann 2014).

However, later practices of risk management starting in the 20th century focused more on financial risks, such as credit risk, currency devaluations, and risks associated with financial products. Political risk developed in parallel, but its relative importance to global financial forms in terms

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of asset exposure as compared to financial risk was dwarfed. The practice seemed to increasingly fade as the twin forces of free-market ideology and a belief that international order of the post-Cold War era was growing increasingly and irrevocably stable(citation), leaving the practice of international business naturally less and less exposed to political risk. Compared to the dangers to the financial industry that market crises were regularly inflicting around the world throughout the 80's and 90's, political risk seemed negligible (Bremmer and Keat 2010)

Consequently, the practice of political risk management atrophied for most firms. Only in the last ten years—and in an apparent need to help fill a skills gap—have business schools begun teaching *Enterprise Risk Management* (Bremmer and Keat 2010), a hybrid form of risk management that combines financial and credit risk management along with political risk management, although Bremmer and Keat believes that this practice is still paying insufficient attention to political risk management.

For most Western corporations with operations in Syria, the outbreak of the Syrian Civil War in 2011 was a signal to leave. French oil and gas companies like Total and Air Liquide quickly left, while French cement and construction materials giant Lafarge decided to keep their northern Syria facility operational (Alderman, Peltier, and Saad 2018). "Lafarge has never run away," CEO Bruno Lafont later told investigators when asked why Lafarge stayed when other companies left the warzone (Alderman, Peltier, and Saad 2018). Instead of leaving, Lafarge decided to manage the risk locally, betting that they would be uniquely positioned to profit from reconstruction efforts after the war ended. To help ensure the plant's safety after the Syrian government fled, Lafarge utilized a local Syrian national to pay nearby antigovernment groups for protection. This included the Islamic State in Iraq and Syria (ISIS) which eventually took over the plant in the Autumn of

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2014, but not before Lafarge paid out at least €13mn to antigovernment groups, including ISIS (Alderman, Peltier, and Saad 2018).

This thesis will explore Lafarge's official political risk management practices, how these were reflected in decision-making around their Syrian operations, and if alternative political risk management practices may have improved Lafarge's outcomes. By examining political risk management within this context, I hope to answer this Research Question: *Why did Lafarge's political risk management practices allow the company to continue operation of their Syria facility during the Syrian Civil War, and would alternative risk management practices have likely resulted in different outcomes?*

Due to previous literature that has yet to provide a solid definition to political risk, this thesis will narrowly concentrate on political risk management in the context of operating in a foreign, emerging market from a Western corporate perspective. Also, because political risk management during the Syrian Civil War is inextricable from violent conflict and regional power dynamics, I will also include geopolitical risk and security risk as part of my political risk framework, while generally excluding country risk categories such as liquidity risk, credit risk, and market risk, which are not as relevant to this case study.

In Chapter 1, I will summarize Lafarge's operations in Syria leading to their withdrawal from the country. In Chapter 2, I will examine Lafarge's annual reports from 2010 to 2014 to compare their political risk management practices with their actual practices. In Chapter 3, I will use Ian Bremmer and Preston Keat's framework to determine if that would have been a better alternative to Lafarge's political risk practices and in Chapter 4, I will do the same with Stuart Poole-Robb and Alan Bailey's framework. I will conclude with a brief summary and discussion of my findings.

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Methodology

I will conduct a thematic analysis of Lafarge Political Risk Management practices as detailed in their publicly available annual reports from 2010-2014, the period from just before the Syrian Civil War to just after the firm was forced to vacate their Syrian plant property by ISIS. In analyzing these practices, I will explore whether if their policies as stated should have been sufficient enough for the firm to avoid practices that ended up substantially aiding non-state actors who were hostile to their home country of France and their military allies in NATO.

To further help assess whether internal risk management practices are sufficient to prevent Lafarge and companies like them from inadvertently aiding terrorist or extremist groups, I will analyze the work of Bremmer and Keat, American academics who been working to promote the field of political risk management. Their political risk consulting firm, Eurasia Group, is a leading practitioner.

I will also assess the Poole-Robb and Bailey approach to political risk management. These authors are experienced British intelligence officials, who were among the first in political risk literature to help start redefining the field in the wake of the September 11th, 2001 attacks against the United States. They defined Grey Area Dynamics, areas of potential risk which they believe are vital in emerging markets.

Based on Bremmer and Keat's and Poole-Robb and Bailey's recommendations for political risk management, and taking into account Lafarge's own practices, I will show that even alternative political risk management practices would largely have been insufficient to prevent Lafarge's entrance into the Syrian market or to encourage Lafarge's exit during during the Syrian Civil War.

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To compare these three sources of political risk management practice, I will define their points of similarity and their points of difference. I will explore the points of difference to examine if they would be helpful for a firm like Lafarge to adapt. I will be comparing ranges of dates across the different data sets to take advantage of best available data and reflect that business decisions in these instances were not based off of snap judgements but were likely part of evolving scenarios that took time to develop. The implication would be that if firms do not take steps to enact existing political risk management practices that account for the external impacts of their operations, international governance institutions or states may start taking steps to mandate risk practice.

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Chapter 1 An Overview of Lafarge's Syrian Investment from 2007-2017

In this chapter, I will list chronologically the events and circumstances that I will later analyze in the next three chapters through the lenses of various political risk management practices. Note that this case study is not completely documented and LafargeHolcim, the successor company to Lafarge, is the subject of criminal investigations (Alderman, Peltier, and Saad 2018) and a lawsuit (SHERPA 2016) which may reveal new facts.

Lafarge Cement Syria, 2007-2010

On December 10, 2007 Lafarge made public their decision to enter into new, lucrative Middle Eastern markets through the €10.2bn purchase of Egypt-based Orascom's cement production division, Orascom Cement, at the time the largest cement producer in the Middle East (Hollinger and England 2007) This purchase was the centerpiece of Lafarge's new strategy to grow into emerging markets. At the time, emerging markets accounted for over 2/3rds of cement production world-wide, and Orascom's cement unit had been tremendously profitable (Hollinger and England 2007). Orascom's operations included a nascent facility in the northern Syrian town of Jalabiyya, which soon became known as Lafarge Cement Syria. The facility had been a project developed in association with Syrian company MAS Economic Group, then owned by Firas Tlass, a wealthy Syrian whose family had long-standing ties to the Assad family and appeared to benefit financially from preferential government treatment (Lund 2018). Tlass would function as the chief middleman for Lafarge Cement Syria with the Syrian government. While Orascom and MAS had started the process of creating a cement factory in Jalabiyya, Lafarge would end up investing €680mn to make the plant fully operational by October 2010 (Alderman, Peltier, and Saad 2018).

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Lafarge Cement Syria, 2011-2017

In March of 2011 however, the protests against the Assad government were brutally suppressed, and open conflict between antigovernment groups, increasingly joined by Syrian army defectors and foreign fighters gradually spread throughout Syria. This led to the United Nations to declare Syria in a state of civil war in late 2011 (Lund 2018), and Western companies to pull out amid a host of sanctions leveled against the Syrian government by the European Union and the United States, including French oil company Total and French gas company Air Liquide. However, Lafarge was intent on staying, having been informed by their security consultants that they believed the Lafarge facility was not in any significant danger. (Alderman, Peltier, and Saad 2018)

Around the time Syrian government abandoned the area around Lafarge Cement Syria to reinforce suddenly vulnerable Damascus, Lafarge's chief facilitator Tlass openly expressed sympathy for antigovernment groups and was subsequently alienated from the government. His shares were confiscated by the Syrians, but he still played his role in working with local actors, which at times consisted of elements of the Free Syrian Army (FSA), the YPG, al-Nusra and ISIS, to keep the facility free of harassment (Lund 2018). However, Tlass fled the country and continued to speak out on his new activities in funding antigovernment groups in Syria (Sherlock 2012).

In between 2011 and 2014, Lafarge Cement Syria evacuated most of their European employees, but kept their Syrian employees working, even as conflict raged close to the facility. Militant-manned checkpoints had to be regularly crossed by plant staff and employees were threatened and occasionally kidnapped. To prevent harassment, Lafarge admitted to paying Tlass at least €100,000 a month to be paid to militant groups. Later investigations have revealed that Lafarge paid at least €13mn to militant groups during the Syrian Civil War (Alderman, Peltier, and Saad 2018). When ISIS gained increasing control over the surrounding area, Lafarge also engaged in

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commerce with ISIS, trading cement, oil and other materials in direct violation of sanctions leveled by Western countries (Abdulhaq 2016). In 2014, ISIS eventually decided to occupy the facility, which plant staff were barely able to avoid by escaping on their own after an evacuation plan devised by Lafarge security staff fell apart (Alderman, Peltier, and Saad 2018).

In late 2014, the French government, at the request of Lafarge executives, asked the United States military to avoid bombing or damaging the now ISIS-occupied Lafarge facility (Jarry 2018). The facility was believed to have avoided major damage during ISIS' occupation and subsequent seizure by Kurdish People's Protection Units (YPG) in 2015. Also in 2015, Lafarge successfully merged with Swiss-cement and construction materials producer Holcim to become LafargeHolcim.

In 2016, Zaman Al Wasl, a Syrian opposition newspaper, first published details, including company emails, depicting Lafarge's commerce with ISIS (Abdulhaq 2016). Le Monde published a follow-up story in February 2016, and a lawsuit filed by former employees and a nonprofit that "helps victims of economic crimes" was filed in November of that year (SHERPA 2016). French authorities opened a criminal investigation into LafargeHolcim's Syrian activities and have raided offices in Paris and Brussels while questioning top officials (Alderman, Peltier, and Saad 2018). In 2017, LafargeHolcim's CEO Eric Olsen resigned in response to the increased public attention on the Syria facility, but simultaneously denied any responsibility for the actions of the company in the matter even as he has been indicted by the French government (France 24 2017).

There are conflicting reports about what the facility is currently being used for, although it is still technically owned by Lafarge (Lund 2018). It is known to have been used as a base by American, British, French and YPG forces, while Turkish newspaper the Daily Sabah has suggested that the facility has resumed cement production with LafargeHolcim staff providing direct support, using

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the cement to construct bunkers and tunnels for the purpose of resisting Turkish military attacks in Afrin and other areas (Binici and Kirikcioglu 2018). A report by the Century Foundation quoted Beat Werder, a LafargeHolcim official, saying “The plant is closed and we have no intention to reopen it… I guess theoretically it is still our property, but it is not in our books anymore, so accounting-wise it was written off” (Lund 2018).

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Chapter 2 Risk Management in Lafarge

Lafarge addressed its risk management processes in each publicly available annual report from 2010 to 2014, a document that contains Lafarge's 'Principles of Action', and memo produced by LafargeHolcim regarding an internal investigation into Lafarge Cement Syria. I will compare political risk management practices year-by-year, pointing out the similarities and differences over the course of Lafarge's activities in Syria through 2014. I will then compare those practices with how Lafarge and/or its agents conducted their own risk management and mitigation in Syria, through the study of these reports along with supporting documents from the company.

While recognizing that a corporate entity's entire risk management strategy is not going to be entirely public, these documents still represent the best comprehensive understanding of Lafarge's political risk management practices. Along with recent information that has been brought to public notice by news reporting and the French government's pending prosecutions, a rough picture of Lafarge's corporate governance attitudes in this area can be assembled.

What the Reports Have in Common

All of these reports make clear that much if not most of their operations are either based in emerging markets or are planning to be based in emerging markets (Lafarge 2011, 2012, 2013, 2014, 2015). Emerging markets are defined by the company as areas that are outside North America and Western Europe. Emerging markets were clearly an important area of growth for the company, which makes its lack of preparation for increased exposure to events like political instability or terrorist activities puzzling. These reports also tend to de-emphasize political risk in general, focusing more on credit risk, financial risk, and other kinds of non-political risk.

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In their 2010 and 2011 annual reports, Lafarge did not contain overt mentions of potential physical threats to their operations beyond expropriation (which in most definitions is defined in terms of governmental seizure, not related to non-state actors). However, in their 2011 report, they do talk about the 2009 completion of the company's program to relaunch their employee code of conduct, which was reviewed by "Transparency International and the International Chamber of Commerce" (Lafarge 2012, 21).

> As a core part of its policies, in 2004, the Group adopted a Code of Business Conduct that sets out the principles of conduct that each individual is to adopt in everyday business situations. The Code of Business Conduct is essential in preventing the main risks faced by the Group, by setting out the issues, recommendations, and prohibitions pertaining primarily to the following: compliance with laws and regulations, abiding by free competition, corruption prevention, insider trading, conflicts of interest, participation in politics, health and safety, discrimination and harassment prevention, respect for the environment, protection of assets, reliability of information, importance of internal control and application of sanctions in case of violations. The action to strengthen the dissemination of the Code of Business Conduct and its appropriation by all Group employees was largely completed in 2009 …The Group continued in 2011 the active promotion of this program and will implement in 2012 training tools, accessible through the Group intranet in all countries where the Group operates (Lafarge 2012, 21).

This statement clearly indicates that Lafarge intended to demonstrate a high standard of company and employee ethics, which was completed just prior to the outbreak of the Syrian Civil War. This training program should have made clear that Lafarge's Syrian activities violated almost every element of its 'Principles of Action' as they were being carried out.

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There are also repeated mentions of the ‘Lafarge Way’. The ‘Lafarge Way’ is a system of management which includes the promotion of Lafarge’s ‘Principles of Action’. Part of these ‘Principles of Action includes “Acting as responsible members of our communities: contributing to the development of the people, their health, rights and well being [sic] by generating economic growth and supporting social, educational and cultural advancement” and “Our responsibility is as much about complying with local and international laws and standards as it is about aligning our actions with our values. Respect for the common interest, openness and dialog, integrity and commitment are the main ethical principles of our Group and of our people” (Lafarge 2003, 7).

Throughout Lafarge’s materials, and in several papers that have focused on Lafarge and its corporate culture, it appears that Lafarge has wished to propagate about itself that it is not just a concrete company, but it is a company that wants to do more than maximize its profit, it wants to “[Foster] an environment where information is widely available and openly shared,” and “[Give] the utmost priority to safety – an integral part of excellence” (Lafarge 2003, 7), among other corporate values, such as fostering environmentally sustainable growth.

While corporate values may not appear at first to be related to risk management, Lafarge has promoted its values to a degree that it has appeared to have wanted to create the impression to employees, board members, investors, and external audiences that the company acts ethically, transparently, avoids politics, and seeks to be a positive part of the communities that they operate in. These values appear to be central to all aspects of Lafarge company operations, and those operations include risk management. Therefore, its risk management practices should also reflect these values, which, on the surface, they appear to do so. Additionally, since all employees as of 2009 had been retrained in the ‘Lafarge Way’ and in the company’s ‘Principles of Action,’ there should have been little confusion from either executives, managers, or other associated agents and

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employees that the actions the company is accused of engaging with in an effort to maintain their operations in Syria never should have been implemented from the start, actions which at the very least put local employees in danger, and at worst resulted in the funding of ISIS, al-Nusra and their associated war crimes.

Overall Risk Management and Risk Mitigation Strategy

1.2 The primary political risk mitigation strategy for Lafarge from 2010 to its merger with Holcim appears to consist of three broad planks 1) Geographic diversification of assets to prevent any single problem from affecting substantially the company 2) Annual country risk monitoring and 3) Insurance to cover physical asset losses.

to be in the diversification of its assets in emerging markets. If one country's area of operation is compromised it would account for less than 5% of the company's assets. Insurance would help further mitigate losses. This form of risk mitigation also appears to account for many other risks, beyond political, such as the cyclical nature of construction and economic downturns. By operating across the world in different kinds of markets, Lafarge promoted the idea that the company was protected from one-off events that affected the operations in one country. Regardless if this was terrorism or a housing bubble, Lafarge's geographic diversification would protect the company's overall financial health.

The country risk assessment and mitigation as described in the annual reports for this period in its entirety as "actively monitoring country risks, particularly those arising from the economic, political and social climate" (Lafarge 2011, 2012, 2013, 2014, 2015), along with assessments dealing with potential natural disasters, so that Lafarge can "…continue to diversify our portfolio

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geographically and exercise care to manage the respective weight of each country for the Group" (Lafarge 2011, 2012, 2013, 2014, 2015).

The other area of mitigation appears to be Lafarge's emphasis on insurance for facility damage and operations interruption. The company policy allowed for up to €200mn euro to be claimed from 2010 to 2013 (Lafarge 2013, 157) and up to €250mn euro in 2014 to cover associated losses (Lafarge 2015, 186).

Drawbacks of Political Risk Management and Risk Mitigation Strategy

The drawbacks of this strategy can be best illustrated by the Syria facility scenario. First, the costs to upgrade and revitalize the cement plant at a cost of €680mn far exceeded a potential insurance payout. Second, the company was perhaps encouraged by the opportunity to mitigate a frequently cited risk of strong competition in many areas of the world in which they operate.

> Each of our three Divisions operates in markets where competition is strong. Competition, whether from established market participants or new entrants could cause us to lose market share, increase expenditure or reduce pricing, any one of which could have a material adverse effect on our business, financial condition, results of operations or prospects (Lafarge 2011, 13).

By holding on to their assets in Syria after other competitors had vacated the country, Lafarge had a great incentive to hold on to at least a temporary lucrative monopoly for which they would unlikely face antitrust repercussions during the period of Syria's civil war.

Third, the risk mitigation strategy of spreading out assets across many countries so that individual losses do not greatly endanger the company means that companies like Lafarge do not have to necessarily work too hard on individual asset risk mitigation. While this may be a successful and

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simple strategy for a company to follow, multinationals that operate this way may be encouraged to be more cavalier with individual assets to the detriment of the country in which the asset is based. Ironically, Lafarge neglected this foundational risk mitigation strategy by staying in Syria when others left, perhaps perceiving that the investment had been too significant not to take a chance on profiting from it. This third observation best illustrates that Lafarge may have had a sufficient strategy as depicted in their annual reports, they just chose to not follow it.

However, a fourth observation about Lafarge's political risk management and risk mitigation strategy is that, at least publicly, it is not very detailed, and the company did not seem to devote as much attention to it as they did other forms of risk management, including financial risk management areas such as credit, liquidity, indebtness, pension, market, currency exchange, interest rate, price fluctuation, commodity price fluctuation, listed shares and treasury shares ris (Lafarge 2011, 2012, 2013, 2014, 2015). For instance, they outline five specific risk management systems for "management of the Group's asset portfolio; actions to secure access to raw materials; environmental risk management and safety program; antitrust compliance program; financial and market risks management" (Lafarge 2011, 19). These systems were to have been "defined by precise objectives, which are approved by the Group's governing bodies, the use of dedicated tools and resources to achieve these objectives, and a set of oversight and monitoring actions to ensure that they are properly implemented" (Lafarge 2011, 19).

Arguably, management of the Group's asset portfolio could involve risks related to political risk management, but due to the passing references to country and political risk, it is doubtful the company possessed a robust risk management system for these kinds of risks as opposed to other forms of risk management. There might be reasons to not list out more substantive political risk programs in public documents, due to proprietary concerns, but other forms of risk management

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that the company engages in are given much more space to and go into more detail, likely indicating that the potential proprietary risk management practices were not a concern for Lafarge.

Specific to the facility, risk mitigation policies are not publicly or officially available from Lafarge. The only documentation that exists to date is in media accounts that have been written about the Syrian facility operations and in legal documents related to France's ongoing investigation into Lafarge's Syrian activities. While much of this material is part of an evolving legal case and narrative, these sources help illustrate how risk management in potentially unstable emerging markets can cause undesirable side effects.

The first and most significant attempt at mitigating the risk once a decision had been made to maintain the facility's operations—which itself was a mitigation strategy to prevent the occupation of the facility by external actors by making the facility appear active—was to work with armed forces located in proximity to the facility to protect the workers and prevent the seizure of the facility. These armed forces which were active since the withdrawal of Syrian government forces in early 2012 to the 2014 ISIS takeover of the area, included factions belonging to the Free Syrian Army (FSA), al-Nusra (an Al-Qaeda affiliate), the largely Kurdish People's Protection Unit's (YPG) among other groups. Employees often had to pass by through multiple checkpoints near the facility at times manned by any of the above armed groups, in the case of ISIS relying on special permits to act as identification which allegedly was facilitated by Lafarge (Alderman, Peltier, and Saad 2018).

Employees kept going to work because the facility represented some of the only available employment in the region, and the company appeared to have taken advantage of this desperation to keep the plant open for as long as was possible.

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Allegedly, if the facility were in danger of attack, the employees (at this point all Syrian nationals) the company would make sure a fleet of vans would be available to transport the staff to safety. This did not happen. The employees were largely left to themselves to find a way to escape using what few vehicles were available, escaping just ahead of invading ISIS forces (Alderman, Peltier, and Saad 2018).

Almost immediately after the facility was seized by ISIS, Lafarge and the French government successfully put pressure on the United States to avoid attacking or obliterating the facility (Jarry 2018). Although the facility and the area around were among the first areas liberated from ISIS following American intervention, the plant was capable of producing construction materials that could easily be repurposed by ISIS for its war efforts and the large manufacturing facility itself represented a potential base of operations for ISIS. There existed the potential for a prolonged occupation of the facility, where ISIS would have been immune to air attack from the anti-ISIS Coalition due to political pressure from a Coalition member's corporation. The situation resolved itself in favor of the Coalition and the now Syrian Democratic Forces (of which the YPG is a core member), who now occupy the facility.

Notable Differences

A significant difference divides the reports between the 2010 and 2011 annual reports and later annual reports 2012 in the 'Emerging Markets' overview in the Risk Management section. Note that the annual reports for the ones reviewed are published in April of the following year of the report. The key difference is that civil war, terrorism, and civil unrest are not mentioned as potential threats in emerging markets in the 2011 annual report even though Syria was in the middle of the beginning of its civil war. Rebels had seized cities and they were joined by significant numbers of Syrian Army defectors. Only when the 2012 report, which was published in early 2013,

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came out did this report warn that civil war, terrorism, and civil unrest could affect Lafarge operations. At this point, the conflict was unavoidably impacting Lafarge operations since rebel groups were located in proximity to the Lafarge facility. This stating of this new kind of risk at this point could hardly be seen as anticipatory at this point. However, as a company operating in emerging markets which have seen unrest and civil conflict since long before the 'Arab Spring' began, this seems like a significant oversight.

In Syria alone, and in the recent past, there were indicators of ethnic and separatist conflict, such as the illegal founding of the Kurdish PYD in 2003 as well as its armed wing, the People's Protection Units (YPG) in 2004 (Gold 2012). The Lafarge facility itself is based in an area of Syria that is religiously and ethnically diverse, including Kurds and Arabs among others (Lund 2018). Considering the general history of the region, the potential for civil unrest should have been more predictable, and the company should have been more upfront with investors and the public about the potential for conflict along religious and ethnic lines where they were operating. The omission of terrorism and civil unrest as potential risk factors until 2012 in this context is very puzzling.

This kind of problem is not unique to Syria and the Middle East. Terrorism and social unrest are issues that plague many emerging market countries. Lafarge, as they reinforce in each report, looks to emerging markets as the future of the company's growth. By 2011, over 25% of the company's sales were happening in Africa and the Middle East, where facilities have to be based due to the nature of cement. "Cement is a product that is rather costly to transport over land. Consequently, the radius within which a typical cement plant is competitive extends for no more than 300 kilometers for the most common types of cement" (Lafarge 2012, 34). To create more sales, the company has to build production facilities relatively close to where the customers are, and this

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means having facilities in areas that are going to be dangerous to operate, and not just because the local government might nationalize company property.

Also notable is the memo that Lafarge produced in defense of CEO Eric Olsen's, as well as the company's, conduct regarding Lafarge Cement Syria. Among proposals to help prevent similar situations from ever developing again is "Adoption [of] Country-Specific Risk Assessments," (LafargeHolcim 2017, 5) something which the company had been promoting as part of its risk management strategy since before the Syrian Civil in each of its Annual Reports.

> The Group Strategy department has defined a methodology for measuring and monitoring country risk trends over time. This analysis is conducted annually and is taken into account when defining the Group's asset management strategy. With the support of these analyses, we continue to diversify our portfolio geographically and exercise care to manage the respective weight of each country for the Group (Lafarge 2012, 21)

The last point made in the document also harkens back to Lafarge's then-risk mitigation strategy, where it is mentioned that Syrian operations during this time did not even account for 1% of Lafarge's sales when the facility was operational (LafargeHolcim 2017, 6).

Summary

Lafarge's public political risk management practices largely stayed static throughout the operation of its Syrian facility during the Syrian Civil War up until its seizure by ISIS in 2014. These policies were largely based on three avenues of action: 1) Global diversification of assets to prevent risks at one facility from negatively affecting the overall company's financial health; 2) An insurance program which would allow Lafarge to recoup losses up to €200mn (€250mn in 2014) against

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facility damage and lost production time; and 3) Annual country risk assessments which would help inform the previous two risk management actions.

Coupled with Lafarge's renewed company-wide commitment to its 'Principles of Action' and 'The Lafarge Way,' which held that the company would value the safety of its workers and operate ethically above all other considerations, these policies should have been enough to prevent the system of payoffs to non-state actors that the Syrian facility relied upon to keep operational. However, excusing the company-wide training and the apparent ability of Lafarge to easily absorb the loss of its facility, mitigating factors such as the significant expense at which the facility was reopened (for which the insurance payout would cover less than a third assuming the facility was completely destroyed by the events of the Syrian Civil War), and the potential for a cement monopoly in a region that would soon need lots of cement to rebuild, likely led to a cost-benefit analysis calculation that involved removing at least the European employees while still trying to preserve the facility.

However, the decision to mitigate risk in Syria rather than abandon the facility may not have had to result in Lafarge making alleged payments to armed groups. The decision to invest in Syria and how they did it may have been different had the company approached risk in emerging markets in different ways than the plan they ended up pursuing, both as written and as it was alleged to have been executed.

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Chapter 3 Applying Bremmer and Keat's Political Risk Management Framework to Analyze Lafarge's Actions in Syria

Ian Bremmer and Preston Keat are prominent political risk management specialists and academics. Bremmer is the founder and president of the political risk management firm Eurasia Group—along with Keat—and maintains a public profile that promotes the practice of political risk management, a field which he believes is not taken seriously enough by most corporations operating across national borders. Bremmer and Keat's reasons for both corporations and policy makers alike not taking the practice seriously enough are elucidated in *The Fat Tail*:

> First, they view political risk as too complex and too difficult to forecast. Perhaps some changes are simply not foreseeable. Second, risk managers like data, and they haven't yet found much hard data on political risk. Many of the risk analysts working in the private sector have backgrounds in economics or finance. "How do we quantify political instability?" they ask. When it comes to data-driven forecasts, politics is too difficult to deal with. Third, companies often manage risks, such as credit or market risks, because the law says they have to. But there are no regulatory or legal requirements that corporations and financial institutions must manage political risk (Bremmer and Keat 2010, 5)

Applying Bremmer and Keat's framework as depicted in *The Fat Tail*—which consists of nine main areas of focus—I will outline how Lafarge may have approached political risk management differently. Bremmer and Keat provide and define these areas of focus, but they do not provide measurements, therefore I will assess the risk potential for each area of focus on a scale from 'Low' to 'Moderate' to 'High'.

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Bremmer and Keat's definition of risk is "the probability that any event will turn into a measurable loss,"(Bremmer and Keat 2010, 5) which means that although risks may be present in Syria at this time, they may not necessarily result in losses, or that they are unlikely to develop even if some risk exists.

Bremmer and Keat's model for political risk management includes factors listed in Figure 1(Bremmer and Keat 2010, 10), along with ratings for risk relative to the Jalabiyya cement facility when Lafarge had acquired Orascom Cement and was planning a further investment in Syria in 2006-2008, as well as the period during which the Syrian Civil War became a reality in 2011-2012. A detailed description of the information used to arrive at the individual ratings for each time period follows Figure 1.

Figure 2: Applying Bremmer and Keat's Areas of Focus for Political Risk to Lafarge Cement Syria in 2006-2008, and 2011-2012
Source: Bremmer, Ian, and Preston Keat. 2010. The Fat Tail: The Power of Political Knowledge in an Uncertain World: 10

Bremmer and Keat's Areas of Focus for Political Risk	2006-2008	2011-2012
Geopolitical – *Conventional wars, great power politics, economic sanctions*	Low to Moderate	High
Global Energy – *Politically determined supply and demand issues*	Low	Moderate to High
Terrorism – *Kidnappings, hijackings, and destruction of property*	Low to Moderate	High
Internal Political Strife – *Revolutions, civil wars, social unrest*	Low to Moderate	High

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Expropriations – *Confiscations of property*	Low to Moderate	Moderate to High
Breaches of Contract – *Government frustration or reneging of contracts*	Low to Moderate	Low
Capital Market Risks, Currency, Profit Repatriation – *Politically motivated economic exploitation*	Moderate	High
Subtle Discrimination and Favoritism – *Discriminatory taxation and corruption*	Moderate	High
Unknowns/Uncertainty – *Global warming, demographics, unforeseen political events*	Moderate	High

Geopolitical Risk

2006-2008

In terms of international war, Syria was likely not considered at imminent risk of being drawn into one in 2006-2008. In fact, there occurred several events which pointed more towards greater reconciliation with neighboring powers and great powers. One was the renewal of full diplomatic relations with Iraq in 2006, which had been subject to long-running tensions when Iraq was ruled by Saddam Hussein(citation). Another was the failure of the Western powers and others to hold Syria accountable for the 2005 assassination of former Lebanese prime minister Rafiq al-Hariri even after the United Nations investigators implicated the Syrian government in its execution (Ibrahim 2008). This lack of the world's willingness to hold Syria accountable would later yield to a visit to Paris by President Bashar Assad and a visit by then-French President Nicholas Sarkozy to Damascus in 2008 to build closer ties between France and Syria. Official rapprochement with

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Israel was even an openly discussed possibility around this time, facilitated by Syria's northern neighbor—and occasional adversary—Turkey (Ibrahim 2008).

Relations with the United States were still troubled and exacerbated by the al-Hariri assassination which meant that Syria was still suffering from sanctions, but the risk of destabilizing conflict with the United States, which was still fully engaged in multiple wars in Iraq and Afghanistan, seemed unlikely at that point. The unsteady, but positive trajectory of American relations with Syria during this period were later proven by the 2010 efforts by the Obama administration to start normalizing relations with Syria, which was only cut short by the Syrian Civil War .

While being in the Middle East, this appeared to have been a period of time in which Syria seemed less likely than usual to be pulled into a regional conflict with neighbors or great powers. Therefore, the *Geopolitical Risk would be Low to Moderate.*

2011-2012

The Geopolitical Risk for Lafarge from 2011-2012 grew substantially. Foreign powers, like Turkey and the United States, had weighed in against the Assad government, while Assad allies like Russia and Iran encouraged his government to remain in place (Erdbrink 2012). Turkey, which shares a long border with Syria and is only two hundred kilometers away from the facility, was known to be actively supporting Free Syrian Army forces in 2012 (Balci 2012). The Syrian Civil War had quickly developed geopolitical ramifications that reverberated throughout the Middle East. Although technically isolated from major cities, the Lafarge Cement Syria facility relied on supply lines to foreign states like Turkey for the successful operation of its facility. This meant that regardless of whether the facility itself was under threat of assault, Lafarge's dependence on

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foreign and domestic entities that were at odds with each other meant that Lafarge's operations were under a *High degree of Geopolitical Risk.*

Global Energy Risk

2006-2008

Syria at the time was a minimal producer of energy, and became a net importer of oil in 2007 to account for rising consumption. While Syria was attempting to adapt its economy to exploit foreign investment and hopefully increase exploration and production, Syria was at this point vulnerable to global energy risks (International Monetary Fund 2008). Therefore, the *Global Energy Risk would be Moderate.*

2011-2012

Lafarge Cement Syria still had access to Syrian oil but in this period various antigovernment groups controlled access to it, leading to greater uncertainty regarding supply. However, as one of the few large companies still in the area, they may have been a desirable customer for antigovernment groups who could not export the oil they possessed outside Syria. *The Global Energy Risk would be Moderate to High.*

Terrorism Risk in Syria

2006-2008

Between 2004 and 2008 there were at least five recorded terror attacks (BBC 2004, 2006, 2008; Der Spiegel 2006). They all occurred in Damascus, far away from Lafarge's planned facility in northern Syria. However, even though these attacks did not occur against the kind of target that a Lafarge plant would represent for terrorist attacks, the character of the region and the presence of

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elements of terrorist organizations such as Al-Qaeda and the PKK in the region suggested that future terrorist attacks were probable, meaning that the *Terrorism Risk would be Low to Moderate.*

2011-2012

The rise of armed antigovernment groups in the area led to increased risks of terrorism. While the danger was greater later, a company identified with a Western power like France could expect opportunistic attacks from Islamist groups which were growing in strength at this time. Also, the risk of mishandling protection payments to antigovernment groups that dominated the area after the exit of Syrian government forces would likely have led to retaliatory terroristic acts. The *Terrorism Risk would have been High.*

Internal Political Strife Risk

2006-2008

Since its independence in 1946, Syria has had three coups (Diyab 2014), and endured a period of Islamist revolt that last roughly from 1976 to 1982, thought to have been mostly undertaken by the Muslim Brotherhood in Syria(Kenner 2012). Although Syria at this point is a one-party state, there have been no serious protests, coups, or insurgencies since 1982. Power passed relatively easily to current President Bashar Assad from his father in 2000, and although there is a plethora of ethnic and religious groups who have a history of mutual tension, these tensions appear to be more evident in neighboring states like Turkey, Iraq, and Lebanon than in Syria in 2008. However, conflict and social unrest along sectarian lines can not be ignored since it has a more recent pedigree in the above neighboring states, meaning that *Internal Political Strife risk is Low to Moderate.*

2011-2012

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As Syria was experiencing a civil war, the I*nternal Political Strife Risk was High*, and could not be higher.

Expropriations Risk

2006-2008

The risk of the Syrian government expropriating Lafarge's property existed. There is a 1983 law that the Syrian government uses to expropriate property for the 'benefit of the public good' (Abdallah 2011). However, the valuation for property seizure uses the value of the time at which the law was written, which dramatically undervalues almost all Syrian land compared to its worth today, rendering it nearly worthless if the government were to seize land such as that which the Lafarge facility currently sits.

While this is a risk, the reason Lafarge was exploring the purchase and operation of a cement plant in northern Syria is because at the time Syria was experiencing a significant cement shortage and was attempting to find ways to expand local production instead of having cement shipped in from outside the country. Syria was also pursuing partnerships and financing for other mineral production with multinationals and with the government of India to facilitate its economic development which was being outpaced by its inability to independently finance and maintain these industries by itself (U.S. Geological Survey 2008, 55.2). Expropriation of one company's assets may have only served to scare off other foreign entities who were investing in Syria at this point. Expropriation was counter-productive for Syria in the short- to medium-term, but in the long-term might have been feasible, due to this, the outlook for *Expropriation Risk would be Low to Moderate.*

2011-2012

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In the short term, the potential for government expropriation ceased, as the government was no longer operating in the vicinity of the facility. In the long term, the risk could be extremely high if the government returned and was confronted with Lafarge's operation that had provided funding to rebel groups to survive. Otherwise, the risk for expropriation by antigovernment groups was high, only moderated by the efforts of Tlass and the belief that antigovernment groups could not operate the facility without Lafarge's technical expertise. Expropriation would have eliminated a source of their revenue, which happened to ISIS when they seized it in 2014. *The Expropriation Risk was Moderate to High.*

Breaches of Contract Risk

2006-2008

No notable recent examples, but similar to the risk of expropriation, the Syrian government at this time appeared to be attempting to solicit external corporations and governments for help in developing a multitude of industries, and even rumor of breaches of contract by the government might have resulted in an overall negative atmosphere for direct foreign investment, at least in the short- to medium-term.

However, the Syrian economy is still one that is largely centrally planned and controlled by the government, equipped with a complex bureaucracy and permitting system that foreign businesses could be made vulnerable to. Syria is only newly attempting to solicit foreign investment, but it is conceivable that Syria could just as easily snap back to its previous normal. Utilizing the influence of their local partner in Tlass, Lafarge could be shielded to some degree, meaning that the *Potential Breaches of Contract Risk would only be Low to Moderate.*

2011-2012

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This measure would have been harder to judge since its relevance in this situation was questionable. Remarkably, Lafarge was still paying taxes to the Syrian government even after they vacated the area and no longer provided protection (Lund 2018), which meant that the agreement with the government was still technically valid and unlikely to be breached. Even after Tlass was declared an enemy of the state, the Syrian government punished him by acquiring his shares in Lafarge. Therefore, the Syrian government was still profiting from Lafarge, even as Lafarge was profiting rent-seeking antigovernment groups. The breach of contract risk would not likely come from the Syrian government, which desperately needed Lafarge's revenue to help put down rebels. *Potential Breaches of Contract Risk would be Low.*

Capital Market Risks, Currency, and Repatriations of Profits

2006-2008

The Syrian government, while attempting to diversify and revitalize its economy by engaging with foreign direct investment, still had centralized economic aspects which rendered political some developments related to capital market risks, its currency and the potential for repatriation of profits. For instance, the official value of the Syrian pound and its black-market value varied significantly at this time (Raphaeli 2007), which may have provided some complications for Lafarge operating locally in Syria when it came to working with Syrian currency (in either its official value or black market value). The risk of repatriation of profits may, like the risk of expropriation, have been low in the short- to medium-term, but may have been possible in the long-term once Syria felt more secure about its economy. The *Capital Market, Currency, and Profit Repatriation Risk would be Moderate.*

2011-2012

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These risks were ongoing at this point, as the Syrian pound was rapidly losing value and while the economic system of Syria was fairly weak before the Syrian Civil War, conflicts like this could exacerbate this problem. *Capital Market, Currency, and Profit Repatriation Risk would be High*.

Subtle Discrimination and Favoritism

2006-2008

As noted in above sections, the Syrian economy is based on an ideology that is far from the Western liberal tradition, even attempts were being made at reform. In terms of favoritism, it is known that those closely affiliated with the Syrian government, especially members of the Assad family, enjoy special privileges and commercial monopolies (Raphaeli 2007). When President Assad assumed office in 2000, he appeared intent on reforming the Syrian economy, which at this point in 2006-2008 still appeared to be a possibility (Raphaeli 2007). However, the long 'old' normal of the centrally-planned, nepotistic Syrian economy could not have been ignored even in 2008, but Lafarge was able to take advantage of this system to some degree by working closely with local partner Tlass who was at the time a favorite of the Assad government. *Subtle Discrimination and Favoritism Risk would be Moderate* in this situation.

2011-2012

Up until Tlass had declared his opposition to the Assad government and fled Syria, Lafarge was benefitting from subtle discrimination and favoritism. This category's relevance may also be questionable since its purpose is to gauge the relationship of a company to a government, instead of the rotating cast of antigovernment groups that had filled the vacuum. Since Lafarge was still paying Syria taxes, even when it could have avoided doing so, yet was still involved with Tlass, now a prominent rebel, the *Subtle Discrimination and Favoritism Risk was Moderate.*

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Unknowns and Uncertainty

2006-2008

This category covers potential events such as effects of global warming, demographic changes and political events that cannot be foreseen, which forms a kind of catch-all category for other kinds of risks not associated with the above categories.

Note that Bremmer's definition of risk seems to be more inclusive than others, and by including 'natural risks' like effects of demographic changes or global climate change, or unforeseen risks, he makes forecasting for political risk much more open-ended. For the purposes of limiting the potential of categorizing 'unforeseen risks' due to the scale of this paper, I will cite one less typically considered factor which was observed during the period of Lafarge's acquisition of the Syrian facility, specifically Syria's growing reliance on agriculture at this time and the impact this along with population growth which is leading to "deforestation, overgrazing, soil erosion, desertification, water pollution from raw sewage and petroleum refining wastes, on top of inadequate potable water" (Raphaeli, 2007).

These issues observed at the time in 2007 might have given Lafarge pause about investing in an area of the world that seemed ill-equipped to radically alter this trajectory, and which impacts on the onset of the Syrian Civil War are still hotly debated (Selby et al. 2017).

While the impact of this particular issue at this point and the degree to which this and other issues may have affected Lafarge's operations are by the definition of this category, unknown, a recurring theme of *The Fat Tail* is that business-impacting external events happen more frequently than their reputation as outliers would normally suggest. According to this logic, especially in an emerging market economy, a political risk event was somewhat likely to happen at some point during the operation of the facility. Due to the uncertainty of the unknowns, the *Unknowns/Uncertainty Risk would be Moderate*.

2011-2012

The circumstances leading to the Syrian Civil War were not widely anticipated. The Syrian government was in a fight for its existence, while numerous international and local actors were applying pressure to the situation which could have led to any number of developments related to Syria's existence as a state. The *Unknowns and Uncertainty Risk was High.*

Summary

Bremmer and Keat's framework presents several categories for risk consideration that are missing from The key conclusion after conducting this analysis is that Lafarge Cement Syria's overwhelming source of risk mitigation was Firas Tlass. This overreliance on Tlass, while technically effective for years, may have provided Lafarge with a false sense of security that they could manage the risk their facility was exposed to.

These factors should not have dissuaded Lafarge from its overall strategy of investing in Syria however, which was the point of its lucrative acquisition of Orascom, an emerging markets-based cement company that would serve as the basis of Lafarge's expansion into the Middle East and North Africa. When considering these new factors for civil unrest and terrorism, as well as how much of their political risk management strategy relied on the services of one man, Lafarge might have instead found a way to lessen their investment in Syria or seek out additional outside partners to help offset their own tremendous exposure.

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Chapter 4 Applying Poole-Robb and Bailey's Political Risk Framework to Analyze Lafarge's Actions in Syria

In this chapter I will discuss two of the most interesting concepts that Stuart Poole-Robb and Alan Bailey had written about in Risky Business: Grey Area Dynamics' and 'Business involvement related to risk'.

Stuart Poole-Robb and Alan Bailey were some of the first political risk management consultants to publish in the field of risk management in the aftermath of the September 11, 2001 attacks on the World Trade Center and Pentagon. Their background is in military intelligence, and they advise mostly Western companies operating 'overseas' to be cognizant of Grey Area Dynamics,' (GAD's) a concept they created to cover non-standard, hard-to-quantify "passive and non-passive, legal and illegal" (Poole-Robb and Bailey 2003, 289) risks for emerging market countries. These risks are enumerated in the work where this concept was first published, *Risky Business,* and are organized into ten rough categories which are then 'scored' for a country, which when adding up all scores for each category creates a single 'score' which can be anywhere from 0-100, with '0' indicating little or no Grey Area Dynamic risk and '100' indicating the maximum amount of Grey Area Dynamics risk.

Grey Area Dynamics – Syria Country Risk Profile

In 2002, when Poole-Robb and Bailey published *Risky Business,* they had included a measurement for Syria on their 0-100 Grey Area Dynamics Scale, which was 59, which means that at that point, the GAD's in Syria were 'greyer' than not. This number was derived from 10 categories that the authors use to categorize all aspects of their Grey Area Dynamics score, which include some of

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the factors that clarify each category. For a complete description of each category, as Poole-Robb and Bailey describe them, please see the appendix.

Figure 2 depicts five of the countries they created scores for, including Syria, Jordan and Libya, which I selected because they consistently ranked close near each other, are all Middle Eastern, and Libya in particular because at this point Libya had similar political, economic, and foreign policy circumstances to Syria due to its authoritarian-charismatic leadership represented by then-President Muammar Gaddafi who was similarly attempting to transition Libya from doctrinaire centralized socialist economics to attract Western acceptance and investment (al-Jazeera 2010) For comparison, I also as well included Germany which consistently ranked comparatively low in Grey Area Dynamics and Zimbabwe which ranked highly in most categories. All numbers are rounded to nearest .5. I also added hypothetical updated scores for Syria in 2012, whose changes are explained below Figure 2.

Figure 2: Grey Area Dynamics Categories with Selected Countries and 2012 Update

Source: Poole-Robb, Stuart, and Alan Bailey. 2003. Risky Business: Corruption, Fraud, Terrorism and Other Threats to Global Business: 14-18, 42, 50, 56, 70, 82, 88, 91, 109, 116, 119

Grey Area Dynamics Categories	Jordan 2002	Libya 2002	Germany 2002	Zimbabwe 2002	Syria 2002	Syria 2012
Cultural integration - ie religious differences, tradition, customs and ethics	5.5	7	5.5	10	6	9
Bureaucracy – ie Red tape, political influence, cultural habits	7	8	5	8	8	4

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Corruption – ie bribery, blackmail, cronyism	6	7.5	5.5	9.5	7	9
Legal safeguards – ie nationalization, government policy, regulations	6	6	3.5	8	6	6
Organized crime – ie kidnapping, extortion, protectionism	4	4	5	9	5	9
Counterfeiting and fraud – ie fraud, product adulteration, false accounting	5.5	5.5	3	5.5	5	5
Unfair trade – ie product diversion, dumping, hidden barriers to entry	7	7	3	7	6	6
Asset security – ie threat to management/staff/premises, civil unrest, war	4	4.5	4	10	6	10
Extremism – ie tribalism, minority activist groups, terrorist activity (religious or political)	4	5	5	9.5	5	10
Unfair competition – ie commercial espionage, litigious culture, lobbying,	5	7.5	6	9	5.5	3
Total Grey Area Dynamics Score	54	62	45.5	85.5	59.5	71

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Somewhat surprisingly, Syria's GAD score in 2012 only advance 11.5 points to 71 when the circumstances of each categories definition are fully concerned. While some measures go up sharply, such as 'Extremism' and 'Asset security' to the maximum possible score, others, such as 'Unfair competition' and 'Bureaucracy' actually go down, due to the absence of government activity related to the operation of the facility. The facility may have been under constant threat of a physical attack, but the government's ability to enforce its 'red tape' regulations and economic practices virtually disappeared when it abandoned the region. This points to a flaw in using overall scoring system such as GAD in determining if investment is a good idea because political risk management as defined by these authors includes government activity as well as security threats.

According to Poole-Robb and Bailey, in 2002, foreign businesses operating in Syria seemed slightly less vulnerable to Grey Area Dynamics than Libya, while Jordan seemed a better bet than Syria. Intuitively, this may make sense, as all three and Zimbabwe have since experienced significant degrees of political turmoil leading to complications for foreign businesses, while Jordan and Germany have largely escaped similar difficulties. Not to overstate this case, since the selected states are a limited sample of the countries that Poole-Robb and Bailey reviewed in 2002, but the measurements clearly do reflect reality at least partially, even if some measurements seem questionable, such as Germany having an equivalent or higher value for the 'Extremism' and 'Organized crime' categories than Syria, Jordan, and Libya, and having a worse score for 'Unfair competition' than Syria and Jordan.

Between the period this survey was conducted and 2006-2008 when Lafarge was considering its investment in Syria, not much may have changed internally for Syria, beyond repercussions suffered by the Assad government for its 2005 involvement with the al-Hariri assassination (Ibrahim 2008), and the increased pressure on their eastern border with Iraq due to American

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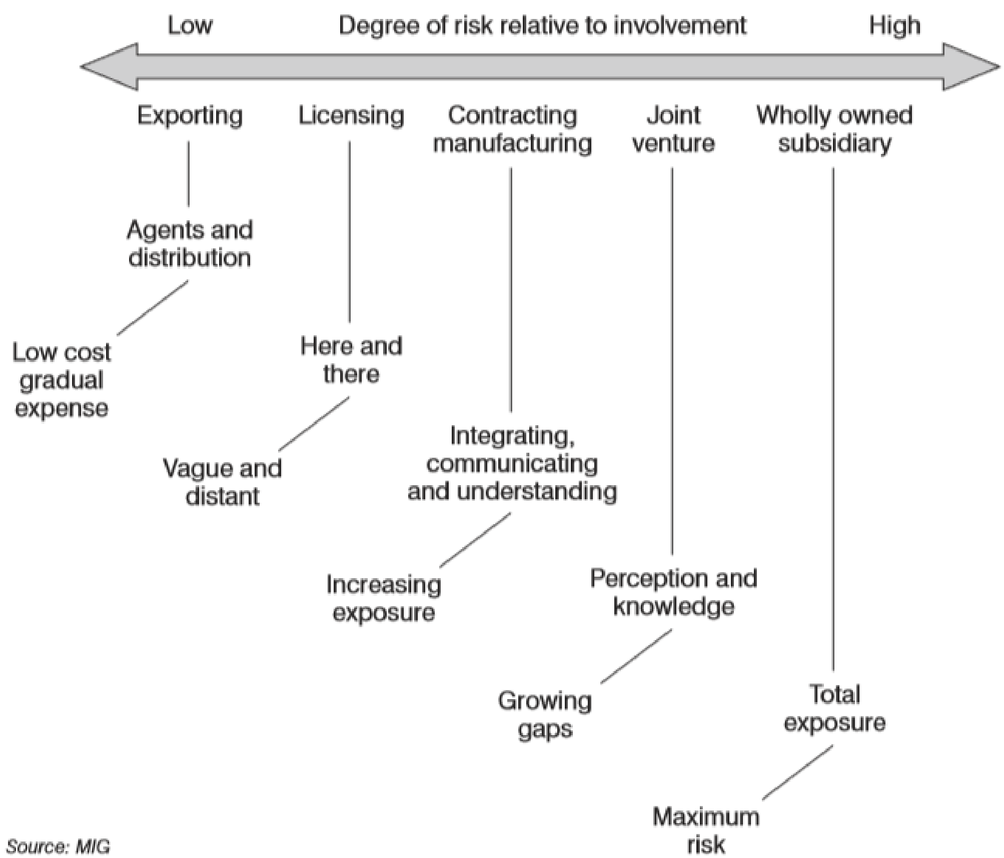
invasion and subsequent insurgency, both of which might have raised the GAD score for ‘Asset security’ and ‘Extremism’. It is unlikely that such a score, even if adjusted upwards somewhat, would have dissuaded Lafarge from either its purchase of Orascom or from investing in Syria, as Orascom had been successfully operating in states with higher GAD scores such as Egypt, Algeria and Pakistan without serious consequences.

The authors also describe a continuum, also known as Business Involvement Relative to Risk (Figure 2), for how closely tied a corporation is to its cross-border operations and how that affects exposure to Grey Area Dynamics, an approach that attempts to put political risks in proper context as it relates to a business.

Figure 3: Business Involvement Relative to Risk

Source: Poole-Robb, Stuart, and Alan Bailey. 2003. Risky Business: Corruption, Fraud, Terrorism and Other Threats to Global Business: 34



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Business Involvement Relative to Risk – Initial Establishment of Lafarge Cement Syria

Lafarge acquired their Syrian facility with their acquisition of Orascom, with the Syrian MAS Economic Group as a 20% stakeholder in the project and backed by a loan from Banque Audi for $380 million (U.S. Geological Survey 2008). However, their plans to invest in the facility cost amounted to a total €680mn euro investment. This means that even though Lafarge technically was engaged in a 'Joint venture' with a minority stakeholder, they were still liable for a significant investment. At this point, the joint venture was held with Firas Tlass, initially a strong supporter of the Assad government and a Ba'ath party member who was close with the Assad family. This relationship would have been valuable moving forward in a country where nepotism and favoritism (Raphaeli 2007) played a significant role in the Syrian economy.

Based on how Lafarge was planning to invest in their Syria facility, and the minority stakeholder who was affiliated with the Syrian government Poole-Robb and Bailey would have considered the Lafarge investment in Syria to be: **Moderate to High** on the *'Business Involvement Relative to Risk Scale.'*

Business Involvement Related to Risk - Lafarge plant during the Civil War

Although technically still a 'Joint venture' at this point, Lafarge's minority stakeholder became the Syrian government after seizing Tlass' shares. Miraculously, Tlass still had a role in the company's operations as mediator to antigovernment groups. The confused nature of the minority stakeholder relationship to Lafarge meant that Lafarge should have considered the facility on its own, as the Syrian government did not control any territory near the Lafarge facility, and Tlass

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was continuing his support but from outside the country. It was clear that the risk was now almost entirely Lafarge's, giving it a **High** score on the *'Business Involvement Relative to Risk Scale.'*

Summary

The initial measures by which Poole-Robb and Bailey would have used to advise Lafarge in its Syrian activities before they commenced may not have resulted in a negative recommendation. Poole-Robb and Bailey base their Grey Area Dynamics model on context, and Syria at the time was not any worse than a number of emerging market economies in terms of Grey Area Dynamics that Lafarge and other multinationals were already operating in. They might have advised Lafarge to limit the exposure of their investment however, as just a few events—their minority stakeholder turning against the government and the government losing control of the area—resulted in Lafarge assuming virtually all risk, even if they could get insurance to recoup some of the lost investment.

During the Syrian Civil War, however, it is clear that not only was Lafarge completely exposed by the time the Syrian government had withdrawn from the area, but that Lafarge was ill-equipped to manage the risk to the facility and its staff. Poole-Robb and Bailey offer some effective advice on protecting physical assets, but Lafarge by itself could not have fended off attacks on their infrastructure from ISIS or any other rebel group. Even if the site had been sufficiently hardened enough to defend against attacks, along with sufficient security personnel to ward off anything short of a full-scale attack, it is likely such measures would have only made the facility even more attractive to armed groups in Syria. Even the YPG needed the involvement of the United States air force to successfully fight off ISIS forces in Kobane (Bradley and Parkinson 2015). Lafarge was at the mercy of local events from the moment the Civil War started and based on how Poole-Robb and Bailey may have 'scored' the situation in Syria, they likely would have advocated for pulling out when other Western companies did.

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While the authors were well-regarded for their timely work on political risk, much of the language and perspective does tend to take on a culturally-biased tone (ie when referring to “payments to workers with slack jobs” (Poole-Robb and Bailey 2003, 15) and a focus on the potential negative impact of minority groups) which may reinforce the kinds of negative xenophobic tendencies in its target audience that will hurt them when confronted with business situations in emerging markets.

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Conclusion

In seeking to answer the research question, '*Why did Lafarge's political risk management practices allow the company to continue operation of their Syria facility during the Syrian Civil War?*' I have demonstrated that political risk management practices may have allowed the initial Syrian investment, but if political risk management practices if properly followed, should have led Lafarge to exit Syria at the same time as other Western companies. Additionally, since all Lafarge staff around this time had been rigorously trained in 'The Lafarge Way' and the 'Principles of Action', a set of ethical beliefs that should have prevented Lafarge employees from engaging in trade with ISIS, then one can conclude that even the best training and risk management practices are not enough for a company executives and managers from making bad decisions that puts their assets and employees at risk. The memo released by LafargeHolcim regarding Syria provides further evidence that Lafarge's processes, as well designed as they may have been, were broken from the highest level of employee to the lowest. Firms operating in emerging markets need some form of external control to prevent such activities from recurring in other potential conflict areas.

Political risk assessment practices by Lafarge, and those expressed by Bremmer and Keat, and Poole-Robb and Bailey, did not and would not have discouraged Lafarge from investing in Syria in 2006-2008. At the time, Syria was successfully weathering international criticism over their role in the assassination of al-Hariri and the Syrian government had made statements about reforming the economy from the socialist, state-centric model it had utilized for decades. The area was considered only as risky as any other emerging market economy in the Middle East.

However, where Bremmer and Keat, and Poole-Robb and Bailey differ from Lafarge's risk management practices is their focus on political risk management, especially in the emerging market economies that Lafarge had been interested in expanding into. Their versions of political

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risk management practices highlight the potential for terrorism, extremism, geopolitical peril, as well as government practices such as expropriation and other rent-seeking behaviors that Western executives may be unfamiliar with. Lafarge's publicly available risk management practices pay very little attention to these kinds of threats, perhaps due to their unfamiliarity with operating in these kinds of environments. Lafarge's version of risk mitigation for these kinds of scenarios appeared to rely almost exclusively on Faris Tlass to work with local actors to protect their investment, which proved to be a mistake for their risk mitigation. This may have been a mistake even if the Syrian Civil War had not broken out as a simple personality conflict with Assad family and Tlass could have led to complications with Lafarge.

When the Syrian Civil War became official, Lafarge's practices, as well as Bremmer and Keat's, and Poole-Robb and Bailey's, should have ensured the company would have left when other French multinationals like Total did. Instead, these practices were abandoned in place of what appeared to be a simple cost-benefit analysis that Lafarge could 'ride out' the civil war and emerge in a dominant position to help reconstruction efforts. This was not a failure of political risk management practices, but a failure to pay attention to them, meaning that even the best internal political risk management procedures seem to be an ineffective deterrent towards safeguarding a company's investment. Part of this decision making may have resided from over-reliance on security consultants who made a bad recommendation, but Lafarge executives themselves seemed unable to properly understand the implications of their decision to stay involved in Syria. This may have to do with the idea espoused by political risk management consultants like Ian Bremmer who believe that political risk is not properly respected by corporate executives.

Further, these political risk management practices represent ineffective means of preventing a company from being utilized by armed nongovernmental groups, or even a government, to engage

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in rent-seeking behavior occurring at modest levels. Being used in such a way may impact corporate reputation, but for a company like Lafarge, which profited from constructing sections of the Third Reich's Atlantic Wall, reputation may not matter as much as increasing market share.

As repeatedly stated in their risk management practices, the most important element of protecting the company from losses is the diversification of its assets. If the actions of the company negatively affect the area in which it operates, providing support to criminals, terrorists and war criminals, then this is considered a loss. For security services, especially Western militaries, this support may result in negative geopolitical ramifications that extend beyond the company, as it has in Syria with Lafarge. Despite public knowledge that the facility was operational in Syria near anti-Western forces, there existed no policy that could have been used by France or its NATO allies to compel Lafarge to abandon its facility. Without policies to address corporate behavior such as was exhibited by Lafarge, Western militaries may increasingly confront security situations exacerbated or even created by corporate behavior in emerging market countries.

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Appendix

Grey Area Dynamics	Sub sections
Cultural integration	Country culture, corporate culture, religious differences, tradition, customs/ethics, civil unrest, language/dialects, public hostility/distrust, integration, xenophobia
Bureaucracy	Red tape, vested interests, deliberate/enforced delay, political influence, cultural habits, local and regional interference, perceptions of bureaucratic rules vs reality, local/central government domestic action, extortion, agents/distributors action
Corruption	Bribery, blackmail, patronage, disguised beneficial ownership, nepotism, cronyism, political coercion/corporate hospitality/gifts, political and economic corruption, sponsorship, vested interests
Legal safeguards	Industrial action, trade unions influence, government policy, nationalization, environmental hazards, customs or other duties, corporate governance, regulations, tax, hidden political agenda
Organized crime	Kidnapping, ransom, extortion, drugs/arms/people trafficking, smuggling, cyber crime, protectionism, money laundering, secret societies, criminal/union activity
Counterfeiting and fraud	Fraud, white-collar theft, blue-collar theft, piracy, tribal action, product adulteration, product diversion, official/unofficial customs action, payment to slack workers for easy jobs, false accounting, 'consultancy services'
Unfair trade	Parallel trading, product diversion, dumping, hidden barriers to entry, sponsorship, government policy, pricing, minority (right or left-wing) hired to damage competitor's reputation, nepotism, vested interests (lobbying from corporations to government)
Asset security	Pilferage, product contamination/alteration, disgruntled employees, computer and IT issues (hacking), threat to management/staff/premises, extremists, minority groups, civil unrest, war, natural disasters
Extremism	Tribalism, minority activist groups, environmental groups, terrorist activity (religious or political), extreme right- and left-wing groups, religious fanaticism, extreme industrial action, sectarianism, genocide
Unfair competition	Commercial espionage, vested interests, media relations, lobbying, corporate secrecy, embargo, local government interference, plants (when employees are planted to disrupt the business of a competitor), litigious culture, boycott

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