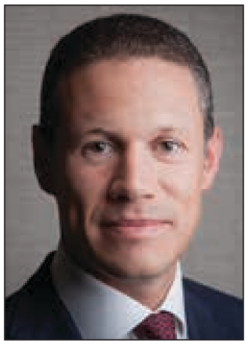
An Imperative to Diversify

An Interview with Badr Jafar,
Chief Executive Officer, Crescent Enterprises



Badr Jafar

EDITORS' NOTE *Badr Jafar is also President of Crescent Petroleum. He is the Managing Director of Crescent Group, which has been operating from the UAE as a family business group for 47 years, and is the parent company of Crescent Enterprises and Crescent Petroleum. Jafar serves as Chairman of Gas Cities, a joint venture between Crescent Petroleum and Dana Gas PJSC, and as Chairman of Pearl Petroleum, a partnership between Crescent Petroleum, Dana Gas, OMV of Austria, MOL of Hungary and RWEST of Germany. In 2010, Jafar founded the Pearl Initiative, a nonprofit venture in cooperation with the United Nations Office for Partnerships to promote a corporate culture of transparency and accountability across the Gulf Region of the Middle East. He has been appointed as a member of the United Nations Secretary General's High-Level Panel on Humanitarian Financing to address and examine the growing humanitarian financing crisis. Jafar is an active member of the Young Presidents' Organization, serving as Ex-Officio Chair of the YPO Emirates Chapter. Jafar was honored as a Young Global Leader by the World Economic Forum in 2011 and is Co-chair of their Family Business Community, a Global Agenda Trustee for Economic Growth and Social Inclusion and a member of the Global Future Council on the Humanitarian System.*

COMPANY BRIEF *Crescent Enterprises (crescententerprises.com) is a diversified conglomerate headquartered in the UAE that operates a range of regional and global businesses across four verticals: CE-Operates, with operating businesses in ports and logistics, power and engineering, and business aviation sectors; CE-Invests, a strategic investments vertical with a balanced portfolio of diversified asset class investments; CE-Creates, a business incubation division and CE-Ventures, a newly launched corporate venture capital arm that makes strategic direct investments in early- to late-stage start-ups across the world.*

Crescent Enterprises employs over 4,500 people in 20 countries across five continents. With a long-term investment and operating philosophy that embraces corporate governance, inclusive growth and responsible business practices, Crescent Enterprises is a leader in growing diversified regional and global businesses that are sustainable, scalable and profitable.

How has Crescent Enterprises evolved and what are its key areas of focus today?

To take a step back, Crescent Group was originally an oil and gas business, through Crescent Petroleum, which was the origin of the family business that operated in upstream oil and gas. Over the years, the focus moved more towards natural gas and the gas value chain. About 18 years ago, I began working under the Crescent Petroleum umbrella pursuing business development and eventually became its President – a position I still hold.

I have always felt that there was an imperative to diversify. That initially started with several smaller operations in new sectors, which I then institutionalized under Crescent Enterprises.

As time went on, we expanded our investments in a number of strategic sectors. Recently, we have been looking at early stage investments and developing an internal incubator as well to start new businesses from scratch and keep our entrepreneurial family legacy alive.

Over time, Crescent Enterprises has gradually evolved into four main business verticals. The first is CE-Operates, which includes our operating businesses, such as Gulftainer that is in ports management as the largest privately owned container terminal operator in the world; Momentum Logistics that is a 4PL logistics provider; Uruk that is in power and engineering, and Gama Aviation that is in business aviation.

On the investment side, we have CE-Invests, our strategic investment arm that invests predominantly in private equity. We have actively invested in around 10 private equity firms, through either being part of the General Partner (GP) entity, represented on the boards or as a member of their investment advisory committees. In addition to this, we also pursue co-investment opportunities across the various sectors that these private equity houses are exposed to.

The third arm is CE-Ventures, which encompasses early stage seed funding all the way through Series C and beyond. This division is capitalized at $150 million and already has a portfolio of around 23 individual investments. These include everything from medical and logistics technology to food technology and other emerging technologies like Artificial Intelligence (AI) that have applications across diverse sectors.

We're also sector, and geographically, agonistic. We find that the global growth markets are a less crowded space, which offers more competitive valuations, many of which have already emerged. Much of the new wealth creation is going to happen there.

We have teams meeting with entrepreneurs in places like Sri Lanka, Vietnam, the Philippines and countries across Sub-Saharan Africa. We make deals by ensuring active presence on the ground and by building personal relationships. In some cases where we do not have ready access, we work through the private equity vehicles we invest in to gain that access.

Finally, we have our own start-up incubator, CE-Creates, and it is where we research and develop our own ideas. Our policies are put in place to allow employees to spend as much as they need to achieve their objectives. They come up with new ideas and put them forth to an incubator. If their ideas get picked up, they can spend time each month working with the incubation team on the idea. On a case-by-case basis, we also look at incubating ideas generated by entrepreneurs outside the group.

Our business is always evolving but, at the moment, we have these four clearly structured verticals that we are building on.

How critical has it been to diversify the business?

In the '70s and '80s through our energy business, we had presence in many parts of the world, including in Latin America and Eastern Europe, but we made a conscious decision to refocus our oil and gas new business development on the Middle East and North Africa.

Energy prices went through a volatile period, which made us rethink our sole reliance on one sector as a family business in terms of sustainability. Also, the markets in the Middle East and North Africa as well as the geopolitical landscape were becoming more complex.

For that reason, it was only prudent to diversify our assets and operations into other sectors, some of which were strategically related to the energy sector. For example, many of the projects we were pursuing as an oil and gas company had very complex logistic requirements. This meant we had to rely on external parties to manage those logistics which, in some cases, were not working as well as we wanted them to.

Some parts of the diversification made sense in terms of necessity and synergy between different businesses, and others were part and parcel of us seeing opportunities to develop within the region. The UAE, like other Arabian Gulf countries, went through a major growth spurt in the '90s, and there was an influx of population from different parts of the Middle East and North Africa, so the pace of growth in certain service sectors such as healthcare and education were strong. It made sense to invest in and, in some cases, build up companies from scratch in those sectors and then see how local expertise could be exported to other emerging and even developed markets.

Our activities have been partly adaptive and opportunistic and partly a matter of survival.

Has the Pearl Initiative developed as you had envisioned?

When we first established it in 2010, it was evident that it was an opportune time to launch something like the Pearl Initiative. The Arabian Gulf region was on the cusp of economic transformation while also facing major risks. More than 80 percent of non-oil GDP in the region is generated by privately owned businesses, which are either family-run or family-controlled. The majority of family wealth in the region – an estimated trillion dollars in assets – is passing hands from the first generation to the second and even the third, over the next five to 10 years.

This transition of wealth carries risks, as very few family businesses have a robust governance framework to weather such change. With such measures, most family businesses will be the embodiment of the three generations wealth loss adage.

Some of this is because of market relevance, or the lack of it; but a large chunk of it is due to companies' governance challenges.

There is a huge opportunity to build more vigorous governance structures to help generate better resilience within family businesses.

At the same time, we have a major socioeconomic crisis with youth unemployment. The average youth unemployment rate across the Arab world is pushing 40 percent. That's 40 percent of educated youth that simply don't have access to opportunity. Historically, the private sector, more than governments, have been instrumental in providing job opportunities for the youth population. Family businesses are the backbone of our economy, and their failure coupled with growing unemployment could lead to a perfect storm.

That is why the Pearl Initiative has made a lot of sense. It has made good progress. There were certain topics we had embarked on that we thought would be difficult for our audience to consume but have, surprisingly, been the most popular. Anticorruption is an example. We launched a series of other well-received programs including Diversity in the Workplace and Governance in Family Firms and Small and Medium-Sized Enterprises.

More recently, we are looking at governance in nonprofits so we can learn to build resilience in our social sectors, because a huge amount of money goes through them. Anywhere between $300 billion to $1 trillion dollars per year is donated to almsgiving by Muslim communities, according to the Islamic Development Bank. That is a staggering number, but plausible when you consider that the GDP of the Islamic economy (cumulative GDP of Muslim-majority countries) is pushing $20 trillion. Of course, one must appreciate that there are two billion or so Muslims in the world, of which the Arabs only make up one quarter. This is not just an opportunity for the Arab World.

The questions on everyone's mind are, where is that money going and how is it being used? Moreover, who is accountable for the impact it is generating? Unfortunately, to a large extent, no one has the answers to these questions. It is not about how much bang for our buck we can get. If the systems aren't transparent, a great deal of potential destruction can happen even if a small percentage of that money falls in to the hands of violent non-state actors.

We are collaborating with the Bill & Melinda Gates Foundation on this program, who are also working with a number of other entities across the region.

I'm generally happy with how things have come along at the Pearl Initiative, but there is much more to do and I would like to see our partnership base grow faster. We have more than 100 companies that have now joined as members and collaborators of the Pearl Initiative. Our efforts are focused on ensuring all these partners benefit from each of our programs. Beyond that, we have Saudi Arabia opening up even further and there is major activity to scale up our activities there. We are holding 10 events across that country this next year alone.

What advice do you give young people across the region when it comes to the type of career opportunities that will be available to them?

It is not practical or realistic to expect our governments to provide the number of necessary quality jobs for the hundreds of millions of unemployed or underemployed youth in our region.

My advice would be for young opportunity seekers to find their own success by building out new businesses and generating new ideas that can be pursued and that will create opportunities for others at the same time.

What types of ideas should be pursued? Obviously, it all depends on the individual opportunity-seeker, but I encourage everyone to do proper needs-based analyses before they launch businesses that might not be relevant – both for the region and in today's context.

It is important to identify and properly understand the various challenges that exist, then build businesses that can address those challenges head-on.

If you believe in challenge being opportunity, then there are endless opportunities to embrace: we have a water crisis, we have a youth unemployment crisis, we have healthcare challenges with the highest rates of youth obesity and the resultant ailments, we have shameful humanitarian crises that are growing in scale by the day – you name it, we have it. We have an opportunity and indeed responsibility to wrap our heads around these challenges and to build sustainable and scalable solutions to address them.

At the same time, we should be mindful of the fact that we are trying to build purpose-led businesses amidst a fourth industrial revolution, which can make matters more complicated. According to the World Economic Forum, 60 percent of the jobs that will exist in 2030 are yet to be created. It's about how we can anticipate our future needs.

The only way businesses can build resilience around those opportunities is through continuing to rescale and upscale their workforces to stay relevant and competitive.

I also believe humanity can never be replaced by emerging technology. In a time and day where machines do learning, language and logic, we should reassess what truly makes us human. Where there has been an overwhelming focus on sciences in the past century or so, many of the softer human skills, like creativity, critical thinking, the art of communication and compassion, for example, are best taught through the humanities and arts more than through sciences. This is where the arts have an increasingly important role to play beyond aesthetics which is, unfortunately, what art has been reduced to in many cultures today. Seeing the arts as more fundamental as opposed to simply ornamental is a trend I predict will continue to build momentum.

We also can't just rely on our traditional schools and universities because this template type of education we have today was made for the 19th century industrial revolution, where one would graduate to join a model-factory job. The rate and pace of obsolescence of information and knowledge is growing by the day with the rapid technological shifts, and we need much more dynamic education systems for future work and global economies.

Education is important, of course, but we need to look at it with a fresh perspective and be adaptable, agile and creative, regardless of age or occupation. Life-long education and upskilling should be addressed in a more detailed and rigorous manner, not only by the government, but by businesses, social institutions and the people (including the youth) everywhere. Until such time, we can only wait on our systems of education to figure out new methods for a new paradigm. The way I see it, universities would ideally provide shorter courses spread over a lifetime. One can come out of school with foundational skills, work for a few years, and then return to school to learn more and that way continue to stay in touch with what is relevant and useful. Think of it as an educational license that has to be renewed for it to be valid. It would also make education much more affordable with fees spread over one's life when one is likely to be able to afford it.

This will take time because our educational infrastructure is rigid and often resistant to change. We don't have time to spare, and so in the meantime I see businesses taking the lead in investing in both emerging technology and the human being. ●