

TEACHING MATERIALS: ROLE PLAY SIMULATION ON SMALL BUSINESS DEBT COLLECTION IN BRAZIL

¹Dr. Murillo de Oliveira Dias,

²Raphael Albergarias

¹Coordinator of DBA Programs at Fundação Getulio Vargas, Brazil

¹Corresponding e-mail: murillo.dias@fgv.br // agenda.murillo@gmail.com

²Fundação Getulio Vargas, Brazil

Abstract

Small business debt collection negotiation is a hard task for business negotiators. On daily basis, specialized professionals from financial institutions negotiate overdue accounts with valuable customers. In Brazil, approximately 63 million clients with overdue accounts are registered at the Credit Service Protection (Serviço de Proteção ao Crédito – SPC). Hence, this work presents teaching solutions designed to manage conflicts in the debt collections environment, through a two-party role play simulation, along with detailed instructions and teaching notes enclosed. It is based on a true case of debt collection occurred in Campos dos Goytacazes, Rio de Janeiro, Brazil. Key findings applied to N=56 subjects are analyzed and further discussed here. The role play simulation is designed to: (a) provide negotiation teachers with educational tools and new insights about how to deal with small business debt collection negotiations; (b) to improve the skills of participants on mutual gains, and consensus building. Finally, (c) to provoke debates in classroom regarding debt collections. Discussion and future research complete the present article

Keywords: Debt collection, Negotiation, Customer Satisfaction, Brazil

1. INTRODUCTION

This article presents a two or four-party debt collection negotiation teaching material. It involves one debtor and one creditor, regarding a small business past due account, which is the unit of analysis (Yin, 1988).

Debt collection is a hot topic. This work followed Dias, Ribeiro and Albergarias (2019). According to these authors, critical success factors involve recollect debt without losing a valuable client:

Keep the credit without losing the client. Keep both credit and client. In this sense, Mother Teresa recommended patience and caring with each other. Through love and sacrifice, results would be accomplished. Clients facing personal difficulties should be adequately, and essential, empathetically treated. In this case, this behavior proved to be effective (p.444).

In the present research, the objective was to further extend current knowledge on debt collection negotiation. Role-play simulation was designed to assist business or financial negotiation classes.

The subject under investigation is addressed through a two-party role play simulation (see the Appendix I - a full set of instructions is available). The objectives at hand are not restricted to:

(i) Negotiation training programs for executive education, primarily; (ii) to provoke in-class debates under debt collection issues. This work might be useful for a number of different courses, such as MBAs, graduation courses in general, executive seminars, extension courses, in-company assessments; (iii) also helpful to teach professors, financial agents, bank employers, managers, decision-makers, practitioners, students, bank employees, financial associates, on how deal with debt collection negotiations, with the clear purpose to expand, and to gain deeper insights on the subject, as well as preparation to deal with real life scenarios.

First, negotiation is defined as a “process of communication by which two or more parties seek to advance their interests or those of the persons they represent through an agreement on the desired future action” (Salacuse, 2003, p. 11). Negotiation is also defined as “a social interaction process, which involves two or more persons, regarding their interests, identity, and cognition, and dedicated to reaching an agreement over the substance negotiated through mutual gains” (Dias, 2016, p.29). Moreover, Business negotiations are defined “as the social interactions between two or more persons, regarding their interests, and dedicated to reaching an agreement on making, buying, or selling goods or providing services in exchange for money, or part of a job” (Dias, 2016, p.30). According to Fisher, Ury and Patton (1981), a successful negotiation is the one that parties stop looking for alternatives. Moore (2003) asserts that a negotiation should be considered 100 percent successful when three types of interests are attained: (a) material; (b) psychological, and (c) procedural interests (P.321-322).

Debt collection in Brazil represents a major concern. Regarding individual debts, the default rates reached 62.6 million people in 2018, according to the National Credit Protection System – *Serviço de Proteção ao Crédito* (SPC, 2018)¹. In sum, there are currently more debtors in Brazil than the entire population in France, for instance.

Role play simulations have been previously investigated in different scenarios: e-business negotiation (Dias & Duzert, 2017); non-market forces (Dias & Navarro, 2018); social mediation cases (Dias, M. O. & Teles, 2018); public agents (Dias, M. O., 2018); generational interactions (Aylmer & Dias, M. O., 2018); governmental relations (Dias, M. O. & Navarro, 2017), retail businesses (Dias, M. O., et al., 2015); mining limestone such as Pirecal (Dias, M. O., & Davila, 2018) other cases can be applied: fashion business such as Dudalina case (Dias, M. O. et al., 2015, 2014); carmaker case, as in BMW in Brazil (Dias, M. O. M., Navarro and Valle, 2013), and Fiat Chrysler in Brazil (Dias, M. O., et al., 2014, 2013); streaming companies, such as Netflix in Brazil (Dias, M. O., & Navarro, 2018); aircraft manufacturer, as in Boeing x Embraer (Dias, M., Teles, and Duzert, 2018; Dias, M.O. and Duzert, 2018). This role play simulation is also applicable to Craft beer industries (Dias, M.O. and Falconi, 2018); Heineken in Brazil (Dias, M. O., 2018); civil construction debt negotiations (Dias, M.O., 2016); copier industry (Dias, M.O., 2012), among others.

Nevertheless, despite the comprehensiveness of this case applications, this case was primarily designed for the Brazilian credit unions or credit cooperatives. Cooperative societies are widely studied in Brazil, especially credit unions, which attracts recent scholar attention (Dias, M.O. 2019h; Dias, M.O., Ribeiro and Albergarias, 2019; Dias, M.O. & Teles, 2019; 2019b; Dalacosta, Dias, M.O, Meirelles, 2019; Dias, M.O., 2018; Dias, M.O & Craveiro, 2019; Dias, M.O, Krein, Streh, Vilhena, 2018; Dias, M.O. & Ramos, 2018; Dias, M.O & Teles, 2018). Out of the afore mentioned body of research, Dias, Ribeiro and Albergarias (2019), were followed in the present article. This case was also designed originally to be applied ultimately at Brazilian credit cooperative Cresol, following Dias, M.O; Silva, C.A.; Lund, M. (2019).

2.METHODS

This study is a qualitative, inductive, based on direct observation, and in-depth interviews with a case occurred in Rio de Janeiro, Brazil, municipality of Campos dos Goytacazes. One interview was conducted face-to-face, through e-mail invitation, with 100 percent rate response. The sample chosen was purposive, since the case occurred with one financial agent and the client. The real names were omitted for avoiding compliance issues. Therefore, their identities are preserved. This research is limited to the Law of Cooperatives in Brazil, Law 5.746/71 (Brasil, 1971), and Federal Constitution 1988 (Brasil, 1988). It is based on Karpman's drama triangle (Karpman, 1968), rooted in Berne's (Berne, 1961) transactional theory. Role play simulations are ultimately supported by Goffman's dramaturgical theory (1959, 1961). This case is limited to the Brazilian credit cooperative scenarios. Other scenarios may differ and are not addressed in this current research.

This case is also limited to the Brazilian laws on credit, especially risk designation Central Bank Resolution no. 2682/99 (Bacen, 1999).

¹ The SPC Brazil (Credit Protection Service) is the information system of the National Confederation of Shopkeepers (CNDL). SPC is the largest database of Latin America in credit information on individuals and companies. SPC covers all the 26 Brazilian states plus the Federal District.

3.ROLE PLAY SIMULATION

3.1 Karpman Drama triangle

The present role play simulation is inspired by Karpman's (1968) drama triangle compiled basically of roles: (a) victim, (b) rescuer, and (c) persecutor. Karpman (1968) argued that most people tend to perform alternating roles within a conflict. Although this role play simulation involves two parties (alternatively four parties, two parties per side – two debtors plus two creditors, at facilitator's discretion), the negotiators may alternate between roles in Karpman's drama triangle, also supported by Goffman's drama theory (1959, 1961).

3.2 Case dynamics

This teaching material was designed for two players. However, two more can be added, if necessary. A mediator could also be stimulated to interfere, if the negotiation does not perform properly. Variations could also include a mediator, at the instructor's discretion (see Appendixes I and II).

3.3 Mechanics

Parties should take 30 min to 1 hour to read the case and to prepare themselves to negotiate. Negotiation maps are encouraged to be used additionally to help planning the negotiation. 30 min to 1 hour of negotiation plus 30 to one-hour debriefing session. In total, one hour and a half to three hours' total time for this exercise.

3.4 Major Lessons

To migrate from distributive into integrative negotiations; to map and focus on underlying interests; to practice empathy towards each other; to develop promptness in creating mutual value to be later distributed. To regain the client for the financial institution, preventing client evasion to competitors. Despite there is no limit for the number of participants, experience suggests that 60 is the maximum tolerable per facilitator. In this case, N=56 participants took place of the negotiation, divided in two pairs of debtors and two pairs of creditors, on the other side of the bargaining table (see Figure 1).

3.5 Settings and materials

The facilitator will divide the classroom into groups of two students each. Then, each group receives their printed roles (see roles in Appendix II)

3.6 Briefing

The facilitator asks to the participants to take 15 to 30-minute preparation before engage in negotiation. In the present case, the facilitator gathered all debtors in one classroom and all creditors in other classroom to better prepare. All students had 45 minutes to prepare.

3.7 During the exercise

It is advisable to the facilitator to collect all results, to further analyze, or to ask the parties to write down their outcomes in the blackboard, if it suits best or if it is more convenient. Local constraints will drive the best option to run.

3.8 Debriefing

After approximately one hour debate, the facilitator announces the end of the exercise. The total amount of time employed in the task should not overpass 90-120 min, within a class with 40 participants. Then, the facilitator starts the debates in class, by analyzing each result, from beginning to end.

4. RESULTS AND ANALYSIS

The small business debt collection role-play simulation was applied in one executive training with N=56 participants, divided in 14 groups with four negotiators each, two debtors and two creditors, because the facilitator, at discretion, decided to better integrate the group, because this was the first exercise applied with that particular group in the training session. The training occurred by the occasion of the Cresol's first week of credit recovery, which took place at Francisco Beltrão, Paraná state, between August 13-14, 2019. There

were 42 accountants, 2 managers, and 6 lawyers participating in the executive seminar on Communication and negotiation. Out of these, 70 percent were female and 30 percent male.

The negotiation results are illustrated in Figure 1, as follows:

#	Value (BRL)	Grace period	bank domicile (credit card machine)	working capital offer	External Buisness Consulting	Corporate Credit Card	To bring other bank account to Cresol	Insurance	Assets as guarantee	Payroll	Cresol's Commercial dept visit	Bank check discount	Guarantors
1	6.000,00	2 days	•		•		•						
2	6.000,00	15 days	•	30.000,00	•			•					partners
3	6.250,00	1 day	•						Vehicle				
4	7.000,00	5 days	•	20.000,00						•		•	partners
5	6.450,00	5 days	•							•		•	partners
6	6.450,00	none	•								•		
7	6.500,00	2 days	•	50.000,00									
8	6.000,00	15 days	•								•		
9	5.000,00	none	•	400.000,00	•					•			partners
10	6.450,00	15 days	•	60.000,00	•	•		•		•		•	partners
11	6.450,00	none	•	10.000,00	•								
12	6.500,00	none	•	50.000,00	•			•		•		•	partners
13	6.500,00	none	•	300.000,00	•	•				•		•	partners
14	5.500,00	7 days	•	60.000,00				•	commercial property	•			
Total	6.217,86	86%	100%	65%	50%	15%	7,50%	28%	15%	50%	15%	35%	50%

Figure 1: Outcomes of the N=56 role play simulation participants.

As depicted in Figure 1, different options were added to the principal outcome (the debt past due): (i) grace period; (ii) credit card machine (bank domicile); (iii) working capital offered; (iv) external business consulting; (v) insurances; (vi) assets used as collateral; (vii) including payroll to the small business bank account; (viii) commercial visit's, on credit cooperative regard; (ix) bank check discount; (x) guarantors (essentially the business partners - debtors); (xi) corporate credit card offered to the debtors.

Key findings evidenced asymmetrical negotiations. Each group, working in the same financial institution, provided district results, according to displayed in Figure 1. Note that 100 percent of the negotiations reached a deal, and 100 percent of the negotiators succeeded in closing the deal on the debt itself and to offer a credit card machine within the agreement (because the debtor was very traditional and did not use that far, electronic ways of debt collection). In four cases, an insurance option was added to the agreement. A corporate credit card to the debtor was offered in 15 per cent of the negotiations.

Only in half of the outcomes a free consulting was offered to the debtor (there is a local partnership with SEBRAE, which is a governmental initiative to assist micro and small entrepreneurs in Brazil). Only one outcome brought another debtor's account to the Cresol's bank account, eliminating the competition, concentrating efforts in one single Cresol's account.

The positive outcomes were registered in 100 percent of the cases. Finally, 100 percent of the overall students evaluated this exercise as a constructive experience for their careers.

6. DISCUSSION

In the debriefing session, the facilitator should pinpoint the role of debtors, preventing to paly victims. One advice is to change the discussion focus from problem & past-orientation be shifted into solution & future orientation. This new perspective allowed the participants to avoid past grievances or problem stagnation, which could end in the Court of Justice.

Creditors are strongly advised to prevent criticism, to foster the winner's triangle (Choy, 1990; Emerald, 2009), instead of the drama one (Karpman, 1968). Finally, learn how to negotiate without escalating in strong negative emotions (Shapiro, 2016).

Participants should also be prevented to avoid confirmation bias, observed in some cases, where the client's risk classification (AA, B, C or other), might influence negatively the creditor's performance in this particular case (Kahneman, Slovic, and Tversky, Amos, 1982)

7. FUTURE RESEARCH AND LIMITATIONS

The results shown were valid to the Brazilian financial audience. The average participants age was between 25-35 years old. All participants are creditors in real life, therefore, real debtors should be added to enrich the exercise. All participants are low-level management, credit analysts or credit recovers, mostly. 20 percent had more than 3 years of professional experience, while 80 percent had less than one-year experience in the position. Only 20 percent married, 80% single.

In other countries, the participants may behave distinctly. Results might differ in other countries. For future research, it is encouraged quantitative analysis on this particular case, as well as a greater number of samples, mixing real debtors to a given number of creditors. Finally, other material should be developed to encompass other types of debt collection negotiation, such as(i) individual firms; (ii) farm debt; (iii) local agricultural producers, among other types of small business debts.

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APPENDIX I

Teaching notes

Scenario: the case illustrates the difficulties faced daily by financial agents who work on credit recovery department within financial institutions. In this case, credit unions or credit cooperatives in Brazil. For other countries, different credit laws and particular issues, such as different negotiation processes should be taken into consideration.

Mechanics: Parties should take 30 min to 1 hour to read the case and to prepare themselves to negotiate. Negotiation maps are encouraged to be used additionally to help planning the negotiation. 30 min to 1 hour of negotiation plus 30 to one-hour debriefing session. In total, one hour and a half to three hours' total time for this exercise.

Major Lessons:

To migrate from distributive into integrative negotiations; to map and focus on underlying interests; to practice empathy towards each other; to develop promptness in creating mutual value to be later distributed. To regain the client for the financial institution, preventing client evasion to competitors.

Objectives:

This exercise intends to discuss the role of Client and credit recovery in the Negotiation Process. That negotiation should be seen not as an intrusion devoted to promote disruption, but one aid to promote consensus between two different parties. One important objective is related to the process control.

GENERAL SETTINGS	
Time required	1 hour – 2 hours
Number of participants	2 parties, one debtor, one creditor
Groups involved	No
Agent present	No
Third part present	No

APPENDIX II – PARTIES' ROLES

PART 1

◆◆ DEBTOR: JOHN, ROSITA'S SON ◆◆

GENERAL INFORMATION

Are you John Neves, Doña Rosita's son, as it was known the matriarch and founder of Rosita store jewelry. You are the senior partner of the family-owned company, which was formed in 1975, by your father. Aldo and by your mother, Rosita. Is located in the city centre. The your father passed away two years ago and your mother a year ago, leaving this company. You do not have a lot of experience in this market and so little in business management. The sales point is one of the best in the city, however, officials are not bound by the results. Sales are not going well in the retail market and competition is increasing. The economic crisis is exacerbating the situation.

To make matters worse, the Administration inherited is very archaic. The few customers are elderly who were your friends Alceu and dona Rosita. This company never accepts credit or debit card. Only cash or check. Needless to say, the amount of returned checks is great and that the volume of checks is less each month, in view of the modern electronic means, via credit/debit card.

Shop decor leaves something to be desired: there is infiltration in some points. To your company is a member of the Cresol from 2012, and have a credit history, whose greatest value was BRL 60,000.00 in working capital, settled with small delays. Currently, there is a debit of BRL 6,000.00, there are expired 45 days, with fixed value of BRL 6,450.00, debit card open.

CONFIDENTIAL INFORMATION

You informed the Cresol that your store occupies an area of 80 m², corner shop with sick people circulation, a point in the center of the city. There is movement on almost all days and times, with the exception of Saturdays from 1:00 pm, where local businesses shut doors, returning to open Monday morning. You work in two shifts with a partner, Marcos Cintra, which has 10% of the business. Marcos was a partner of your mother, Rosita. You suspect that mark and your manager, Richard, the oldest, divert goods seller in times when you are not present. Think even that mark does "soft body" for you to give up the business – undervalued – so that it is the only owner, acquiring the Rosita Jewelry for a bargain price.

You have difficulty with control of as many items in your inventory. The point has the potential to sell more than 20 items a day, the average price of BRL 600.00, which has already achieved in the year 2017. From then on, the revenue has been falling. The store has 4 employees. Today sells only ten items per day, the average price of BRL 450.00. Follow the billing data in recent years:

Year	Value (R\$)	Average/Month (R\$)
2016	3,480,000.00	290,000.00
2017	1,800,000.00	150,000.00
2018	1,080,000.00	90,000.00

2019 (*)	600,000.00	50,000.00
(*) until July 2019		

You own an asset on legal person free of charge, in the amount of BRL 300,000.00. Has working capital of BRL 20,000.00 in a business bank account in the same city. Serasa: blank sheet. SCR-AA, both in physical person. As an individual, presents the following assets (mostly inherited and free of charge):

Real estate
Apt. -Coverage in upscale suburb BRL 1,000,000.00
Home in gated community BRL 450,000.00
Fit in upscale suburb BRL 250,000.00
House under construction BRL 200,000.00
Land near the serra BRL 150,000.00
Automobiles
Toyota Hilux 2010 BRL 90,000.00
GM Cobalt 2015 BRL 45,000.00
Total: BRL 2,185,000.00

The profit margins have fallen over time, today are in 12%. Fired one employee last year. Approximately 30% of the Bank checks return without funds. The company does not have business or billing structure. He even does the collection, door-to-door.

Hate this job. Pedro, the employee of Cresol has called and left messages. You feel discouraged and not even paying attention to them. Pedro has it sought in vain. You get along reasonably well and have approximately the same age, 32 years, within months.

Suddenly, Peter appears in your shop, to the end of the day. Are you tired, discouraged, but meets Peter promptly coming to collect the debt. Prepare to negotiate with Pedro.



PART 2
◆◆CREDITOR PEDRO ◆◆
GENERAL INFORMATION

Are you Pedro, newly hired by Cresol, accountant, whose first customer is John Snow, son of Doña Rosita, as it was known the matriarch and founder of Rosita store jewelry. John is the senior partner of the family-owned company, which was formed in 1975, by your father. Aldo and by your mother, Rosita. Is located in the city centre. His father died two years ago and his mother a year ago, leaving this company. John has a lot of experience in this market and so little in business management. The sales point is one of the best in the city, however, officials are not bound by the results. Sales are not going well in the retail market and competition is increasing. The economic crisis is exacerbating the situation.

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(*) until July 2019

It was reported an equity in the Legal Person free of charge, i.e., the store, the value of R \$300,000.00. Has working capital of R \$20,000.00 in a business bank account in the same city. Serasa:-blank sheet. SCR-AA, both in physical person. As an individual, presents the following assets (mostly inherited and free of charge):

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Automobiles

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 GM Cobalt 2015 BRL 45,000.00

Total: BRL 2,185,000.00

The profit margins have fallen over time, today are in 12%. Fired one employee last year. Approximately 30% of the Bank checks return without funds. The company does not have business or billing structure. He even does the collection, door-to-door.

You received the mission to charge John, both are approximately the same age, 32 years. He's been calling constantly, but without success. Has left a message for employees, no response. Decides to make a visit and go collect directly.

Prepare to negotiate with John. Remember that it is in trouble and you can count on a little of your experience in management, to help you. This could be your chance to customer loyalty.