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**Role Play**

**A Game of Chicken:**

Role of CrediGro

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06/2024-6909

You are an associate at CrediGro, a microcredit company focused on chicken farming. CrediGro is interested in entering the Mozambique chicken market, which last year accounted for roughly 75% of the country’s poultry consumption. You believe that making a successful investment in Mozambique’s growing domestic poultry market will set you up nicely for a promotion in the next performance evaluation.

You were recently contacted by Julieta, an aspiring Mozambican chicken farmer, to listen to her plans to expand her chicken farming business. You are interested in investing in an overall attractive project based on the size of the loan, loan payback time, business partner support, poultry density, and frequency of inspections.

Depending on the option agreed to for each negotiation issue, you will receive points as described in each table below. For instance, if you and the chicken farmer agree to a loan of $2500 you receive ten points and if the payback time is two years you receive an additional eight points. Your goal is to obtain as many points total as possible adding up across all of the issues. For this investment to be worth making it needs to bring you at least 40 value points, the value you place on alternative investments you might make.

Size of the Loan

As a financier you understand the tradeoffs that come with increased loan size.  Historically you have seen an increased return only up to an optimal loan size for the customer, after which the risk of the loan begins to quickly offset its return. You want to select a loan amount for Julieta that is not too large, so that her probability of default is minimized, while still offering her enough capital to successfully meet her farming expansion needs. While you would consider a larger loan, you will then need stronger-than-normal guarantees to ensure you are managing your risks correctly.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Loan (USD) | $0 | $1000 | $2500 | $5000 | $7500 | $10000 |
| Points | 0 | 3 | 10 | 20 | 10 | 3 |

Loan Payback Time

From a financier’s perspective you are well aware of the risks that the agriculture business bears. Therefore, you prefer to reduce the lifetime of the loans you extend to farmers so that you can decrease the default risk and ensure that the loans are paid back. However from your experience you have also observed that loans with too short of a payback time do not enable farmers to invest effectively in their operations.  They become too focused on paying back the loan quickly to avoid default. Therefore it is critical to choose a payback period that is neither too long nor too short.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Payback Time | 4 years | 3 years | 2 years | 1 year |
| Points | 4 | 6 | 8 | 2 |

Business Partner Support

You would like Julieta to partner with another farmer on the microloan who would share in the loan fund’s distribution and repayments.  In the past, you have found that farmers who partnered were less likely to fail repayment since doing so would bring the scrutiny of their peers. However, partnering with a close friend or family member is usually not recommended since the close relationship tends to detract from the ability of the farmers to monitor each other objectively. Ronaldo is a close friend of Julieta and partnering with him could therefore be problematic. There are a couple other chicken farmers in the village that Julieta could partner with. Felicia is a farmer with an excellent history of loan repayment and has a sizeable operation, and would definitely be your top choice. Alvaro is another potential partner. Though he does not have experience with microcredit, thus making him less appealing as a partner as Felicia, he has a decent track record of egg production and sales. Since Alvaro is not a personal friend to Julieta, you certainly prefer him to Ronaldo, independently of how honest or a good person Ronaldo is.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Business Partner | No partner | Ronaldo | Felicia | Alvaro |
| Points for CrediGro | 0 | 1 | 15 | 9 |

Poultry Density

As a financier with developing country experience, you appreciate the agricultural sector’s risks and rewards. Over the years, you have developed several best practices in regards to non-financial loan terms. One important requirement is poultry density. One of your previous clients in Uganda had attempted to optimize poultry for the size of his land (0.5 acre/4000 chickens based on international best practices). However, since the sanitary, monitoring and veterinarian conditions in Uganda were not the same as in the US, China, & Brazil, such density resulted in the rapid spread of a disease through his brood and eventually critical losses for both the farmer and CrediGro. As you were the person who authorized this loan, you consider this a personal mistake. Following this event, you worked with CrediGro to develop poultry density (Acre / 4000 chickens) guidelines that must be adhered to as part of any financing agreement. The revised CrediGro guidelines set a minimum of 0.6 acre/4000 chickens.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Acre/4000 chickens | 0.6 ratio | 0.75 ratio | 1.0 ratio | 1.5 ratio | 2 ratio |
| Points | 2 | 4 | 6 | 8 | 10 |

Inspection Frequency

It is very important for you to maintain close oversight of new clients, as in the past some have been negligent after receiving their loans.  In one recent case for example, a farmer spent too much developing the aesthetics of his property while failing to maintain the health of his chickens. Based on this and similar incidents you strongly believe that regular and frequent farm inspections are critical to assuring the farm is being properly managed.  In these audit visits you plan to bring along agriculture and farming experts who can provide advice to improve productivity and output quality. CrediGro's experience shows that after each inspection, a chicken farm’s productivity grows for 1 to 1.5 months and then returns to its normal productivity level. So frequent inspections will contribute to the success of both the loan and the farm, give you piece of mind, and show your boss your portfolio is under control.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Inspection visits/year | 1 inspections | 2 inspection | 4 inspections | 8 inspections | 12 inspections |
| Points for CrediGro | -4 | 2 | 8 | 14 | 20 |

Remember that in this negotiation your goal is to achieve as many points as you can after adding up across all these issues. *Note that you can only sign the contract if you and the chicken farmer reach an agreement on all five issues. Even though an agreement in a subset of the five issues could at times result in a point sum above your minimum acceptable deal, you can only close a deal if you reach agreement on all five issues.*

Also note that it would be valuable to establish a good relationship with the chicken farmer, with whom you could develop a long-term business relationship.

An important rule: you are not allowed to share your point payoffs with your counterpart, in part because you do not want CrediGro’s confidential policies and preferences leaking out into the market. Options not included in your point structure are non-negotiable and not considered reasonable from the standpoint of CrediGro; you cannot agree to them.

Please prepare for your conversation with Julieta now.