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<https://bjopm.emnuvens.com.br/bjopm/article/view/V12N1A9>

DOI: 10.14488/BJOPM.2015.v12.n1.a9

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MICRO AND SMALL ENTERPRISES MANAGEMENT: MAIN ADMINISTRATIVE DIFFICULTIES OBSERVED IN CONSTRUCTION SECTOR ENTERPRISES

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Abstract

This paper analyzes the main difficulties in managing of Micro and Small enterprises of construction sector in Jundiaí city. For this, a survey was done with fifty-one entrepreneurs and the difficulties analyzed in nine categories. Some results stand out among many others presented in this paper, such as 46% of respondents indicated that the tax burden as one of the most problematic aspects in economic and financial management, 41% who reported differences between the theoretical and real inventory and 52% who have problems in the strategic management of their business. Finally, it emphasizes that this research presents a deductive character and their results are only focused for entrepreneurs reported sample.

Keywords: Management; Entrepreneurship; Construction.

1. INTRODUCTION

The importance of Micro and Small Enterprises to the country's development is constantly highlighted in the media and academia. According to Brazilian Support Service for Micro and Small Enterprises (Sebrae, 2013b), they constitute 99% of legally registered companies, employ 69% of the economically active population and represent 20% of Gross Domestic Product. When analyzed Global Entrepreneurship Monitor data (XAVIER *et al.*, 2013) are observed even greater numbers, since the formalization rate of these companies is still small compared to the Brazilian real situation.

Despite of the good correlation between the importance of Micro and Small companies and the high rates of entrepreneurship, Brazil still has today a high mortality rate for enterprises up to four years old when compared to developed countries. According to SEBRAE data (2009), the mortality rate for this type of company and in the period considered reaches 59.9%. The explanation for this occurrence is the fact that most Brazilian entrepreneurs lack management skills or are unprepared to face a highly competitive market. A survey conducted by Babson College and the London Business School

also showed that in Brazil most companies are created by necessity and not by opportunity. People undertake when they are unemployed and need a way to increase sources of income, but in this situation they do not have an enough preparation for the challenge (GEM, 2013).

In order to make a contribution to entrepreneurship and management of Micro and Small enterprises areas, this article aims to assess the main management difficulties experienced by entrepreneurs in construction, a sector with good economic performance, good perspective, but historically with quality problems, low-skilled employees and small use of administrative techniques by companies (MDIC / USP, 2008). The central idea of this paper is not to close the subject, but start a debate about this difficulties and how they can contribute to new management models.

We chose a sample of fifty-one entrepreneurs and did a survey to analyze the difficulties related to economic and financial management, sales management, human resource management, inventory management, advertising, logistics and delivery management, customers loyalty, purchasing management and strategic management. It is noteworthy that this paper is part of a big research by the same group of authors and communicates directly with another paper that analyzes the entrepreneurial profile in the same sector

and region. According to Forza (2002), "A survey aims to examine knowledge in a particular area by collecting information about individuals or about the environments of these individuals" and it is precisely this line that develops the scope of this paper.

2. LITERATURE REVIEW

2.1 Micro and Small Enterprises: regulatory and features

According to SEBRAE data (2012) and IPGN (2012), Brazil has more than six million Micro and Small enterprises, which represents 99% of establishments active in the economy. These companies are located in various parts of the territory

and are responsible for the generation and distribution of income, considering the supporting pillars of economy.

The definition of Micro and Small enterprises in Brazil is defined by the art. 966 of Law 10406 of January 10, 2002 and amended by Complementary Law No. 139, 2012. According to this law, Micro enterprise are define as companies that has gross income equal to or less than R\$ 360,000.00 and small companies that has gross income higher than R \$ 360,000.00 and less than R\$ 3,600,000.00. However, the most widespread criteria use in the literature corresponds to that used by the Brazilian Support Service for Micro and Small Enterprises (SEBRAE, 2013), which classifies the size of the companies according to the number of employees. Table 1 shows this criterion.

Table 1. Enterprise classification using number of employees (SEBRAE, 2013)

Classification	Industrial Segment	Services Segment
Micro enterprise	less than 19 employees	less than 09 employees
Small enterprise	20-99 employees	10-49 employees
Medium enterprise	100- 499 employees	50-99 employees
Big enterprise	More than 499 employees	More than 99 employees

Despite being the most used, Drucker (1992) points out that the criterion related to the number of employees is not a good parameter to classify the Micro and Small companies. Today, in the era of information and knowledge is it possible to find companies that move millions in business with only a small staff. Rattner (1985) criticizes both the criterion of classification, by number of employees by annual revenues. For this author, these criteria are insufficient, not allowing the establishment of appropriate analytical categories. Only the use of factors to measure the performance of these companies could contribute to a closer classification of reality. PALICH *et al.* (2007) present a similar view, since it is difficult to establish a single criterion for the classification of Micro and Small enterprises. For these authors, the variety of criteria and references obey conditions as the user purpose or body concerned, the region and country analyzed stage of economic development, etc.

When compared Brazilian criteria for classification of Micro and Small companies with others used in different countries, it is possible to see a difference. In the US, for example, there is a more general framework that classifies any company with less than five hundred employees as a small one. To European Community, Micro Companies are those with annual sales below two million or workforce

less than ten employees, and small companies with revenues less than ten million Euros or less workforce to fifty employees. In Mexico, small companies have up to one hundred employees and, in Canada, with up to two hundred fifty employees (KEYS JUNIOR, 2000 and UNECE, 2005).

It is worth noting that some authors establish classifications according to the peculiarities of the companies. Andersen *et al.* (2001) consider small companies those with a single management structure, focused primarily on the image of a leader, controller of a small number of employees, which may or may not be helped by others. It can be seen that the Andersen *et al.* (2001) considerations apply to the Brazilian Micro and Small companies.

Focusing the administrative management, Micro and Small companies have outstanding characteristics, many of them harmful to their development. These characteristics have been studied by several authors and summarized here. It is important to highlight that these points need to be considered in any management program to Micro and Small companies. See the topics below:

1. Influence of kinship relations in assignments of positions and tasks. A major problem in the Micro and Small companies is the influence of kinship relations in assignments of positions and tasks (PALICH *et al.*, 2007).

2. Lack of strategic planning, vision and mission. Murphy (2001) points out that it is extremely difficult to convince Micro and Small companies define to goals to long term in a business reality that they believe changing constantly.
3. Confusion between the entrepreneur life and the legal entity of the company. It is extremely common that the entrepreneur mix its outgoing with companies necessity. Consequently, there is no way to have a real cash flow, since in their "emergencies" the entrepreneur will use the company resource. This lack of financial planning and organization impairs the administration (Murphy, 2001 *et* Chiavenato, 2012).
4. Reduced administrative capacity of leaders. Often the reduced administrative capacity of leaders comes as limiting factor for balance and growth. This reduced capacity, associated with the excessive centralization of decisions, can lead to the emergence of addictions and order distortions (Chiavenato, 2012).
5. Lack of knowledge to operates in the market. Through Tachizawa *et* Faria (2002) explanations, it is observed that the majority of Micro and Small companies does not know who are their competitors and the real desires of its consumers.
6. Lack of human resources policy: the Micro and Small companies owners should note the importance of human resources in achieving an ideal work environment with its employees, according to Tachizawa *et* Faria (2002)
7. Lack of a vision of continuous improvement. Many Micro and Small companies owners do not yet have a continuous improvement vision, once implanted an improvement or reached a higher level, they neglect the constant maintenance or improvement of the situation (PALICH *et al.*, 2007 and SEBRAE, 2013th).

The topics presented above show that there are still great possibilities for improvements in the management of Micro and Small companies. It is worth noting, however, that these same organizations also have positive peculiarities that if properly managed, can lead to business success. The entrepreneurs need to correct the deficiencies mentioned and exploit the strengths of their business.

2.2 Context of Construction Segment

The construction industry in Brazil follows the macro sector division proposed by the US Department of Commerce (2013), which presents three categories. The first related to private residential construction, the second to non-residential private construction and the third public building.

These three categories live great moments encouraged by different factors. Residential and non-residential private construction have in recent years an increase in credit volume stimulated by the private and public banks, for example, the stimulus offered to citizens by the "Minha Casa Minha Vida" program, and public construction with government investments aimed at infrastructure and the holding of major sporting events like the World Cup 2014 and the 2016 Olympics in the city of Rio de Janeiro.

Focusing specific data, it is observed that in 2012 the Brazilian construction industry grew 4%, according to SINDUSCON (2013), above the growth the Brazilian GDP for the same period, which stood at around 0.9%. The use of cement, another indicator commonly used in research, has evolved considerably, totaling 56.34 million tons according to data from the Perspective ISAE (2013). When compared to the past 10 years, this represents an increase of 63% over the 2003 index.

Regarding the characteristics of the sector, the segment has a total of 2.1 million employees. Buildings and civil engineering works represent almost 75% of jobs. Such data become even greater when including self-construction works that, according to ABRAMAT (2013) estimated a contingent of 7.2 million workers and a sector GDP US\$ 156 billion a year.

Despite the favorable data presented above, it is important to mention that the segment still has great scope for improvement in capacitating and use of management techniques. Regarding the manpower, they observe workers without theoretical training needed to develop activities and often with low education, unlike the situation experienced in European countries and the United States. To the techniques used, except for some buildings, hardly observed practices such as lean construction and prefabricated elements that minimize errors and reduce costs and time.

Regarding certifications to sustainability, the Brazilian construction sector is in the right way, but is still far from North American and European references. In the US, for example, there is the certification of LEED (Leadership in Energy and Environmental Design) to support the Environmental Design. This certification is provided by the United States Green Building Council (USGBC) and is the result of an alliance between construction industry representatives, educators and government officials (BNDES, 2010). In the European market there are two references certifications that are also used in Brazil: the Building Research Establishment Environmental Assessment, whose evaluation is based on criteria and benchmarks, and the French Haute Qualité Environnementale (HQE), adapted to Brazil with AQUA label (High Environmental Quality).

Finally, the future of the sector SP-SINDUSCON (2013) provides some difficulties, although it expects an average

growth of 3.0% per year until 2015. This slowdown in industry growth would be due to the low rate of growth the Brazilian economy when compared to other emerging countries, inflation and the degree of indebtedness of Brazilian households.

3. RESEARCH CLASSIFICATION, SAMPLE CHARACTERIZATION AND METHOD

Beforehand, it is important to remember that this paper is part of a larger amplitude research related to the construction sector, sectioned in two publications, the first correlated to the characteristics associated with the creation of the enterprise and the second correlated to management of them. Because of this, some information described in this paper will coexist in the other paper of the same authors.

About the classification, this research assumes different classification depending on the stage of its development: deductive character to its results, literature review to survey the concepts in literature, qualitative analysis, survey during the questionnaire and exploratory in relation to theme.

According to Lakatos et Marconi (1991) the deduction allows to draw conclusions from true premises, it cannot be generalized for the entire sample of available items. According to Godoy (1995) in qualitative research the researcher is not worried about enumerate or measure the events studied, not even employ statistical tools for data analysis. His main concern is to obtain descriptive data about people, places, processes, among others, trying to understand the phenomena from the perspective of each participant. It is interesting to note that qualitative research can have quantitative data to elucidate some aspect of the issue investigated, having the same, in general, a statistical treatment unsophisticated. The literature review is developed from materials already prepared, consisting mainly of books and papers, and almost all kinds of studies have some research of this nature (Gil, 2010). The survey is characterized by direct questioning of people whose behavior you want to know and finally, in exploratory research, seek to greater familiarity with the problem and, therefore, interviews are conducted with people involved in the problem, literature, analysis examples that stimulate understanding, among others (Yin, 2005).

The authors of this paper used a questionnaire to do the survey. It was applied to seventy entrepreneurs who attended the meeting in Jundiaí and Region Building Materials Association on March 22, 2013. From these seventy questionnaires, nineteen had problems and fifty-one were considered valid. It is also important to note that during the application of the questionnaire of this paper were present to solve any doubts related to the questions. The first part of the questionnaire sought to gather data related to sample characterization, and they are presented and discussed below.

Regarding the business sector, the sample performed well heterogeneous, having representatives from all sub-segments of construction, as a slight predominance for hardware store and stores that sell all kinds of materials needed for the sector (55% of the sample).

Focusing the size of the company, with reference to the SEBRAE classification (2012), most entrepreneurs are into the category of micro-enterprises (74%) and do not have business partner (69%). Another important point to note is the issue of education, since prevails high school (41% of respondents).

Companies present lean about the number of employees, with only 27% of the sample have more than twenty employees. It is noteworthy an interesting point observed by the authors in many companies: many employees in this sector are still working informally or do not have their rights fully exercised according to laws.

For the second part of the questionnaire, there were nine questions about main difficulties experienced by entrepreneurs in their daily business. The questions were presented in closed form and the entrepreneur should choose the best alternative according to its reality. In the presentation of results, it was decided to use 2D graphics colorful pizza in order to facilitate the visualization and comparison of them. The questionnaire used in the survey can be viewed in Appendix 1.

4. RESULTS

Regarding the first question, The Figure 4.1 shows that 47% of respondents claimed that the main difficulty related to economic and financial management is the understanding and excessive tax burden. Another important aspect showed is that 21% of the respondents do not have an accurate control of cash flow, which can lead to poor management and contribute to the enterprise mortality. 28% of entrepreneurs pointed difficulties on the separation between individuals and companies operating costs, which denotes, respectively, the personal influence of issues and the difficulty to managing everyday actions. All these responses together denote that most entrepreneurs have difficulties in economic and financial aspect, when just 4% do not have difficulties.

Focusing the difficulties related to sales management, it is possible to see through the Figure 4.2 that 45% of respondents point difficulties to define sales targets or they are nonexistent. This percentage shows how companies conduct their activities in an unplanned way. For 31% of the sample, the management of the sales team and the monitoring of its evolution is a real difficulty that directly impacts the business success. 20% of respondents reported that the main difficulty is the customer's loyalty and only 4% said they did not have any difficulties in the aspect in question.

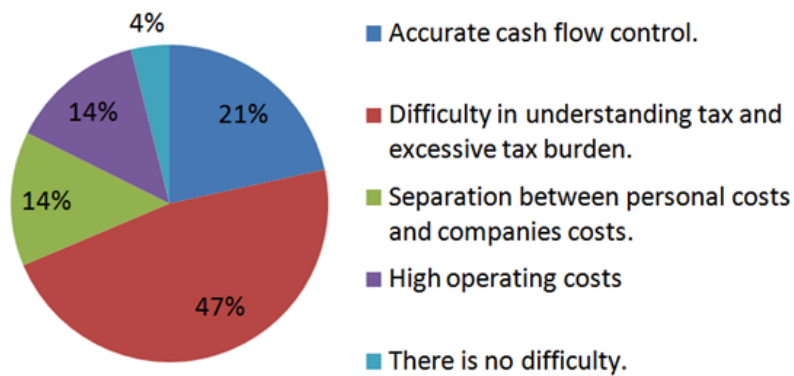


Figure 4.1. Main difficulty related to economic and financial management.

Source: The authors own (2014).

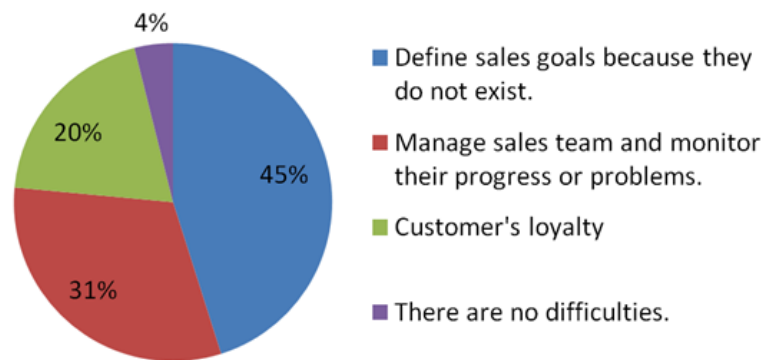


Figure 4.2. Main difficulty related to sales management.

Source: The authors own (2014).

Figure 4.3 shows the difficulties related to human resource management. The communication with employees is the worst problem evidenced by 31% of respondents. The motivation was pointed by 23% of entrepreneurs, something worrying, because low levels of motivation can damage

the employee's efficiencies. With 12% of respondents, the training and capacitating appeared in third place, showing that the construction segment still needs more attention in employee's preparation. The remaining four items were below 10% and thus completed the answers to this question.

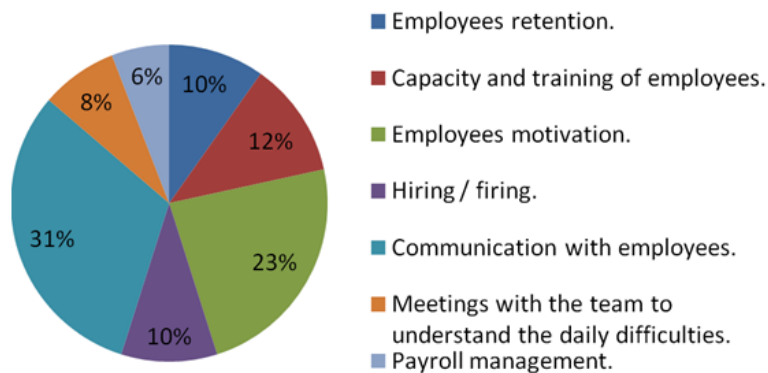


Figure 4.3. Main difficulty related to human resource management.

Source: The authors own (2014).

The inventory management was the topic analyzed in Question 4. Through Figure 4.4 it is observed that 41% of respondents point problems related to discrepancy between the theoretical and real inventory, that leads to in cash flow mismatches. Another difficulty lies in purchase lots (minimum amount of items that can be purchased from suppliers) reported by 25% of respondents. It is noteworthy

that this purchase volume should be well managed in order to optimize the gains arising with the volumes purchased and not cause imbalance in corporate finance. Focusing the quality, appearance, reliability and validity of the products stored, 34% of respondents are concerned about the financial losses resulting from loss of property.

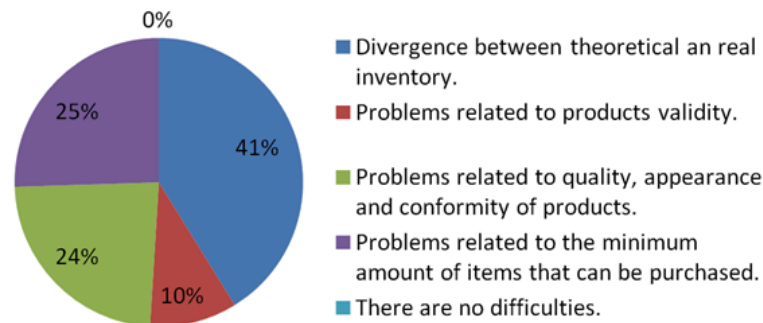


Figure 4.4. Main difficulty related to inventory management.

Source: The authors own (2014).

In the theme related to advertising, it is evident the unavailability of financial resources to this activity (45% of respondents pointed this situation). It is common in the construction segment that many entrepreneurs do not visualize the publicity and advertising as an investment and thus to put an activity with low priority. Besides, 25% of respondents have difficulties to define the exact client to be

reached by advertising and that 20% do not see a good cost-benefit ratio in such activity. 8% claimed difficulty to contract companies which provide specialized services in the region, something understandable because many respondents have their business in neighborhoods still under development, and only 2% say they do not have difficulties in this regard. Figure 4.5 shows the graphical form for the data.

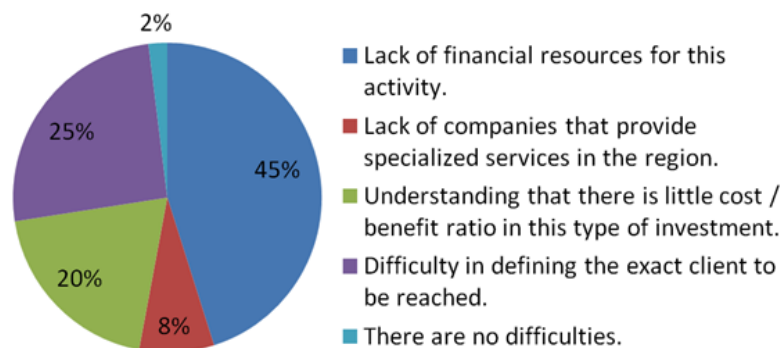


Figure 4.5. Main difficulty related to advertising.

Source: The authors own (2014).

The main difficulties related to logistics and delivery management are presented through Figure 4.6. The contract management with customers for deliveries was reported by 35% of respondents as the most difficult, followed by the definition of the most economical routes (27%) and difficulty

in ensuring the quality and conformity of the products during transport (24%). A 10% rate pointed difficulties in fleet management to attend the market demand and only 4% said they did not have difficulties.

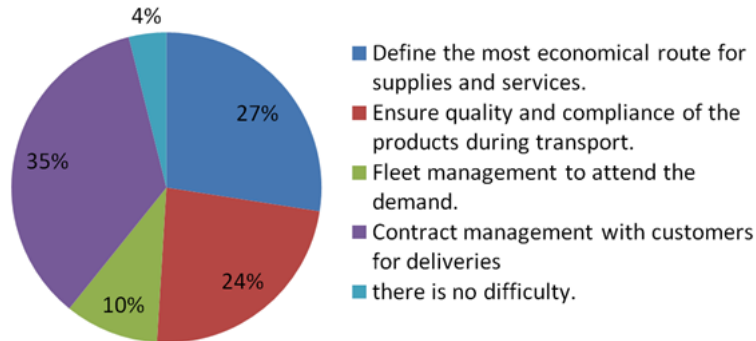


Figure 4.6. Main difficulty related to logistics and delivery management.

Source: The authors own (2014).

The difficulties to get the customer retention (or loyalty) are the aspects analyzed in Figure 4.7. The analysis shows that 31% of entrepreneurs indicated difficulties in covering the budgets done by competition and, consequently, customer loyalty. It is important to note here that the appearance of big stores conducted the construction segment to a price

war and the small companies suffer with this. Still, in the same way, 23% of entrepreneurs say that small profit is a major limiter of negotiations and 20% of respondents pointed that there are limited options to funding agencies. Finally, 14% showed a narrow range of products offered and 12% said they did not have difficulties in topic.

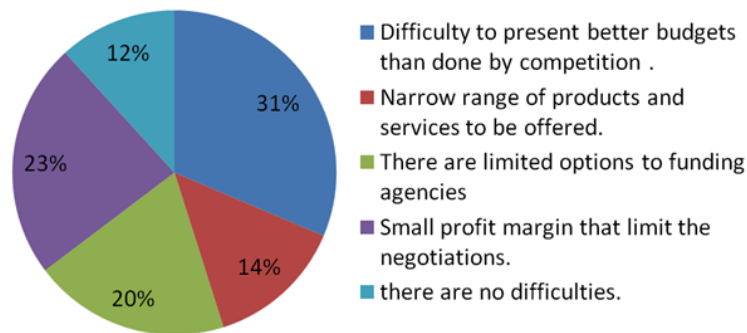


Figure 4.7. Main difficulty related to get the customer retention.

Source: The authors own (2014).

About the difficulties related to purchasing management, presented by Figure 4.8, the main difficulty to this topic is related to minimum purchase lots, according to 41% of respondents. Frequently, the big suppliers impose this condition and the Micro and Small companies of construction segment a they need to respect. Besides,

25% of respondents said that the payment terms are tight, which does not aligned with inventory turnover of some products sold. 22% of respondents indicated how difficult are the billing terms set by suppliers and 8% the frequency of delivery, also causes related to the mentioned aspects. Only 4% say they do not have difficulties related to this item.

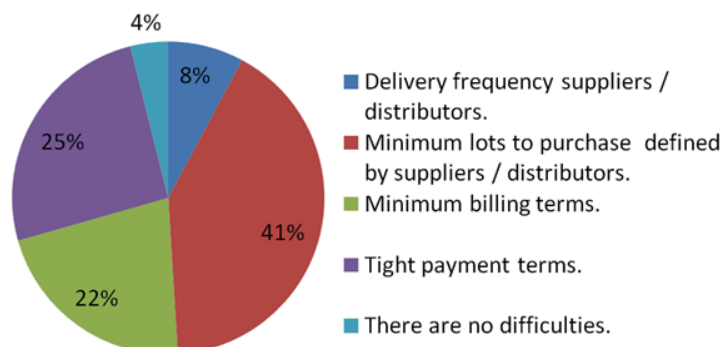


Figure 4.8. Main difficulty related to get purchase management.

Source: The authors own (2014).

Finally, the strategic management was the last aspect analyzed in the survey, as presented in Figure 4.9. It can be seen that most entrepreneurs (53% of the sample) point the volatility of the sector as a major difficulty, due to constant economic changes. The difficulty to define strategies

consistent with the size of the company was highlighted by 21% of answers. 12% pointed to the difficulty of managing strategic indicators and 10% reported a lack of perspective on the market. Only 4% said they did not have difficulties in this regard.

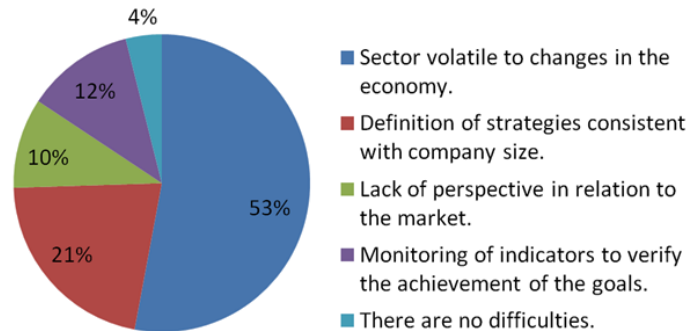


Figure 4.9. Main difficulty related to strategic management.

Source: The authors own (2014).

5. CONCLUSIONS

According to the issues mentioned in the previous items, the construction segment in Brazil still has good growth trends for the following years, even the acceleration of this growth being lower than that observed in previous years.

Based on a survey conducted with fifty-one entrepreneurs of construction segment to the region of Jundiaí, it was observed that they still have difficulties in management of their companies. These difficulties were evaluated for macro aspects such as: economic and financial management, sales management, human resource management, inventory management, advertising, logistics and delivery management, maintenance of customers, purchasing management and strategic management.

As highlights points can be cited: indexes as 46% of respondents pointing the tax burden as one of the aspects that hinder the financial management, 45% claiming to have difficulties on sales management, 30% mentioned problems in communicating with employees, 41% of entrepreneurs pointing differences between the theoretical and real inventory, 45% mentioned lack of financial resources to develop advertising, 35% have logistic problems in the management of agreements with customers to make deliveries, 30% recognize that difficulties in customer loyalty, 41% pointing difficulties in purchasing management arising from minimum lots policies, and 52% who have problems in strategic management arising from the sector volatility.

The statistics highlight difficulties experienced in the process of Micro and Small enterprises management of construction segment and present the barriers faced for their survival in the market.

Finally, please note that this research presents a deductive character, i.e. its results are valid focused only for the entrepreneurs of the construction segment of Jundiaí region, not intending them to be extrapolated for the sector as a whole or even other regions.

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Appendix 1: Questionnaire used in the survey

Sample characterization
Company's Name:
Phone:
E-mail:
Name of the person that filled the questionnaire:
1. Segment within the construction industry:
() Building materials in general.
() Only basic building materials.
() Distributor.
() Electrical materials.
() Hydraulic materials.
() Furniture paints.
() Service provider in the area
() Other:
2. Company Size according to SEBRAE:
() Individual entrepreneur.
() Micro company.
() Small company.
() Medium company.
() Big company.
3. Number of business partner:
() Only the proprietor.
() Two business partners.
() Three or more business partners.
4. Education level of owner(s):
() Incomplete primary education.
() Primary school.
() High school.
() College
() Post Graduate.
5. Number of employees:
() There are no employees.
() Less than 5 employees.
() 5- 20 employees.
() 20 - 50 employees.

6. Age of the business
<input type="checkbox"/> Less than 1 year.
<input type="checkbox"/> Between 1 and 4 years.
<input type="checkbox"/> Between 4 and 10 years.
<input type="checkbox"/> More than 10 years.
7. Total sales points:
<input type="checkbox"/> Only one point of sale.
<input type="checkbox"/> Two points of sale.
<input type="checkbox"/> Over two points of sale.
8. Total vehicles on the company fleet:
<input type="checkbox"/> The company does not have vehicles.
<input type="checkbox"/> Only 1 vehicle.
<input type="checkbox"/> Between 1 and 5 vehicles.
<input type="checkbox"/> More than 5 vehicles.
9. It is located in owned or rented property.
<input type="checkbox"/> Owned property.
<input type="checkbox"/> Rental property.
Main difficulties experienced in the management
1. What are the main difficulties related to the economic and financial management?
<input type="checkbox"/> Accurate cash flow control.
<input type="checkbox"/> Difficulty in understanding tax and excessive tax burden.
<input type="checkbox"/> Separation between personal costs and companies costs.
<input type="checkbox"/> High operating costs
<input type="checkbox"/> There is no difficulty.
2. What are the main difficulties related to sales management?
<input type="checkbox"/> Define sales goals because they do not exist.
<input type="checkbox"/> Manage sales team and monitor their progress or problems.
<input type="checkbox"/> Customer's loyalty
<input type="checkbox"/> There are no difficulties.
3. What are the main difficulties related to human resources management?
<input type="checkbox"/> Employees retention.
<input type="checkbox"/> Capacity and training of employees.
<input type="checkbox"/> Employees motivation.
<input type="checkbox"/> Hiring / firing.
<input type="checkbox"/> Communication with employees.
<input type="checkbox"/> Meetings with the team to understand the daily difficulties.
<input type="checkbox"/> Payroll management.

4. What are the main difficulties related to inventory management?
<input type="checkbox"/> Divergence between theoretical a real inventory.
<input type="checkbox"/> Problems related to products validity.
<input type="checkbox"/> Problems related to quality, appearance and conformity of products.
<input type="checkbox"/> Problems related to the minimum amount of items that can be purchased.
<input type="checkbox"/> There are no difficulties.
5. What are the main difficulties related to advertising?
<input type="checkbox"/> Lack of financial resources for this activity.
<input type="checkbox"/> Lack of companies that provide specialized services in the region.
<input type="checkbox"/> Understanding that there is little cost / benefit ratio in this type of investment.
<input type="checkbox"/> Difficulty in defining the exact client to be reached.
<input type="checkbox"/> There are no difficulties.
6. What are the main difficulties related to logistics and delivery management?
<input type="checkbox"/> Define the most economical route for supplies and services.
<input type="checkbox"/> Ensure quality and compliance of the products during transport.
<input type="checkbox"/> Fleet management to attend the demand.
<input type="checkbox"/> Contract management with customers for deliveries
<input type="checkbox"/> there is no difficulty.
7. What are the main difficulties related to related to get the customer retention?
<input type="checkbox"/> Difficulty to present better budgets than done by competition.
<input type="checkbox"/> Narrow range of products and services to be offered.
<input type="checkbox"/> There are limited options to funding agencies
<input type="checkbox"/> Small profit margin that limit the negotiations.
<input type="checkbox"/> there are no difficulties.
8. What are the main difficulties related to related to purchase management ?
<input type="checkbox"/> Delivery frequency suppliers / distributors.
<input type="checkbox"/> Minimum lots to purchase defined by suppliers / distributors.
<input type="checkbox"/> Minimum billing terms.
<input type="checkbox"/> Tight payment terms.
<input type="checkbox"/> There are no difficulties.
9. What are the main difficulties related to related to strategic management ?
<input type="checkbox"/> Sector volatile to changes in the economy.
<input type="checkbox"/> Definition of strategies consistent with company size.
<input type="checkbox"/> Lack of perspective in relation to the market.
<input type="checkbox"/> Monitoring of indicators to verify the achievement of the goals.
<input type="checkbox"/> There are no difficulties.