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Current Challenges Facing Small Businesses: Case of Brazil and United States

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Small businesses in Brazil face similar challenges that United States small businesses face in everyday business transactions. However, each nation has differences that exist in terms of social-cultural, monetary value, and political decisions in day-to-day transactions. In order to address the current challenges of Brazil and United States small businesses, it is significant to understand the current problems facing Brazil and United States small businesses. The paper focused on the current challenges facing Brazil and United States in terms of economic recession, unemployment, lack of adequate strategic and financial plans, and low gross domestic product (GDP) annual growth rates. The paper also addressed three research questions (a) Is it important to have a strategic plan in both nations? (b) Are financial planning, market research, and resource accessibility vital in the success of small businesses operations in both nations? (c) What roles do the governments of United States and Brazil play in the growth of small businesses? (d) What is the relationship between gross domestic product (GDP) annual growth rate and Inflation? (e) What is the relationship between the government debts, unemployment, and closing of small businesses? The paper therefore addressed the current challenges of small businesses in Brazil and United States and made conclusions for addressing the identified challenges.

1. Introduction

United States and Brazil in recent years have experienced both social and economic growth impacts that experts wonder why there are such similarities. United States is a developed nation and the recent economic trend is not one to brag about, Brazil following the same path poses serious concern to researchers on why such is the case. If emulation is the case in Brazil, one should expect Brazil to take corrective measures to remedy the economic and social problems that United States is recently facing. This paper therefore focused on the factors that have led to the economic and social similarities between United States and Brazil. The paper also addressed the differences and analyzed the reasons for the differences.

2. Statement of the Problems

The major problems facing both United States and Brazil are as follow:

- Poor and inconsistent policies
- Economic Recession
- Lack of strategic and financial planning
- Low gross domestic product (GDP) annual growth rates and high Inflation rates
- Unfavorable tax and regulatory implementation
- Financial market distress due to recession which has lead to small businesses layoffs

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- High cost of equipments
- Lack of entrepreneurial spirits due to the impacts of economic recession
- Lack of adequate access to international market and development due to inadequate capital
- Consumer confidence sliding to the lowest point due to economic recession
- Administrative bureaucracy
- Lack of adequate government support
- Increase in government debt which has led to increase in unemployment

In order to address the problems stated above, the paper attempted to answer the following questions relating to United States and Brazil: (a) is it important to have a strategic plan in both nations? (b) Are financial planning, market research, and resource accessibility vital in the success of small businesses operations in both nations? (c) What roles do the governments of United of States and Brazil play in the growth of small businesses? (d) What is the relationship between gross domestic product (GDP) annual growth rate and Inflation? (e) What is the relationship between the government debts, unemployment, and closing of small businesses?

3. Literature Review

David Birch (2007) expressed that it is not just the big companies that power the economy rather it is the small businesses which have become a major component of new job creation. Scott Patterson (2006) also expressed that about 505,473 new businesses start-up in the United States in 2010 have decreased when compared with the record of 667,341 in 2006, (Bureau of Labor Statistics). He further said that the decrease in number of small businesses has growth implications for jobs because small and midsize businesses have driven employment gains in the United States for years. Olavo Machado president of the Federation of Industries of Minas Gerais (FIEMG) mentioned that the international competition worries Brazilian leaders and businesspeople who want to protect their local market. He further said that International imports undermine Brazil’s domestic market and the exchange rate is easier to sell in Brazil but it’s not stable and it’s not permanent. Tom Gould mentioned that Brazil is one of the most difficult countries to export due to high duties, fees, and regulations than in most other countries. About ninety percent of small businesses in Brazil create jobs for its citizens, and only 2 percent comes from large corporations and while the other 6 percent comes from medium sized businesses. On the other hand, small businesses make up 97 percent of all United States exporters and accounted for 29 percent of known United States export value in 2001.

Brazil and United States have trading relationship through importation and exportation of goods and services, therefore small businesses in Brazil faced tax challenges and inflation just like small businesses in United States. Neto Pinheiro said that bureaucracy encompasses Brazilian which is similar to United States as well as tricky labor laws. He further expressed that hiring talented people is very difficult and the costs of living in big cities like Sao Paulo and Rio de Janeiro truly affects the livelihood of small businesses. Another current challenge of small businesses is the healthcare benefit of employees. This article talks about the continuing struggles of small businesses trying to keep good benefits for their employees, and how to use the healthcare benefits to recruit future employees and also to keep employees motivated. It also talks about how health care premiums are continually rising and the options are drastically decreasing. Many scholars have made the distinction between small and large businesses in terms of needs, level of sophistication and range of strategic planning. For example, Bracker and Pearson (1986), Rue and Ibrahim (1998), Perry (2001) and Wijewardena, Zoysa, Fonseka and Perera (2004) also defines strategic planning and took into account that small businesses cannot draw on management and material resources in a manner similar to that of large organizations.

Many literatures found that there is a correlation between strategic planning and performance. Even though the findings were mixed but a survey of twenty-six experimental studies enabled Miller and Cardinal (1994) to identify a significant positive connection between strategic planning and small business performance. Therefore, it is important for all small businesses to have sound strategic planning in place in order to gain the competitive advantage in today's global market. Michael Porter (1996) presented three generic strategies that a firm can use to overcome the challenges and achieve competitive advantage and outperform rivals in the global market (1) cost leadership, which is based on creating a low-cost- position by managing the relationships throughout the value chain and throughout the entire chain. (2) Differentiation means to create products and/or services that are unique and valued by the consumers through "affordable pricing" (3) focus strategy also means that small businesses must direct attention toward narrow product lines or targeted geographic market.

Porter further mentioned that research support the notion that firms that identify with one or more of the forms of competitive advantage outperform those that do not. Olsen, Slater, and Hult (2005) concludes that a firm's overall business performance depends on its business structure in terms of formalization, decentralization, or specialization and strategic behavior also in terms of competitors, innovation, internal cost orientation, and customers. Even though the theories are applicable to large corporations it still can be applicable to small businesses. Yusuf and Saffu (2005) classify three levels of planning: low; moderate; and high. In the authors' research, a connection was found between increase in sales and the low level of planning, meaning that Brazilian and United States small businesses can define and design their strategic planning from low level to high level base on business performance. One of the research questions stated as, Is it important to have a strategic plan? The answer to the question is yes, it is very important for all businesses to have a strategic plan in place for business vision, mission, goals and objectives for long and short term of the business.

According to the second research questions, are financial planning, market research, and resource accessibility vital in the success of small businesses operations in both nations? The answer is yes, financial planning and resources are the essential component of a successful business, for example in United States; large corporations do rely strongly on financial planning and financial statements that detects business activities. While many large corporations understand that strategic planning includes a component of financial planning, many small businesses have not yet embraced the need to fully integrate financial planning and capital planning with operational planning into their everyday business. Dess, Lumpkin, and Eisner (2010) also expressed that the level of financial planning and resources availability are often a strong determinant of how the business launched and succeed. They also mentioned that financial availability to young and small firms tends to be quite limited. While Carpenter and Petersen (2002) said that the growth of small businesses are constrained by lack of financial availability, and limited financial availability can restrict business activity and expansion. In order for United States and Brazil small businesses to grow and expand, government support and banking lending agencies should be accessible with low interest rate. United States and Brazil small businesses understand that the current recession has been a challenge for even large corporations when it comes to market research, therefore, Brazil and United States small businesses must reposition themselves stronger to capture the market growth and market share through the use of web-based marketing tools. They must shift more of their marketing efforts from traditional media to Web-based options. Even though literature says that small businesses in Brazil and United States manage marketing activities on limited budget, thereby prompt the small businesses to conduct the market research on their own internally.

Atkinson (2010) confirms that there was a significant drop in the number of small businesses actively investing in any marketing activities. Small Business Administration indicated that to run a successful business, small businesses need to learn all about their existing and potential customers, the competitors and the economic conditions of the marketplace. Hence, market research is the process of gathering and analyzing consumer and economic data to help the owners to understand which products and services their customers will want, and how to differentiate their business from their competitors. Market research can also provide valuable insight to help reduce business risks, spot current and upcoming problems in the current market, identify sales opportunities, and develop plans of action. This is true because in recent years, increasing numbers of businesses have been using the social media in conducting their marketing research, giving the chance for the business to grow in a very dramatic and dynamic way. Levin (2006) mentioned that small businesses often find themselves in a challenging situation, these businesses have a great need for reliable answers to important questions that all organizations face such as (a) how are market trends impacting the business? (b) How does our target market make buying decisions? (c) What is our market share and how can we increase it? She further expressed that in order to get answers to these questions; companies must conduct marketing research using a variety of methods. She went on to outline some of the methods and also illustrate how they can benefit a small business. She also said that every organization needs to conduct research, and small budgets are no excuse for lack of a research plan. She concluded in saying that by starting out with some easily accessible resources, small businesses can begin to develop better marketing strategies that can position them for market growth. Atkinson also mentioned that boosted confidence in the economy has lead many firms to return to advertising and promotional tactics and experiment with new channels, such as online digital media.

The third research question states, what roles do the governments of United States and Brazil play in the growth of small businesses? Despite government support of small businesses in Brazil and United States, small business owners still battle with red tape in accessing finance due to strong policies, rules and regulations, and heavy bureaucracy were key reasons why many and United States and Brazil small businesses are finding it difficult to operate successfully. We all know that most companies usually start as a small business, so the need for small business to develop and invest becomes very important to any economy wishing to prosper in today's economy. It is interesting to know that small businesses are one of the main forces in economic growth and ninety five percent job creation in most countries according to Organization for Economic Cooperation and Development (OECD) statistics, yet unemployment is on the rise in Brazil and United States. Another role of the government is to regulate all businesses and to maintain laws and order that all businesses must follow in order to protect assets, employees, and other stakeholders. In addition, government must also control the interest rate in the economy because an increase in interest rates can prevent businesses from borrowing money to finance the purchase of goods and services, and high interest rates can discourage small businesses from investing in new ventures. And at the same token, falling interest rates can encourage small businesses to open other ventures, which might lead to higher employment rates. Therefore, it is imperative that the government should provide adequate support of programs and financial availability to all small business owners in United States and Brazil.

4. Methodology

The paper uses data analysis in a comparative study of United States and Brazil in their global economic performance. The variables used are analyzed using graphs, statistical evidences and growth rates. The data was collected from the World Bank National data and International Monetary Fund (IMF) from 2007 to 2011. The data also shows the relationship between small business regulations, gross domestic product annual growth rate, inflation, government debts, and unemployment rates to the extent of poor business performance in Brazil and United States.

The position of the paper is that there are strong similarities in the growth aspirations of the small businesses in Brazil and United States, while the null hypothesis takes the position that the similarities are insignificant. The tables and graphs are used in the illustrations of the similarities and the differences between the two nations.

Table 1:
Ease of Doing Business
Ranking of Most Business Friendly Regulations

Countries	2009	2010
Brazil	124	127
United States	5	5
India	135	134
China	78	79

Source: World Bank National Account Data

Table 1 shows the ranking of the most business friendly regulations of the four selected countries and United States was ranked number five (5) from 2009 to 2010 when compared with Brazil that was ranked one hundred and twenty four (124) in 2009 and one hundred and twenty seven (127) in 2010. While China ranked seventy eight in 2009 and seven nine in 2010 as well as India ranking one hundred and thirty five in 2009 and one hundred and thirty seven in 2010. Indeed, table one shows that United States has the most friendly business regulations than Brazil, China, and India.

Table 2:
Gross Domestic Product (GDP) Annual Growth Rates

Countries	2007	2008	2009	2010	2011
United States	1.8	1.2	-4	2.8	2.3
Brazil	6.4	6.47	-2.8	9.2	4.2
China	12.6	10.1	7.9	10.3	9.5
India	9.3	8.5	6.3	8.3	7.8

Source: TradingEconomics.com and Instituto Brasileiro de Geografia e Estatística (IBGE)

Figure 1

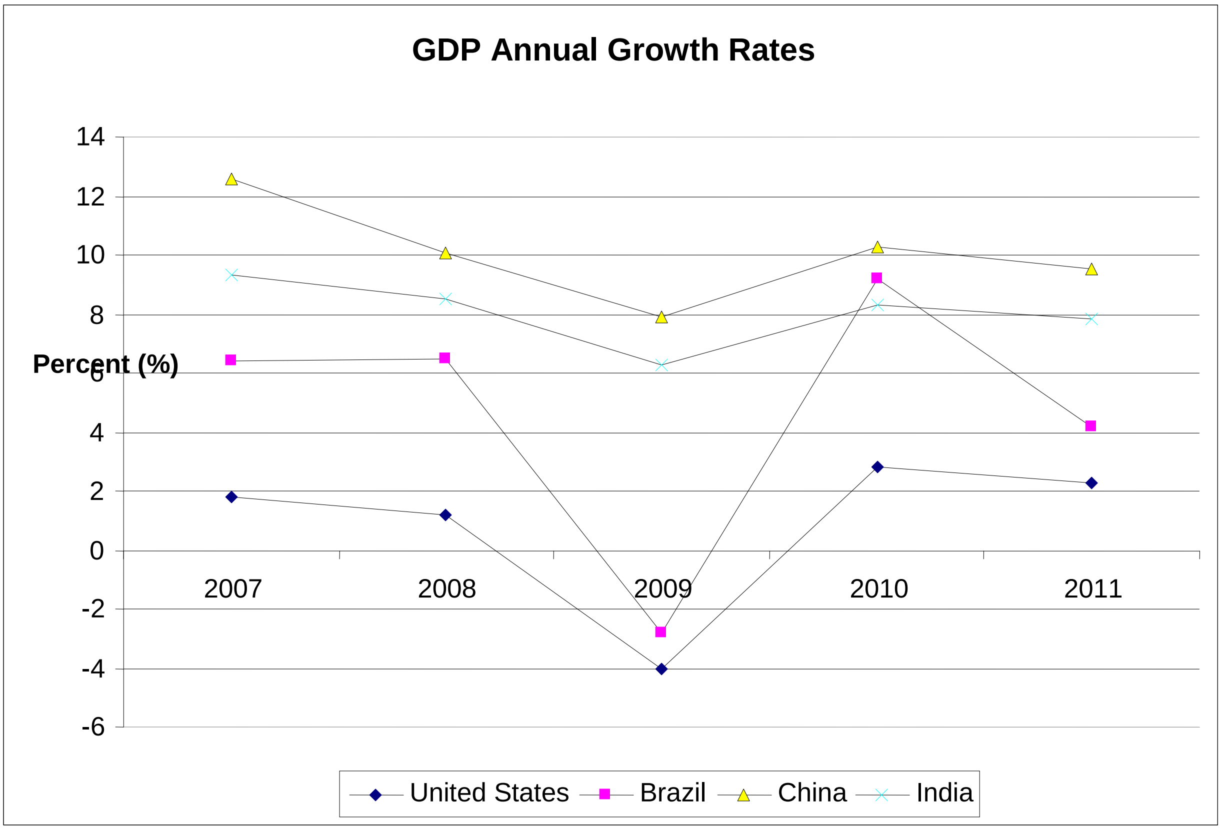

Table 2 and figure 1 shows the gross domestic product (GDP) annual growth rates of Brazil from 2007 to 2011 when compared with United States, China, and India. Brazil shows a steady increase from 2007 to 2008, but decrease drastically in 2009 and increase again in 2010 with 9.2 percent. While United States had little or no increase from 2007 to 2008 and also dropped with a negative in 2009 but picked up a little in 2010 with 2.8 percent. In 2011, Brazil outperformed United States in terms of gross domestic product annual growth rate of 4.2 while United States had 2.3 percent. Overall, China and India had a better GDP annual growth rates when compared with Brazil and United States. An increase in gross domestic product (GDP) annual growth rate is an important indicator that shows that a nation has a healthy economy that can support businesses to grow, provide jobs, personal income, and in turn improve standard of living of its citizen. On the other hand, a decrease in gross domestic product annual growth rate will make businesses not to invest in new products and services, purchases, and hiring of new employees.

Table 3:
Inflation-Consumer Price (Annual %)

	2007	2008	2009	2010	2011
Brazil	3.6	5.7	4.9	5.9	6.7
United States	2.9	3.8	-0.4	1.6	3.6
India	6.4	8.4	10.9	8.8	9.4
China	4.8	5.9	-0.7	4.0	6.4

Source: International Monetary Fund, International Financial Statistics and data files. CPI Inflation India.

Table 3 shows the inflation of consumer price annual percentage increase, which means that an increase in inflation can decrease the earn income of workers which leads to decrease in purchase of goods and services. On the other hand, it might discourage small businesses willing to invest. Table 3 illustrates the increase of inflation in Brazil from 2008 through 2011 while in United States the inflation rose from 2008 and 2011, China and India has been on the rise consistently from 2008 through 2011.Which has affected the consumer confidence in buying decisions across globe. Despite the rise in inflation, Brazilian and United States small businesses were still optimistic to do business and hoping that the governments will provide easy accessibility to financial support that will enable small businesses in both countries to compete and create new ventures in the global marketplace. The rate of inflation should be monitored and controlled by the government so as to protect the strength of a nation's currency in the economy.

Table 4
Government Debts to GDP

Countries	2007	2008	2009	2010
United States	64.4	69.4	84.2	93.2
Brazil	60.7	63.8	69.6	72.3
China	19.6	17	17.7	17.7
India	75.6	73	71.1	69.2

Source: TradingEconomics.com and U.S. Bureau of Public Debt

Figure 2

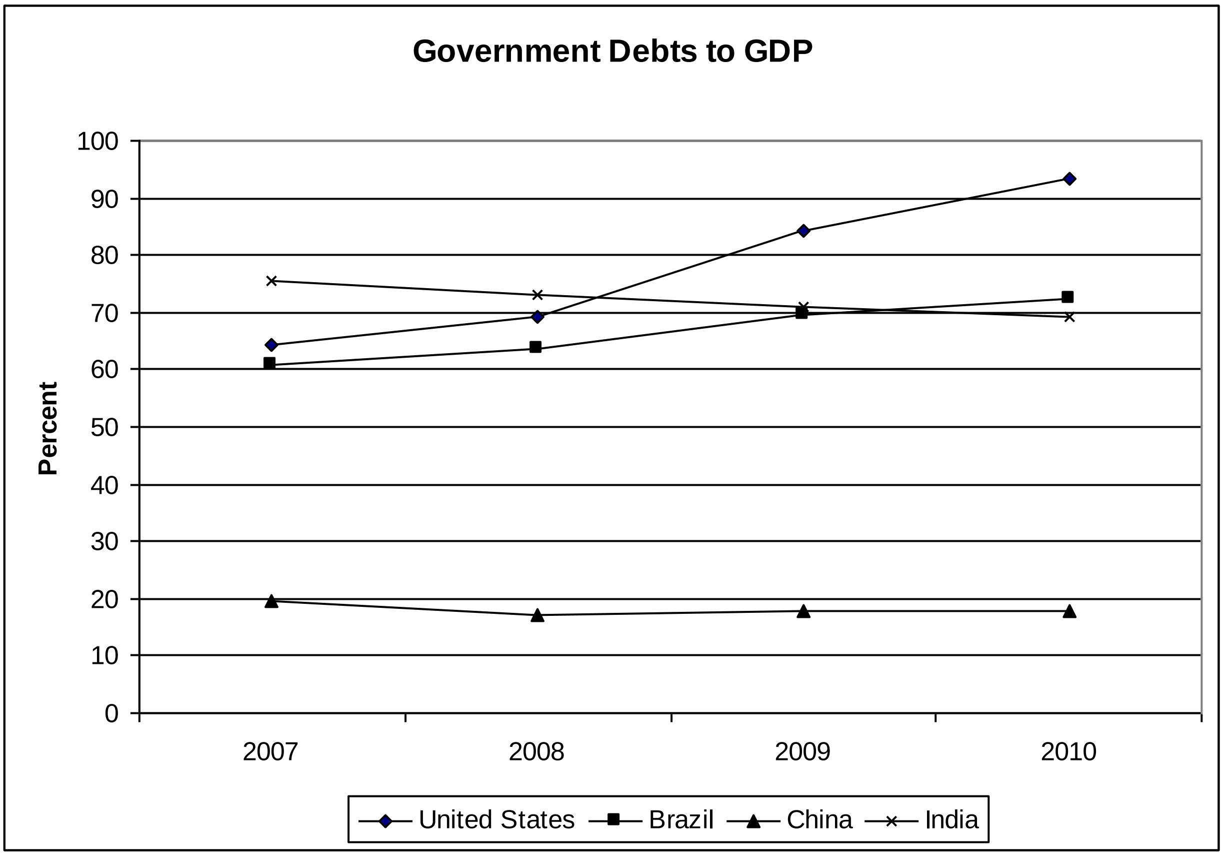

Table 4 and figure 2 illustrates the government debts to gross domestic product (GDP) from 2007 to 2010. The table shows that United States has the highest debts from 2007 to 2010 when compared with Brazil and the other countries like India and China with the lowest debts. The increase in debt of United States has affected the economy, the balance of payment, many households, and small businesses. For example, United States owed about 47 percent of its national debt to China and Japan. This increase in debt can damage the economy and affect the value of a nation's currency. Devaluing the currency might not be favorable to investors. It can lead to austerity measures for a nation which is favorable to businesses and consumers. Therefore, it is the responsibility of the government to control and maintain financial stability in any nation for economic health.

Table 5
Unemployment Rate

	2007	2008	2009	2010	2011
United States	4.7	6.9	9.5	9.5	9.2
Brazil	9.7	7.9	8.1	7	6.2
China	4.1	4	4.3	4.2	4.1
India	8	-	9.4	-	9.4

Source: Tradingeconomics.com Euro stat: (2011) and U.S. Bureau of Labor Statistics

Figure 3

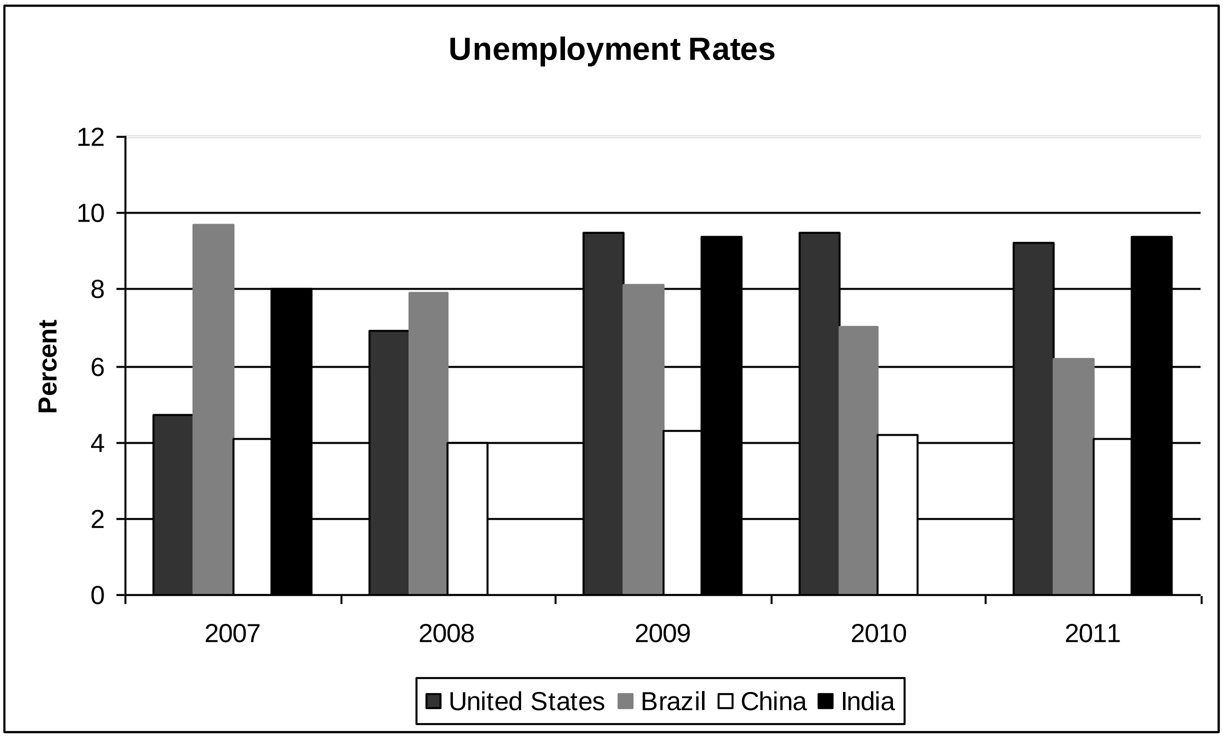

Table 5 and figure 3 shows that unemployment rate for United States has been on a rise since 2008 to 2011 of 9.2 percent when compared with China and even Brazil. India unemployment rate has also been up from 2009 and 2011. With this data, one can conclude that China is providing employment for its citizens by encouraging businesses through foreign direct investment of all types including small businesses. It shows that China's economy is operating at full capacity according to the unemployment rate definition which is the level of unemployment divided by the labor force. While the labor force is the number of people employed plus the number unemployed but seeking work. The New York Times stated that the sharp rise in unemployment which climbed in 2009, as the nation lost about 190,000 jobs. This loss of jobs intensified pressure on the Obama administration to show results from the $787 billion package of spending measures unleashed early this year to spur the economy.

Based on analysis of the table above, the paper then addressed the research questions - (b) what is the correlation between financial resources and government support to small businesses success in Brazil and United States? The answer to this question lies on the adequate financial availability and cash flows which are important factors in the growth or failure of any small businesses. On the other hand, limited financial resources might restrict any business expansion or purchase of business equipments, since majority of the financing of the business comes from the owners. Literatures also suggested that government should provide financial support and planning for small businesses through small business loans and low interest rates with financial banks. Therefore, there is a positive correlation for United States and Brazilian small businesses if the government provides adequate financial resource availability for growth and expansion, especially with unemployment rate of 9.2 percent and enormous federal deficit and 418,000 unemployment claims in the month of July 2011 as stated by the United States Labor Department. (c) What is the relationship between gross domestic product (GDP) annual growth rate, Inflation, government debts and closing of small businesses? Table one through five also shows that the gross domestic products (GDP) annual growth rate of Brazil and United States were declining in percentage as of 2009 while the nation's debts, inflation, and unemployment rates were on the rise which has lead to closing of small businesses and negative effect of business performance.

5. Summary and Conclusions

In conclusion, the paper states that small businesses should have entrepreneurial spirit meaning that the owners of small businesses should have an incredible amount of optimism, energy, motivation and a desire to succeed. They should be willing to take risks in order to be successful because good management skills are the bed rocks for any business person. To ensure good management, the small business owners must have adequate education in management skills to understand how to plan the business and how to maintain working ethics with employees, customers, and other stakeholders. The paper also recommends that Brazilian and United States small businesses should use a management consultant that will guide them to understand the need for having an effective strategic map that will help the business to succeed. Also, Brazilian and United States small businesses should have continuous training and experience that could be beneficial in the long run to run the business. Brazilian and United States small businesses should adapt the new market trend of using social media in reaching old and new customers such as Twitter and Facebook. This social media might significantly help small businesses to compete in the global market. For example, social media like twitter, linkedIn and YouTube, blogs and discussion boards are becoming popularly used by large corporations. These new marketing tools are generally less expensive to use than traditional marketing approaches such as direct mail and print advertising. The Brazilian and United States small businesses that want to compete in today's marketplace will need to play a stronger role in research and development and also in marketing strategy. In conclusion, this paper has specified that strategic planning, financial and resource planning, and market research that are needed in order to combat the current challenges facing Brazilian and United States small businesses.

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