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California's Contributions to the U.S. Export Profile

Denise M. Lucy
Barowsky School of Business, Dominican University of California, denise.lucy@dominican.edu

Françoise Lepage
Barowsky School of Business, Dominican University of California, francoise.lepage@dominican.edu

Jayati Ghosh
Barowsky School of Business, Dominican University of California, Jayati.Ghosh@dominican.edu

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Corresponding Author:
Denise M. Lucy, Ed.D., Dominican University of California,
Denise.Lucy@dominican.edu 415-485-3921
50 Acacia Avenue
San Rafael, CA 94901

Françoise Lepage, Ph.D., Dominican University of California,
Francoise.Lepage@dominican.edu 415-485-3284

Jayati Ghosh, Ph.D. Dominican University of California
Jayati.Ghosh@dominican.edu 415-485-3238

Abstract

Small to medium sized enterprises (SME) are the engine of the United States economy. And the world's emerging economies offer great opportunities to expand. However, only 1% of U.S. SMEs engage in the international marketplace. Efforts at the national level to expand all U.S. exports, and especially those of SMEs, depend upon each state in the union to participate in this venture. As a key contributor to the U.S. economy, California's and its vast majority of SMEs, play a key role in U.S. export profile. This paper describes the export landscape of the top five U.S. states, focusing on California's SME export profile by sector, destination, volume and demographics. Advantages of diversity among SME owners and employers, as well as challenges of exporting to emerging markets are featured. California's strategies to promote SME export prospects and its contribution to the National Export Initiative are considered in the context of selected internationalization of the firm theories for SMEs.

Introduction

Globalization has created immense possibilities in the global marketplace, with an estimated global consumption growth in the rising middle class to 3.2 billion by the year 2020 (Trade Promotion Coordinating Committee, 2012). This offers vast international trade opportunities for United States' enterprises. The growth of the United States' economy depends upon its export business. Furthermore, small to medium-sized enterprises (SME) are integral to the economic engine of the United States.

The demands for goods and services are exploding in emerging markets with increases in the middle classes around the world. Even with the world financial crisis, the BRIC countries of Brazil, Russia, India and China, continue to grow, albeit at somewhat of a slower pace (The Financial Times, 2013). President Obama directed the U.S. Department of Commerce to reach into these emerging markets. He issued an Executive Order in 2010 that established the National Export Initiative (NEI) to improve conditions that directly impact the ability of the private sector to export. The NEI goal is to double exports by 2015 (White House, 2010).

For U.S. businesses to leverage these grand possibilities requires that exports are expanded beyond multinational corporations, and reach to the SME sector. The Trade Promotion Coordinating Committee, (2011) purports that increasing U.S. SME exports is a key priority. The NEI seeks to assist U.S. companies, especially small firms, to overcome the hurdles to entering new export markets. Given the practicalities that small organizations face in any business expansion, and the realities of external tariff and non-tariff trade barriers, it is challenging for SMEs to internationalize (Trade Promotion Coordinating Committee, 2011).

Eight areas were identified as priority activities in the NEI Executive Order. These priorities included exports by small and medium-sized enterprises (SMEs), federal export assistance, trade missions, commercial advocacy, increasing export credit, macroeconomic balancing, reducing barriers to trade and export promotion of services (Trade Promotion Coordinating Committee, 2011). Providing support at the state level should be key to success of the federal goals (Trade Promotion Coordinating Committee, 2012). As the United States Department of Commerce (2011) acknowledged that the President's NEI requires that federal and state agencies have a team approach to developing and achieving a national export strategy.

A current study by Nie & Taylor (2013) report that many studies have suggested that U.S. export decline is linked to aggregate declines of growth in foreign markets. Their study sought to quantify the relationship between United States (U.S.) export growth compared to foreign economic growth in specific world regions. They analyzed 27 years of data on U.S. export growth, real Growth Domestic Product (GDP) in selected regions and rate exchanges. The study concluded that U.S. export growth is more closely linked with changes in economic growth in Europe, followed by Canada and Asia. This study appears applicable to the U.S. pattern in 2012 where the five leading countries for U.S. trade included Canada, Mexico, China, Japan and the United Kingdom (Chamber of Commerce, 2012).

Given the significant goal to double U.S. exports, there is value in discerning the contributions that individual states contribute to the overall U.S. goal. Since California is a key player in the United States' economy, and since most of California's businesses are small to medium-sized, its SME international profile is important to the achievement of the NEI goals.

This research seeks to understand California's small to medium sized enterprise (SMEs) exports, given California is a key state that may contribute to the NEI. California's SME export activity by sector, destination, volume and demographics are analyzed. Further, California's SME export ranking is compared to that of the top five United States exporter states. The State of California's plans to support SMEs export activity and achievement of NEI goals are also examined. To provide a context, the paper first provides a board overview of U.S. SMEs contributions to the country's economy and the SME sector's participation in the export activity of the United States. Further, internationalization of the firm theories are considered that might assist California's efforts as it develops its export promotion program.

SMEs Fuel the Economic Engine of the United States

Small and medium sized (SME) businesses have a strong impact on a country's economy from job creation, generation of wealth and innovation. Achieving the NEI goals require significant involvement of SMEs to assume the challenge of doubling the U.S exports by 2015. Only 2 percent of the U.S. exporters are large companies with more than 500 employees. For example, in 2011, there were 302,000 U.S. companies that exported goods and SMEs accounted for 98 percent of all exporters and 97 percent of importers. In that same year, SMEs represented 33% of the export value of all U.S. export goods (International Trade Administration, 2011a). Therefore, SMEs are critical to achieving the NEI goals.

In 2012, the top five leading countries of U.S. export destinations based upon export value were Canada and Mexico (members of NAFTA), followed by China, Japan and the United Kingdom (California Chamber of Commerce, 2012). When considering only U.S. SME businesses, the export destinations of the top five export countries 2012 were Canada, Mexico, the United Kingdom, Germany and Australia (International Trade Administration, 2011b). California led all other U.S. states in 2012 to the country's export value, followed in ranked order by Florida, Texas, Illinois and New York (International Trade Administration, 2011b).

Internationalization of the Firm Theories Relate to MNCs More Than SMEs

Many studies on internationalization of firms have focused on large firms and developed economies. As businesses operate in different countries, they gain access to a larger market, resource base, and distributional networks. Based on the size of the organization, multinational corporations (MNC) have greater access to capital, economies of scale, technological know-how and have the resources to operate at a global scale. Some of the theories frequently used to explain the internationalization efforts of large business include product life cycle model (Vernon, 1966), stage theory (Johanson and Vahlne, 1977), monopolistic advantage theory (Hymer, 1976), and ecletic theory (Dunning and Narula, 1998). These theories focused on the role of innovation and internationalization efforts of the firm, process of internationalization, and the locational ownership and organizational advantages that firms and host economies offer.

Further research by Khanna, Palepu and Sinha (2005) shows that initially many MNCs failed to understand the importance of local customer preferences, challenges associated with infrastructure, and policy differences in developing countries. As a result they preferred to invest and conduct business in the developed countries.

The United States International Trade Commission (2010) found that large firms in United States, France, Germany, Japan, and the United Kingdom were more likely to be successful in conducting international trade than SMEs. The data suggested that large firms typically export more than small firms. They usually pay higher wages, have greater output given their input levels, license more patents and are more likely to survive than smaller firms. Further, the United States International Trade Commission (2010) found that 600,000 U.S. firms went out of business in 2006, and 96% of them had fewer than 20 employees. Yet, SMEs remain the economic engine of the U.S., representing 99.7 % of U.S employer companies in the non-farming sector and account for half of the U.S. jobs (United States Trade Commission January, 2010).

D'Angelo (2010) reports that research examining the internationalization of the firm based upon company size has challenged the former understanding that larger firms tend to be more successful at going global than smaller firms. Still further, research purports that bureaucracy of larger firms might inhibit internationalization and innovation, compared to smaller firms given their ability to be agile and respond to market opportunities.

There are various reasons explaining why SMEs tend to focus on the domestic market (Chiao, Yang & Yu, 2006; Fernandez & Nieto, 2006; Leonider, Kaminarides & Hadjimarcon, 2004). US-based SMEs, in their efforts to engage in international trade, face a number of barriers. The frequently cited reasons for not internationalizing include inadequate country specific policies and bureaucracies and lack of trade agreements, need for long term financing, inadequate intellectual property rights protection, bribery and corruption, limited knowledge and experience with international trade and with e-commerce technologies, and need for effective local partnerships (Ghosh, Lucy & Lepage, 2009). As a result, these companies tend to focus on the domestic market for growth of revenue.

Requena-Silvente (2005) reports that governments try to encourage SMEs to export by providing funding and other collaborative programs. While export promotion varies from country to country, there seems to be a pattern of support across all governments involved in export promotion to focus on assisting SMES because: 1) governments target their support to SMEs given their potential, 2) SMEs tendency to have fewer resources to internationalize than larger companies and 3) government assistance capacity is insufficient to be much help to beyond a small number of large companies, and large companies have developed their export systems.

SMEs Remain the Vast Majority of Businesses in California and U.S.

The U.S. international trade landscape must consider the contributions of large and small businesses related to employee size. It is also important to note that SMEs have a strong impact on a country's economy from job creation, generation of wealth and innovation, with SMEs representing half of the non-farming jobs in the United States (United States International Trade Commission January, 2010). This is not surprising when considering demographics of U.S. businesses. California's SME landscape is comparable to the U.S. where 98% of all California's businesses have between 1 and 99 employees and account for more than 37% of all California workers (California State Assembly Committee on Jobs, Economic Development and the Economy, 2012a).

As noted in Table 1, SMEs both in the U.S., as well as in California, form the vast majority of U.S. firms and are self-employed businesses with no employees. Between the year 2000 and 2008, the self-employed firms have increased by 4% in the US and 3% in California.

Table 1: Large and Small Businesses in California Compared to the U.S.

# of Businesses	**California 2008**	**California 2000**	**US 2008**	**US 2000**
Non-employers (self-employed)	2,688,453 *79% of SMEs*	2,103,178 *76% of SMEs*	21,351,320 *78% of SMEs*	16,529,955 *74% of SMEs*
Small Employers <500	711,313 *21% of SMEs*	658,898 *24% of SMEs*	5,911,663 *22% of SMEs*	5,635,391 *25% of SMEs*
Total SMEs	**3,399,766** *99.8% of all businesses*	**2,762,076** *99.8% of all businesses*	**27,262,983** *99.9% of all businesses*	**22,165,346** *99.9% of all businesses*
Large Employers >500	5,820	5,687	18,469	17,153
TOTAL	**3,405,586**	**2,767,763**	**27,281,452**	**22,182,499**

Source: United States Small Business Administration (2011)

Since the vast majority of U.S. firms are SMEs, it is important to understand the firms' in the size of employment. According to the U.S. Small Business Administration (2009), firms with fewer than five employees are considered micro-businesses. Manta (2011) reports almost 75 percent of the U.S. SMEs have between 1 and 4 employees, and 93 percent have fewer than 20 employees. California's businesses with fewer than four employees represent 89 percent of its SMEs, and 94 percent with fewer than 20 employees (Assembly Committee on Jobs, Economic Development and the Economy, 2013). Therefore, SMEs remain as the vast majority of businesses in the U.S., which is comparable to California's profile related to the number of exporters and SME company size of employment.

SME Business Owners Demographics: California Comparable to U.S.

According to Palvia (2008), SMEs tend to differ from large corporations in terms of the size of employment, (measured in terms of employing over 500), ownership, access to capital resources, culture, the ability to take quick decisions and actions, as well as the education and training of the owner. Further, in order to integrate into the global economy, it is important that SME managers and owner/manager have a global mindset. In general, CEOs of US-based large corporations have less international experience than CEOs of companies based in Europe, Asia, and Latin America (Edfelt, 2010). According to Nummela, et. al. (2004) having a global mindset is critical to a manager or owner's commitment and responsiveness to internationalization, and utilization of advanced technology. The authors further note that when mangers are more globally oriented they have less psychic distance (Nummela, et. al., 2004; p.53).

It is important to review the characteristics of SME business owners in the state of California and in United States. In California, in 2008 there were 3.4 million SMEs, 21% of which were employers while 79% were self-employed (United States Small Business Administration, 2011). This closely resembles the national statistics: 22% as employers and 78% as being self-employed. In 2000, breakdown of the data shows that there were 2.7 million SMEs in California; with 24% employing workers while 76% were non-employers. The corresponding statistics for the U.S. in 2000 were 25% of SMEs as employers and 75% as non-employers or self-employed (United States Small Business Administration, 2011). Furthermore, men owned 53% of SMEs, while women owned 30%. The remainder of SMEs were owned equally by men and women (Table 2).

Additional scrutiny of the data shows that during the 2002 to 2007 women ownership increased by 19.5 % in comparison to a 3.8 % change in male ownership. These statistics are slightly lower than the national data (Table 2). As one looks at SME ownership by ethnicity, it is evident that in California, the three leading groups are Asian, Hispanic and Hawaiian/Pacific Islander. On the other hand for the U.S., African-American, Hispanic, and Asian are leading groups owning SMEs. Looking at the characteristics of employees by firm size, according to the U.S. Small Business Administration Office of Advocacy (2009), Caucasians account for nearly 58%, and Hispanics account for about 66 % of those employed by SMEs. This demonstrates the diversity of the SME ownership and employees.

Table 2: Demographic characteristics of small business owners, 2002-2007

	California			**United States**		
Characteristics	**2007**	**% Share in 2007**	**% change 2002-2007**	**2007**	**% Share in 2007**	**% change 2002-2007**
Male-owned	1,686,716	49.2	3.8	13,910,634	51.3	5.5
Female-owned	1,039,642	30.3	19.4	7,793,425	28.7	20.1
Equally male/female owned	596,670	17.95	72.1	4,602,312	17.49	70.9
African	137,875	4.0	22.2	1,921,907	7.1	60.5

American-owned						
Asian-owned	509,670	14.9	37.2	1,552,505	5.7	40.7
Hispanic-owned	566,567	16.5	32.5	2,260,309	8.3	43.7
Native American-owned	45,734	1.3	20.0	237,386	0.9	17.9
Hawaiian/Pacific Islander-owned	9,339	0.3	32.0	38,881	0.1	34.3
Veteran-owned	239,658	7.0	n.a.	2,449,477	9.0	n.a.

Source: U.S. Small Business Administration Office of Advocacy (2009)

The ownership of minority owned American businesses has grown dramatically increased. An assessment conducted by Alsaaty (2013) compared the growth of the number of U.S. companies overall versus those of minority owned businesses. From 2002-2007, minority owned companies grew from 4.1 million to 6.0 million, a 46.4% increase. That is compared to the U.S. overall, which grew by 18% in same timeframe.

Advantages and Cultural Challenges of Conducting Business in Emerging Markets

The diverse backgrounds of the employers and employees among California SMEs can be an advantage for the state to expand its exports to emerging markets to contribute to achieving the NEI goals. The authors argue that the immigrant population often faces challenges going up the corporate ladder, so they often choose to work in, or develop, small businesses. Additionally, the diaspora can take advantage of the business and social networks, within their country of origin, which they can leverage. But, the internationalization of a company includes accommodating for the cultural differences in each region. The emerging markets of Brazil, Russia, India and China (BRIC) are the focus areas for NEI growth, so it is important to note the challenges and advantages that California may face as it expands in these markets.

In the BRIC countries the major export constraints reported by SMEs were government regulations, corruption, bureaucracy, fees, piracy, concerns related to credit, local trade issues, intellectual property (IP) protections, and others. The same study identified China, European Union (EU), Japan, UK, and Canada as the top five export markets (CompTIA, 2010). In another five years the top five export markets are projected to be in China, India, Canada, EU, and Japan.

As organizations engage in overseas business deals they frequently encounter problems. Each country has its values, beliefs and attitudes, work practices, concept of time and time consciousness, networking and relationship building, and other distinguishing traits (Edfelt, 2010). To conduct business in Brazil one needs to be aware that hierarchy is important and as such family and wealth play a strong role. Also successful negotiation will require face-to-face contact and time. Brazilians value strong relationship which requires considerable time. Furthermore, U.S. business representatives have to be patient since many of the negotiations take long. The number of individuals involved in the negotiation team is large and this present a challenge for U.S. business since the latter team may comprise of two to three people. This could be an added challenge for SMEs that have a small employee base (Edfelt, 2010; Moran, Harris and Moran, 2007).

The Russian economy is an emerging market for U.S. business. However, there are several issues that may present challenges to large and small U.S. companies doing business overseas. Unlike in the U. S., laws and written contracts play a lesser role and may not be binding unless they are mutually beneficial (Luthans and Doh, 2009). The emphasis is on building personal relationships and close friendships. It is important to rely on local consultants who have a better knowledge of local business. Like in Brazil, it is important to have patience since it takes longer, sometimes months to negotiate and complete a deal. Personal relationships are very important and Russians prefer to do business face-to-face. These require considerable time and travel to the country, which may be difficult for SMEs to commit.

In 1991 India implemented economic reforms and has seen a rise in foreign investment over the two decades. The large internal markets, availability of un-skilled to skilled labor, and pro-reform policies have helped to make this country as an important venue for exports and investment. However, some of the major constraints in doing business in India include a legacy of bureaucracy, corruption, and labor laws. There are fewer cultural barriers to conducting business with India (Edfelt, 2010; Moran, Harris and Moran, 2007). India has a vibrant services sector and high-tech industry. In the U.S. there are many immigrants from the sub-continent who may be able to provide the network that can help SMEs to overcome some of the barriers to conducting business and increase exports to India.

As China continues to be an important partner for U.S. business, the key points to keep in mind it that Chinese place strong emphasis on value and it takes considerable amount of time to negotiate a contract. The Chinese usually take time to arrive at a decision and it is recommended that outside business partners make frequent trips. To conduct business in this high-context culture it requires patience. Chinese businesses rely heavily on guanxi, which is based on connections. Good guanxi can help business in lowering the cost for doing business, gain information, and open future business opportunities. However, it takes time to build good guanxi and most large enterprises commit resources towards training of individuals who are involved in overseas operations. For SMEs the time and resource commitment seems to be a major challenge (Edfelt, 2010; Moran, Harris and Moran, 2007).

According to a survey of SMEs that are associated in the information technology (IT) sector, nearly 12 percent of revenue is derived from exports. According to Hart et al. (2009) in the US, the SMEs which are established by high skilled workers or immigrants tend to forge strong relationship with foreign firms which may be a supplier, partner, or customer. Such high-tech companies are in a better position to take advantage of the networks in the country of origin as well as with individuals of the diaspora. In particular the high-tech entrepreneurs from India and China tend to maintain strong links with business in the country of origin. This can be very beneficial to SMEs in the high-tech sector since linkages or relationships are very important.

Comparing Self-Employed with Employer SMEs by Economic Sectors

Seeking to understand California-based SMEs as compared to US-based SMEs, economic activity and firm size, industrial sectors are examined. According to the United States Small Business Administration (2011), the top five SME industry sectors for California are the same five as for the United States overall, representing over 55% of SMEs. The top five sectors for California SMEs are 1) professional, scientific and technical services, 2) health care and social assistance, 3) construction, 4) retail trade and 5) other services except public administration. Overall, in the United States, professional, scientific and technical services ranks as number one, followed by construction ranks as number one, followed by professional, scientific and technical services, retail trade, other services and health care and social assistance. Further, examination of the top five sectors both for California and the U.S. reflect that over 46% of SMEs are in the service business. In sum, California SME industry sectors are parallel to the national landscape.

Considering the industry sectors by type of SME ownership, there a difference in sectoral involvement depending upon whether the firm is sole proprietorship or a firm with employees. Table 3 provides statistics on allocation of SME sectors for non-employer firms in 2008. The term "non-employed" refers to businesses that are one-person firms, often referred to as "self-employed" firms.

Table 3: Industry Sectors in California and U.S.-based SMEs, 2008 (in thousands)

	California		United States	
Industry	**Non-employer firms**	**Employer firms**	**Non-employer firms**	**Employer firms**
Forestry, fishing, hunting & agriculture	13.0	1.9	230.9	21.9
Mining	5.6	0.7	108.7	21.3
Utilities	1.4	0.5	18.3	5.8
Construction	216.2	76.5	2,528.0	761.5
Manufacturing	41.7	40.5	314.5	281.6
Wholesale trade	57.4	52.8	388.3	328.8
Retail trade	221.2	73.1	1,875.4	693.1
Transportation & warehousing	121.1	17.6	1,039.5	169.9
Information	54.2	14.4	306.4	72.7
Finance and insurance	86.4	29.6	733.5	253.4
Real estate, rental, leasing	273.1	38.1	2,130.4	283.6
Professional, scientific and technical services	474.9	105.1	3,028.7	771.7
Management of companies &	-	3.2	--	27.6

enterprises				
Administrative, support, waste management, remediation services	218.3	36.8	1,826.5	332.2
Educational services	65.4	10.2	551.7	78.6
Health care & social assistance	254.8	83.2	1,811.6	621.0
Arts, Entertainment & recreation	169.8	18.9	1,121.4	115.4
Accommodation & food services	35.9	57.2	308.3	476.9
Other services (except public administration)	377.9	63.2	3,029.4	667.0
Unclassified	-	1.7	--	12.9
TOTAL	**2,688.5**	**717.1**	**21,351.3**	**5,930.1**

Source: United States Small Business Administration (2011)

The only fundamental difference by overall SMEs for both California and U.S. SMEs is that real estate, rental and leasing ranks in the top five of non-employer SMEs and not among those listed as employer firms (Table 3). SMEs are not well represented in the manufacturing sector and have lesser involvement in the following sectors: Mining, utilities, forestry, fishing, hunting, and agriculture. The statistics show that both in non-employer firms and employer firms, in California and nationally, SMEs play an important role in the service sector. According to the United States Census Bureau News (2013) large companies with over 500 employees dominate manufacturing.

One of the major constraints faced by SMEs is the lack of available resources to venture into the overseas market. According to Patel and D'Souza (2009), SMEs are more likely to be proactive in exploring international business opportunities. However, their ability to promote innovation and undertake risks, associated with exports, tends to be lower than large enterprises. Tapping into emerging markets requires much from smaller organizations. Limited internal capacity of SMEs is a significant barrier to expanding beyond domestic borders.

Even though SMEs are comprised primarily of micro-businesses, they play a major role in expanding the U.S. economy through international trade. Nationwide, the number of SME exporters more than doubled between 1992 and 2007 (International Trade Administration, 2011a). It is vital to understand the scope of SMEs' contributions to the economy. However, these businesses also face a number of barriers, including size, in their efforts to engage in international trade.

California SMEs Contribute to U.S. Economy and Exports

California is a key player in contributing to the NEI with the largest population in the United States at 38 million people (United States Census Bureau, 2012c). California's contribution to jobs and the economy is inextricably linked to the role played by SMEs in the state's nearly $2 trillion economy. California also plays a significant role in the global marketplace resulting from a number of variables including its strategic location on the eastern edge of the Pacific Rim, the size of its economy, its significant number of small to medium sized enterprises, innovation in technology, its global reputation as a sound investment and its competitiveness in international trade (California State Assembly Committee on Jobs, Economic Development and the Economy, 2012b).

California's business profile speaks to its role in the local, national and global economy. Its gross domestic product (GDP), foreign direct investment (FDI), patent activity, new venture investments and business start-ups are indicators of the power of California as major contributor to jobs and to the U.S. economy and exports. As the world's ninth largest economy (California Governor's Office of Business and Economic Development, 2012), California reported a gross state product (GSP) of $1.9 trillion in 2010. It ranks behind the world's largest economy, the United States at $14.4 trillion, China at $5.8 trillion, Japan at $5.4 trillion, Germany at $3.3 trillion, France at $2.5 trillion, United Kingdom at $2.2 trillion, Brazil at $2.08 trillion, Italy at $2.05 trillion and ahead of India at $1.7 trillion (World Bank, 2012). This comparison with the largest economies in the world indicates the importance of California in the U.S. economy.

FDI is a significant driver of GDP in international trade. The United States has consistently attracted more FDI than any other country in the world; $130 billion in 2009. California has the largest share of that investment creating an estimated 561,000 jobs (California Governor's Office of Business and Economic Development, 2012).

Another key economic driver of California's global competitiveness is its international trade. Manufacturing, where more than one-fifth of workers are employed, is the most dependent on exports for jobs. California's exports in 2012 were valued at $161 billion and represented 10% of total US exports (United States Census Bureau, 2012a; California Chamber of Commerce, 2012). Its largest export market was Mexico, where the 2012 value of exports totaled $26.3 billion, followed by Canada at $17.3 billion, China at $14.2 billion, Japan at $13 billion, and South Korea at $8.2 billion (California Chamber of Commerce, 2012).

The Milken Institute (2011) compared states within the U.S. regarding research and development dollars, numbers of patents issued, venture capital investment and business start-ups. California ranks fourth among 50 U.S. states. California also ranked first among 50 states for patents issues in 2010 (United States Patent and Trademark Office, 2011).

These data suggest California is a hub of innovation, positioning it as a potentially powerful contributor to achieving NEI goals. How does California compare with the leading U.S. states that contribute the most to the total U.S. export business?

California Ranks High Compared to Other U.S. States Contributing to U.S. Exports

Given California's potential to be a key contributor to President Obama's NEI goals, it is important to determine its ranking among the other U.S. states' export activities. The landscape of U.S. exports can be organized in variable ways, and the NEI goals include all exports, not only those from SMEs. U.S. export activity reported by value and share, number of exporters and by business size are depicted in Tables 4 and 5. Table 4 lists 2011 total export value and total share of U.S. exports of all businesses, not only SMEs, by the top five U.S. states, irrespective of employee size.

Table 4. Total U.S. Export Value by Leading U.S. States 2012 - California Ranks 2nd

State	Rank	2012 Value Millions US$	2012 Share of US Total	%Change from 2011
Texas	1	264,709	17.1%	5.6%
California	2	161,880	10.5%	1,7%
New York	3	81,359	5.3%	-4.0%
Florida	4	66,202	4.3%	2.0%
Washington	5	75,619	4.9%	16%

Source: (United States Census Bureau, 2012b)

Texas leads the other 49 U.S. states with California ranking second in export value and with the largest share of total U.S exports. In third place is New York, exporting half of that of California. The fourth and fifth rankings, Florida at 4.3% share of U.S. exports and Washington is similar at 4.9%. It is interesting to note that California's export value is 40% less than Texas. Given California's profile, it could be in year- to year increases instead of lagging behind. The State of Washington's export value has skyrocketed in 2012 from the previous year, at three times that of the frontrunner, Texas.

Table 5 reports then number of SMEs exporters in the top five U.S. states. California ranks first, followed by Florida, New York, Texas, and Illinois. SME exporting firms based in California and Florida were closer to the national average of 97.5 %. The exporting firms from New York and Texas were three to five percentage points below the national average. Illinois, which ranked fifth, was below the national average by approximately seven percentage points.

Table 5: SME Exporter Companies From Top Five U.S. States, 2011

State	Total Number of Exporters	Total Number of SME Exporters	SME Exporters as % of total Exporters	SME % of Export Value
California	75,028	72,039	96.0	44.2
Florida	60,147	57,381	95.4	68.0
New York	41,218	38,968	94.5	59.1
Texas	40,056	37,374	93.3	30.4

Illinois	22,855	20,649	90.3	25.7
TOTAL ALL STATES	288,747	281,668	97.5	31.3

Source: U.S. Census Bureau News, 2013

Also, as has been demonstrated at the national level, SMEs represent the vast majority of exporters in each of these top five U.S. states. While in California, 95.8% of its export companies are SMEs, they only contribute 43.6% of the state's export value. Compared to the other top four states, California is not generating the most export value. It ranks third behind New York and Texas. However, California is performing well since its SME export value is considerably higher than the national average of 33.3% (U.S. Census Bureau News, 2013).

Given California's profile, it is clear that it is critical partner to the Federal initiative to increase the U.S. economy through exports and specifically by assisting SMEs to optimally contribute to that goal. Given its many advantages, California could be a model for cooperating and partnering with the federal agencies to achieve NEI goals. What is California's strategic plan for increasing its exports as reflected in its public policy?

California Strategy Needed to Fulfill Its Export Potential

The development of an effective strategy, a state strategic plan for the coordination and promotion of export activity, can be the foundation of California's export competitiveness. However, Milken Institute (2012) studied the prospect of expanding California's exports. This most recent study illustrated that California has lacked an overall strategy to guide its foreign trade efforts. There have been various initiatives beginning as early as 1960 with trade offices opening in London and Frankfurt only to close in 1967 due to financial budget crises in the state budget. The study offers seven recommendations that would leverage California's key position in export promotion. The recommendations are 1) taking advantage of existing state resources, and advantages of private-sector expertise, 2) contracting out to foreign offices, 3) creating a comprehensive performance-measurement system, 4) developing specific strategies for export promotions including metrics, 5) research and trade data, 6) taking advantage of national programs and 7) development and implementing a comprehensive export-promotion strategies that are synchronized to include state and international efforts Milken Institute (2012, p. 3).

In April 2013, California's Governor Edmund G. Brown arrived in China to open a trade and investment office in Shanghai, the first formal California presence since 2003. The previous year when the Governor welcomed China's Xi Jinping to California, he announced his intention to visit China and form a China-California Task Force to promote collaboration including increasing invest and trade between California and China (Office of Governor Edmund G. Brown Jr., 2013).

This California state government-led delegation included a group of 75 participants from the business community, as well as specialists in economic development, investment and policy leaders organized by the Bay Area Council. During his eight-day visit o China, Governor Brown opened the California-China Office of Trade and Investment in Shanghai, signed Memoranda of Understanding with the Guangdong's government and signed an agreement with California's Chinese Sister State, Jiangsu, as well as attended meetings in Beijing, Nanjing, and Shenzhen (Governor's Office of Business and Economic Development, 2013).

U.S. states leading in exports have published strategic plans in support of their export promotion. For example, the State of Washington, ranking fifth among the 50 U.S. states in export value, announced its Washington Export Initiative in 2010, planning to assist 5,000 Washington businesses to achieve $600 million in new export sales. By 2012, their plan had proved effective since 2,176 companies had been assisted generating $198 million of export sales (State of Washington Department of Commerce, 2012). As noted above, between 2011 and 2012, Washington's export value increased by 16%, which is three times that of Texas, the leading state in export value and more than eight times that of California. It would be interesting to know how Washington's strategic planning impacted its progress.

California published a strategic plan (Office of Governor Edmund G. Brown Jr, 2014) outlining its vision and goals to support its export prospects. Most importantly, its SMEs need assistance to internationalize given the resource limitations of small business enterprises. The plan suggests it will leverage its opportunities to take advantage of its leading position in export trade. California plans to develop awareness, outreach and engagement programs for California-based businesses, with its international partners and with trade offices. The plan is descriptive and prioritizes the newly formed California Trade Office in China. The plan states it will re-engage with the Office of U.S. Trade Representative, and coordinate with California's the federal Congressional delegation advocate to promote international trade and investment. It seeks to develop an action plan to identify and solve the fundamental infrastructure deficits and challenges experienced by U.S. ports. And the plan calls for developing an improved website that will be comprehensive and user-friendly to support California firms to consider exporting and to attract foreign investment.

All of these initiatives were suggested by the Miliken Institute (2012) study to expand California's export prospects. California's plan does not mention Milken Institute's suggestions to develop a comprehensive performance and measurement system with baseline and goal metrics, and to develop focused strategies determine targeted export destinations by conducting research and using trade data. California does include a category entitled Measurable Outcomes, but does not yet include a quantitative measure or benchmarks. So California's current plan includes goals, but not at the level of measurable objectives and action steps

Conclusion, Interpretation and Future Studies

California is well prepared to contribute to the achievement of President Obama's National Export Initiative. As the world's ninth largest economy, its economic power is comparable to major countries in the world. Its GDP, GSP, FDI, patent activity, business start-ups, new ventures, as a major contributor to job creation in the U.S. are ingredients that factor into the state becoming a global competitor. With a significant percent of total U.S. exports, its NAFTA position to Canada and Mexico combined with its geographic position on the border of the Pacific Rim and its re-invigorated commitment and action to open trade offices in China has positioned it as a critical contributor to the NEI goals. Considering the number of SME companies and the export value they generate, SME ownership and employee demographics and the industry sectors in which the SME businesses are engaged are important when considering the development of a strategy to support California SMEs export expansion.

California is ranked number one among the 50 states in the U.S. in the number of SME exporters, but number three in SME export value. California follows behind Texas in the number of exporters and export value when considering all U.S. businesses that include large and SME firms. California SME industry sectors are parallel to the national landscape. California's SME sector profile illustrates that almost half of its businesses are in the service sectors, with leading services of construction, professional, scientific, technical, health care, and with almost a third of its exports in computer and electronic products.

California demographics suggest that women's ownership of SMEs is significantly growing and is five times that of men starting SMEs, and that most employees in California SME ventures are Hispanic. California's SME ownership is also comparable to the U.S., overall. That is, in both California and in the U.S. overall, only one quarter of all SME businesses have employees, the other three quarters are one-person companies. Given the high percentage of California's SME business owners and workers originate from other countries, there may be advantages through their connections and knowledge of foreign markets that could be harvested as the both federal and state programs seek to assist its business owners to considering exporting their products and services.

Governor Brown's Office has reopened its office in Shanghai and has developed the beginnings of a plan with a set of key goals. In sum, California appears to have all the basic ingredients to be successful. As it advances its plan to increase its export business, California must consider the demographics of the SME profile as well as industry sectors.

These demographics lead to the next set of research questions. This overview leads to questions for future studies:

1. Since three quarters of U.S and California SMEs are micro-businesses, how does SME size relate to the propensity to export?

2. Given that only a quarter of the SMEs have employees, and that emerging research indicating that small SMEs' tend not to undertake the risks associated with exporting compared to larger companies, what factors lead to SMEs choice to internationalize?

3. Comparing and contrasting the public policies at the State levels to promote and prioritize trade activities in the top exporting states could provide best practice models for other U.S. states. On the other hand, an analysis of these policies would reveal whether or not the states are planning strategically and are aligned with the National Export Strategy designed to promote more efficient and effective federal and state collaboration. How are other U.S. states strategically planning to harvest the potential export business of emerging markets, and are these plans aligned with the National Export Strategy?

4. Does export value increase based upon the products and services of the state, or is the potential achieved based upon leadership and management of the businesses?

5. Explore the role of immigrants in California's SME businesses. With a diverse population base in California, do SME owners capitalize on the networks in their countries of origins, and do these linkages assist in expanding export opportunities? Does having the knowledge of the country of origin and in-country networks, reduce barriers and increase SME exports?

6. What strategies are used by U.S. federal agencies responsible for promoting and facilitating the achievement of NEI goals, and to promote cooperation among the U.S. states to reduce competition?

Increasing U.S. exports to take advantage of the emerging markets is critical to the U.S. economy. The competition among the states in the U.S. does not necessarily further the NEI goal, nor expand the U.S. economy. To enhance U.S. international trade, there seems to be a need for coordination between federal and state policies. It is important for the United States to be competitive in a fast-changing global marketplace. If the United States is to stay ahead of the curve, all states, all companies, MNCs and SMEs, and the federal and state agencies must be in coordination to partake in the present and future global consumption demand estimated at 3.2 billion by 2020.

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