Abstract
One of the most important factors of future regional development is the establishment of companies. There are, however, certain sectors wherein entrepreneurship might reveal itself to be strategic. This is the example of Knowledge intensive business services (KIBS) as leading vehicles for technological progress, of innovation as well as economic growth, all of which deemed to be strategic for the development of businesses and industry in the region where they are set. Since these are based on knowledge, they are located in urban areas and are considered as an essential element of the innovation system of big cities. These stand simultaneously as suppliers of innovation capacity for small companies and for those companies where I&D is null or of low significance. KIBS are not standardized as they are created for each particular situation to suit the needs of clients. These are inherently intangible in view of their knowledge intensity, therefore difficult to store and to transport. High levels of competency and confidence are demanded even though the sector presents asymmetric information, placing the client in a position of not being able to rigorously assess the quality of the service rendered.

Key Words: Entrepreneurship, innovation, knowledge, KIBS, companies, competitive advantage

JEL Codes: L26; L84; O31; R19

1. Introduction
Taking into account inter-regional differences in their capacity to create companies, essentially within knowledge intensive business sectors (KIBS), these differences in development between regions may worsen in view of the capability or incapability to attract investment in these sectors. Within this context, the objective of this paper is to highlight the factors which determine the capacity for these regions to attract companies which operate in this KIBS with particular emphasis on the role that Universities play in this process. For its compilation, we used Labour force statistics complemented with data from the Portuguese National Statistics Institute.

This article is divided into two parts; the first part contextualizes the theme and explores the concepts from a theoretical perspective. The second part is the empirical analysis presenting and discussing the results. Finally we conclude and reflect upon a few trails for future research.

2. Contextualisation
In today’s economy, which can already be designated as Knowledge based economy, whose origin lies in Schumpeter’s philosophy of destructive creation and with the
severance of a stationary state, companies are forced to accept the principles of perfect competition namely through the acceptance of market price. At the same time these same companies have to find ways of differentiation so as to conquer a position in the market and thereby stand up to the other companies, focusing on oligopolistic and monopolistic principles. This perspective opens the doors to an imperfect competition, where the entrepreneurial capacity is the support of the processes of change and innovation, of whatever types, intentionality and novelty.

In this atmosphere of change and evidence of “knowledge” company creation is one of the most important factors of future development in a region. There are, however, sectors where entrepreneurship might reveal to be quite strategic. This is the case of knowledge intensive products as conducting vehicles to technological process, innovation and economic growth. KIBS sector is yet considered a strategic one for business and industry development within the region where these are situated (Aslesen & Isaksen, 2004) focusing on urban areas and considered to be an essential element in the system of innovation in the big cities. While users, vehicles and sources of innovation, these services are considered as being essential for feeding the endogenous, regional potential (technological), creation of jobs, income and productivity (Miles et al., 1995). In addition to this the literature suggests that those small companies with scarce or no R&D can still innovate by using knowledge that is disseminated from the KIBS sector (Miles et al., 1995: 45).

Just as globalization initiated the loss of competitiveness in traditional companies, so did it give rise to a new source of competitiveness based on innovation, creativity and ideas. Today those assets which determine potential economic growth in a region are the availability of qualified labour, amenities, access to capital and information as well as to innovative activities. In this globalised context knowledge arises as a crucial element for regional prosperity. Literature, nevertheless, shows that investing in knowledge is not sufficient to generate innovation and growth. Audretsch e Philips (2007) hold the opinion that for this to occur it is necessary for that investment in knowledge penetrates the so called “filter of knowledge” which settles between investment and knowledge - be it human capital, R&D or Academic research – and its commercial usage.

In this perspective of new heritage values, what makes some areas particularly attractive is the availability of talent, technology and tolerance. Even though the relationship between skills and productivity has wide empirical fundament, the fact is that literature indicates that regions wherein the human capital presents higher skill levels are those which have higher capacity to adapt and use knowledge. Simultaneously universities perform a decisive role in energizing regions, as it moved from the “production” of human capital, performing therefore, a fundamentally indirect role in economic growth, to the production and diffusion of knowledge, ideas, and of creativity. Thus, literature furnishes universities with a fundamental role (Audretsch e Phillips, 2007) in the development of regions

3. KIBS Sector-Knowledge Intensive Business Services: growth factors

There are numerous works which are based on the economic performance of regions, such as for example Milio (2007) who tries to ascertain if administrative capacity influences economic performance, even though this author focuses on a specific
application, that of the structural funds in the southern region of Italy. Nevertheless, there is nowadays the appearance of research done on those companies which are intensive in knowledge as well as the regional proliferation of companies offering more intensive services in knowledge. Such reality is due to the increasing speed of new and more sophisticated technologies, as well as its diminished life cycle, which has in turn led the different economic agents towards adopting more visionary and entrepreneurial behaviours and attitudes as a mechanism of coping with the “mutation” which is evident in society.

Literature presents various arguments related to the importance of KIBS in the industrial development of a region, some pointed out below:

1. KIBS sector is presented as a characteristic feature of the so called “new economy”. KIBS is dealt with in the OECD report (2001) as an intensive service in knowledge, considering that growth in this sector reflects the fact that economies of the member states of OECD are themselves becoming more intensive in knowledge.

2. KIBS sector is seen as the carrier of new production methods and new more flexible organizational forms that in turn characterize the “new economy”. It is expected that they are as well introduced in other industries.

3. The remarkable increase in jobs in this sector is another reason why the KIBS sector is considered to be a strategic sector

With economic development emerges the tertiarization of the economy, with the service-producing sector absorbing greater portions of employment and contributing towards the GNP. However, the production of services requires more human capital and less natural capital than the production of goods, forcing countries to invest even more on providing competences the human resources. This clearly is beneficial for the whole population, as knowledge has conquered a central position in the process of creating wealth process. Employment in knowledge intensive services (KIBS) represents 7.4% of total jobs and about 7.6% of the total product in the EU countries.

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(i) Technological factors, (ii) Focusing on core competencies (iii) new companies, (iv) regulations and (v) labour market. Thus,

*Technological factors:* industry has gradually become more complex due to the fast technological process. The proliferation of Communication Technology led to the division of chores and to its corresponding specialization thus leading to highly specialized and flexible industries. At the same time this has created the need for new competences and abilities (Hauknes, 1999). Access to knowledge became crucial and companies subsequently search ever more for intensive knowledge services (Daniels & Bryson 2002) in the areas of R&D, marketing, introduction to new technologies, organizational changes etc. Furthermore, KIBS may act as an interface with clients, allowing them to explore and apply the new technologies in business, thus speeding the introduction, dissemination and adoption of new technologies.

*Focusing on core competencies:* in a climate of intense competition, companies are ever more exposed to competition from countries with cheap labour, being subject to strong pressure to lower costs, this is due to globalization. In the more developed
countries companies are incapable of competing based on price being forced to frequently introduce new products, holding levels of quality and being able to offer products which satisfy the specific needs of certain clients. This forces the companies to concentrate on those aspects which can determine their competitive advantage, opting to go to the market for the supply of those services and functions which are outside of their competence niche.

**New companies:** the concentration on core competences and the gradual reliance on subcontracting made space for the creation of new businesses. Therefore, literature highlights the emergence of ‘spin offs’ when KIBS emerge from specialized divisions of traditional professional services, especially when performed functions are no longer seen as core competences of the organization. Another source of creation of KIBS, especially in the case of micro-enterprises, is the creation of consulting companies by professionals who hail from work in companies that reduced the number of employees or emanate from Universities or state laboratories.

**Regulations:** legislative changes and growing demands concerning environmental regulation, health and security, social responsibility, accountancy, all require specialized knowledge and led to the creation of new markets for KIBS.

**Labour market:** the existence (and rise) of the demand for highly specialized labour market makes this an attractive investment, especially when there are in the labour market highly skilled and qualified professionals that are able to provide those services and who do not find their present conditions in the traditional companies attractive.

From the foregoing discussion one may infer that a close relationship exists between the creation of KIBS and the energizing of a knowledge economy. Nevertheless, KIBS is also closely related to the division of labour and the development of economies. For this reason other factors which pressurize the growth of KIBS even though these are also related to the above discussion are:

**Structural change in markets, companies and consumer behaviour.** This is a conventional perspective and assumes some linearity in change processes. In this sense these are associated with a gradual evolution of the economies, with the development of the secondary sector and subsequently with the development of the tertiary sector. The assumption of these stages states that subsequent to the development of the tertiary sector there is a natural emergence of knowledge intensive services. This perspective is based on the final demand as a justification for the energizing of KIBS. However, the organizational and technological changes establish the importance of the emphasis on the final demand since the intermediate demand is decisively pressurising the growth and development of both KIBS and the economy.

**Work division:** there are authors, such as Peneder et al (2001a,b), Hansen (1991) and Walker (1985) that support work division, intra and inter companies in order to justify KIBS growth. They state that such division is related to an offer expansion in products and services based on knowledge and that the introduction of these KIBS stands as the basis of sustained growth in companies as well as in the steps of creating new ones. The authors link the adoption of new technologies to organizational flexibility, extended to organizational, management and
production processes. Therefore a demand for products and services more intense on knowledge is reflected on the products, reason why the authors state that the intermediate search is valuable in the explanation of KIBS dynamization and growth.

Service externalization versus service internalization: the sustainability of competitive advantages has lead companies to value processes of vertical and/or horizontal integration. Companies then find themselves forced to decline part of their duties, due to strategy or need. Hence the evolution in externalization, which pressured the appearance of new companies in the segment of traditional products and more intensive products in the knowledge area. This process, which can also be designated by company “disintegration”, is linked with the process of improving profit margins and/or the need to obtain quality services supplied by experts. However, not only this factor pressures the dawn of KIBS. Technological evolution, the appearance of new products, the increase in functions and the differentiation in products, associated with the technical and social division of work have an expressive power over the evolution of KIBS. Work’s technical and social divisions are relevant in the explanation and empowerment of KIBS, as companies’ atomization might lead to trade union fragmentation and thus to the diminishing of workers’ salary pressure (González, 2007: 52). Notwithstanding, just as Young (referenced in González, 2007: 55), the most important aspect for the explanation of KIBS growth are not the simple changes, but the dynamic effects they produce and which pressure the increase in specialization, incoming yield and economical development.

Economical appearance and growth based on knowledge: the increase of information in society, with a causal connection to the identification of sustainability factors of competitive advantages and to economical globalization, constitutes a range of interesting reasons to explain KIBS growth. Underlying such process is technological development on both ends of production. Therefore, innovation translated in the applicability of knowledge stands as a reasonable factor to explicate KIBS development, though this expansion is as great as the interaction and complicity established between tacit and explicit knowledge.

Features of KIBS activities

KIBS produce information and knowledge and/or use it as a pillar for the knowledge and information production activities. They do not serve specific clients but the industry and public enterprises. They may be defined as “organizations based on professional knowledge to offer products or intermediate services based on knowledge” (Hertog: 2000). Miles et al (1995) rather use expressions like “private companies highly dependent of professional knowledge” which supply products and intermediate services based on information to other companies.

Emphasis is placed on those services capacity to gather tacit knowledge to experience and to coded information. It is this capacity that manages increased value to offer to the final client and creates opportunity for companies to obtain and maintain competitive advantages.

KIBS stand as a subset of productive services which are a subset of service-producing sector themselves. They include classified activities under section K of NACE
Generally under the designation of KIBS one can find two service categories:

- Traditional Professional services, such as publicity, marketing and architecture;
- Technological KIBS, which include computer programming, engineering and computer related activities.

These are differentiated from the remaining service sectors by the fact that its competitive advantage is based on knowledge. KIBS is a highly diversified sector: there are basically as many KIBS as knowledge areas, ranging from market search to R&D. This amplitude is linked to a considerable heterogeneity in its evolution, structure and management.

Table 1: Main KIBS sectors based on NACE Rev. 1.1. nomenclature

<table>
<thead>
<tr>
<th>NACE division 72: Computer and related activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>72.1: Hardware consultancy</td>
</tr>
<tr>
<td>72.2: Software consultancy and supply</td>
</tr>
<tr>
<td>72.3: Data processing</td>
</tr>
<tr>
<td>72.4: Database activities</td>
</tr>
<tr>
<td>72.5: Maintenance and repair of office, accounting and computing machinery</td>
</tr>
<tr>
<td>72.6: Other computer related activities</td>
</tr>
<tr>
<td>NACE division 73: Research and experimental development</td>
</tr>
<tr>
<td>73.1: Research and experimental development on natural sciences and engineering</td>
</tr>
<tr>
<td>73.2: Research and experimental development on social sciences and humanities</td>
</tr>
<tr>
<td>NACE division 74: Other business activities</td>
</tr>
<tr>
<td>74.11: Legal activities</td>
</tr>
<tr>
<td>74.12: Accounting, book-keeping and auditing activities; tax consultancy</td>
</tr>
<tr>
<td>74.13: Market research and public opinion polling</td>
</tr>
<tr>
<td>74.14: Business and management consultancy activities</td>
</tr>
<tr>
<td>74.15: Management activities of holding companies</td>
</tr>
<tr>
<td>74.20: Architectural and engineering activities and related technical consultancy</td>
</tr>
<tr>
<td>74.3: Technical testing and analysis</td>
</tr>
<tr>
<td>74.4: Advertising</td>
</tr>
<tr>
<td>74.5: Labour recruitment and provision of personnel</td>
</tr>
<tr>
<td>74.8: Miscellaneous business activities n.e.c.</td>
</tr>
<tr>
<td>74.81: Photographic activities</td>
</tr>
<tr>
<td>74.84: Other business activities n.e.c.</td>
</tr>
</tbody>
</table>

Note: The broad NACE divisions 70-74 include some sub-sectors that are not strictly KIBS, and thus have been omitted from this list: some parts of 74.6 (Investigation and security activities); 74.7 (Industrial cleaning); 74.82 (Packaging activities); 74.83 (Secretarial and translation activities). NACE 71, excluded from the list above, involves ‘Renting of machinery and equipment without operator and of personal and household goods’ which is often grouped together with these sectors. For purposes of statistical analysis, these sectors are often aggregated with ‘real estate’ and this group then, in turn, with ‘financial intermediation’.

Table 1 demonstrates the activities which can be included in KIBS definition. In line with Miles et al (1995), the Basic criteria to identify KIBS is the workers qualification level, according to the sector and presents the following relationship:
Intensive knowledge services to companies

- Accounting, auditing and legal advisory;
- Management consulting;
- Specific construction services (architecture, engineering...);
- Infra-structure management services;
- Technical engineering services;
- Investigation and development services (excluding university R&D);
- Advising services in investigation and development;
- Design (related or not with new technologies);
- Environmental services (legal, measurement, evaluation and control...);
- Computing and computer related services (includes software services);
- Legal services;
- Marketing and publicity;
- Export and real-estate trade;
- Training (besides the ones related with new technologies);
- Specific financial services;
- Temporary recruitment services;
- Information agencies;

This service range has led some authors to branch KIBS in categories, such as Thomi and Böhn (3003) who refer the following three groups:

1. Technological KIBS (including):
   - R&D activities in natural and technical sciences (73:1)
   - Engineering and architectural activities (along with technical analysis and industrial design (74.20, 74.30, 74.84);

2. Computing based KIBS (including activities from classification 72, from software and hardware consultancy to database activities);

3. Professional KIBS (including)
   - Legal activities (74.11);
   - Business and management consultancy activities and labour recruitment (74.14 e 74.50);
   - Advertising (74.4)

Besides the central importance of knowledge, one other feature of this sector is the existing proximity between companies and clients. Frequently following a consultancy perspective, companies and clients come up with solutions for company issues together. KIBS product is, therefore, designed based on client needs and not quite standardized.

Also, given its knowledge intensity, the resulting product regularly presents a predominantly intangible character, difficult to store and transport. Finally, since there are high levels of skill and trust required, it is important to mention the existence of asymmetrical data, where the client is unable to rigorously access the quality of the provided service.

Since it is a recent phenomenon, most companies in these sectors were established in the previous years, as demonstrated by chart 1.
Big cities are considered particularly attractive for the location of KIBS, since they offer easy access to a highly qualified and specialized job market. Furthermore, they gather potential important clients, such as headquarters of public and private companies. These metropolises also offer the chance of establishing relationships between companies and their clients, which are attractive for KIBS usage (Aslesen & Isaksen, 2004).

4. Empirical application

4.1. Data base.
To determine the amount of companies in the intensive productive knowledge services sector we have used the Ministry of Employment data base, which shows the date companies were established. Built upon establishment plan, this data base virtually covers all companies with employed people. All companies operating with self-employed people are excluded, which results in an underestimation of the number of entries and the real importance of companies with less than 5 employees. Furthermore, using the companies’ file, one does not consider companies established in a county whose headquarters might be in some other council.
This data was complemented with data published by the National Statistics Institute and Marktest on profit indexes (see variable description and its sources).

4.2. Territorial Unit
This data base contains identification related to the district or council where the company is based. In this study we have used the council as territorial unit since it is the level of analysis with greater fragmentation and therefore better reflects the interregional inequalities in the distribution of economical activities.

4.3. Dependent variable
There are alternative measures to translate the establishment of new companies. The amount of companies established is simplest indicator, despite suffering from the powerful limitation of not controlling the economical potential of the region. To avoid this problem, indexes translating an entry rate can be created. Empirically, studies have been split between two groups, according to the variable used in that index denominator. On the one hand those using the amount of companies existing in a determined region in a base year. This approach is censurable as (1) using the number of existing companies
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grants the same weight to big and small companies, ignoring their potential; (2) it foresees the existence of a correlation between the entry and the amount of incumbent as if new companies were established based on pre-existing ones and (3) it tends to overrate the entry rate in regions with a small amount of companies. On the other hand, some use a pattern aiming at translating the number of hypothetical entrepreneurs in the region, according to a market policy approach. There are still various alternatives presented: active population in the region [Reynolds et al. (1994), Guesnier (1994)], employment in industry (Reynolds, 1993), or the resident population. Company establishment index is used as a variable in this study as the ratio between the amount of entries and the resident population in each council.

4.4. **Explanatory variable**

Table 2 presents descriptive statistics.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Average</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>txnatSPIC</td>
<td>278</td>
<td>0,0001</td>
<td>0,0003</td>
</tr>
<tr>
<td>txnatSPes</td>
<td>278</td>
<td>0,0001</td>
<td>0,0002</td>
</tr>
<tr>
<td>ppop2549</td>
<td>278</td>
<td>0,3412</td>
<td>0,3633</td>
</tr>
<tr>
<td>popenssup</td>
<td>278</td>
<td>0,0371</td>
<td>0,0214</td>
</tr>
<tr>
<td>txdesemplic</td>
<td>278</td>
<td>0,0026</td>
<td>0,0015</td>
</tr>
<tr>
<td>coefloc</td>
<td>278</td>
<td>0,0035</td>
<td>0,0061</td>
</tr>
<tr>
<td>indicerend</td>
<td>278</td>
<td>3,8072</td>
<td>10,8235</td>
</tr>
<tr>
<td>pesoacttic</td>
<td>278</td>
<td>1,1511</td>
<td>1,7739</td>
</tr>
<tr>
<td>pesoindit</td>
<td>278</td>
<td>10,2626</td>
<td>13,6026</td>
</tr>
</tbody>
</table>

The alternatives presented by the economical theory are multiple. However, for this study, attentions will be focused on variables explored on (1), (2) and (3).

(1) **Availability of potential entrepreneurs**: in order for the “birth” of new companies to happen in a certain region to occur, it is fundamental that such area holds capable and motivated individuals. The economical theory claims that areas with a high population rate not only minimize transactions but also tend to attract young and educated individuals, presenting it as pooled job markets. Therefore, areas including an important percentage of the young population (ages between 25 and 44 – POP25_49) obtain higher entrance rates. On the other hand, and admitting that the decision to establish a SPIC company requires higher knowledge from the hypothetical entrepreneur, it is accepted that the establishment of this kind of enterprises is greater in regions where population with higher education is more available (POPENSSUP). Finally, high unemployment rates among people with a university degree (TXDESLIC) might also be positively correlated with the amount of newly established enterprises, since the experience as an unemployed person or the risk of becoming unemployed might be faced as a strong impulse for self-employment. However, such effect may be annulled by the need for market conditions.

(2) **Market conditions**: literature suggests that the nature of the services rendered by SPIC companies foresees a geographical proximity between provider companies and
their client companies. Therefore, the existence of a regional company database, especially manufacturing (COEFLOC) is likely to positively influence the region’s incubator skill.

(3) **Access to capital**: company establishment requires investment and therefore capital. Since there is a belief that most companies are established resorting to self-financing or, even with borrowed funds, frequently granted based on the entrepreneur’s assets, differences concerning regional income might explain disparities in new companies rate. Thus, differences between regions in the average level of income are expected to be translated in differences in a region’s incubator potential.

### 4.5. Estimation and Results

The pattern estimation of the static model used two sets of explanatory variables: (1) variables related to each council’s availability of potential entrepreneurs; (2) variables related to the interest in these services rendered by these companies. Due to the possible importance of knowledge spillovers – especially tacit knowledge – model specification included a dummy variable which assumes the value of 1 in case there is a public university in the council and/or a variable (PESOACTTIC) which aims at accessing how important the presence of intensive activities and information technologies and knowledge is in the council. Table 3 presents the estimation results.

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TxnatSPIC</td>
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<td>0.0010</td>
<td>0.0011</td>
</tr>
<tr>
<td>POP25_49</td>
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<td>0.0011</td>
<td>0.0004</td>
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<tr>
<td>POPENSSUP</td>
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<td>0.0045</td>
<td>0.0048</td>
</tr>
<tr>
<td>COEFLOC</td>
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<td>-0.0059</td>
<td>-0.0059</td>
</tr>
<tr>
<td>PESOACTTIC</td>
<td>-0.0000</td>
<td>-0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>UNIV</td>
<td>-0.0003</td>
<td>-0.0003</td>
<td>-0.0003</td>
</tr>
<tr>
<td>CONSTANT</td>
<td>-0.0001</td>
<td>-0.0001</td>
<td>-0.0001</td>
</tr>
<tr>
<td>Observations</td>
<td>278</td>
<td>278</td>
<td>278</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.11</td>
<td>0.11</td>
<td>0.03</td>
</tr>
</tbody>
</table>

Robust t-statistics in brackets. * Statistically relevant at 10%; ** statistically relevant at 5% and *** statistically relevant at 1%

Models were estimated by Ordinary Least Squares (OLS). Regression was tested and corrected to heteroscedasticity.
First of all, it is important to notice that the explanatory capacity of the model is low. Nevertheless, the estimated coefficients generally present the expected signs and are statistically meaningful. The results obtained confirm a higher propensity to establishing SPIC companies in the areas where there is more availability of young population with higher studies. In fact, under any specifications these variables obtained a positive and statistically meaningful coefficient. This result suggests that availability of residents with educational background is a factor that motivates the establishment of SPIC companies. Curiously, the unemployment rate among people with university degrees obtained a negative (and marginally significant) coefficient, which might mean that people with university degrees are more easily employed in areas with greater corporate dynamics. The negative sign obtained by variable COEFLOC is also significant, which contradicts the theoretical hypothesis of local proximity between SPIC companies and manufacturing companies, who their specialized services are sold to.

To end with, no evidence was found that knowledge spillovers are an important determinant for the location of SPIC companies. The estimated coefficient for variable PESOACTTIC obtained a negative sign (though not statistically relevant) and variable UNIV did not obtain a statistical meaning either, though obtaining a positive sign, as expected.

5. Conclusions

Company establishment is important for regional development. However, not all companies contribute similarly for its sustainability. The most technological ones and those whose final output is based on more knowledge intensive services appear to be strategic in this regional growing and development process, due to their capability in using and spreading knowledge, the ground for regional and business innovation. Nevertheless, location does not seem to be decisively related to the studied explanatory valuable. In this process of establishing and implementing knowledge intense business services companies, it appears to make sense to look for explanation in relational and behavioral strategies of different economical agents, namely among producers and buyers/users of those same products, because knowledge spillovers, the existence of universities and/or intense activities in information and knowledge technologies in the council, despite signs matching as expected, do not seem to be very important for KIBS dynamization.

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