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# **The Role of R&D and Knowledge Spillovers in Innovation and Productivity**

David B. Audretsch

School of Public and Environmental Affairs, Indiana University Bloomington  
1315 E. 10th Avenue SPEA Bloomington, IN 47405, USA

Email: [daudrets@indiana.edu](mailto:daudrets@indiana.edu)

Maksim Belitski<sup>1</sup>

Henley Business School, University of Reading  
Whiteknights campus, Reading, RG6 6UD, UK

Email: [m.belitski@reading.ac.uk](mailto:m.belitski@reading.ac.uk)

## **Abstract**

The use of both research and development (R&D) and knowledge spillovers has been identified as the source of relative innovation underperformance in Europe vis-à-vis the United States. In this paper, we investigate R&D and knowledge spillovers at the firm level to evaluate the extent to which they complement innovation and firm productivity. We use data on a large unbalanced panel of 9,213 UK firms constructed from six consecutive waves of a community innovation survey, an annual business registry survey and a business enterprise research and development survey during 2002-2014. We estimate the knowledge spillover-augmented version of the CDM model of R&D, innovation, and productivity to find that complementarities between R&D and knowledge spillovers are strongly associated with firm productivity rather than firm innovation. R&D is important for both innovation and productivity, while knowledge spillovers are more important than R&D for firm productivity. We also explore the differences between returns to R&D and knowledge spillovers across three distinctive innovation strategies.

**Keywords:** R&D; innovation; productivity; knowledge collaboration, knowledge spillover  
**JEL Classification:** D24; O31; O33

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<sup>1</sup> Corresponding author