

Reconfiguring Firm Boundaries: Regional Market Integration and Strategic Labor Outsourcing

Jing Chen

Jiangxi Normal University

Email: 005309@jxnu.edu.cn

Zhihua Wei

Xiamen University

Email: finjoy@126.com

Mingtian Zhang

Central University of Finance and Economics

Email: 2023110059@email.cufe.edu.cn

Dengjin Zheng*

Central University of Finance and Economics

Email: dengjinzheng@cufe.edu.cn

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* **Correspondence author:** Dengjin Zheng, School of Accountancy, Central University of Finance and Economics, 39 South College Road, Haidian District, Beijing, China.

Postal code: 100081

Email: dengjinzheng@cufe.edu.cn

Tel: +86 133 6626 3836

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Abstract

Motivated by the underexplored role of regional institutional factors in shaping firm boundaries, we investigate whether and how regional market integration influences firms' labor outsourcing decisions. Leveraging regional integration policies in China as quasi-exogenous shocks, we identify a causal effect of regional market integration on firms' strategic use of labor outsourcing. Economically, firms in integrated regions exhibit an 18.96% increase in labor outsourcing relative to the sample mean, compared to their counterparts in non-integrated regions. This effect is more pronounced among firms with higher financial constraints or greater risk-taking propensities, but less significant among firms with higher R&D intensity. Further analyses reveal that following regional market integration, firms predominantly outsource repetitive tasks rather than core functions. This labor strategy reconfiguration is associated with increased employment of high-skilled labor, reduced labor costs, and ultimately, enhanced firm performance. Collectively, our findings introduce a novel regional institutional perspective to the firm boundary literature, shifting the understanding of boundary choices from a firm-centric to a multi-level institutional framework.

Keywords: Firm boundary, Regional market integration, Labor outsourcing