

**Growing beyond firm boundaries through strategic alliances:  
Role of labor market frictions**

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**Abstract:**

Using the staggered adoption of state-level employment regulations, we find that firms subject to labor market frictions significantly increase their strategic alliances, favoring collaborations with other firms to pursue growth over internal investments. These effects are larger for high-growth and innovative firms. Affected firms shift their risky, novel projects outside their boundaries by partnering with risky firms from a different industry. Following the law adoption, firm growth declines but this decline is attenuated among firms with alliances. Overall, we establish that firms adjust their boundaries to circumvent the negative growth impacts imposed by labor market frictions arising from employment regulations.

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