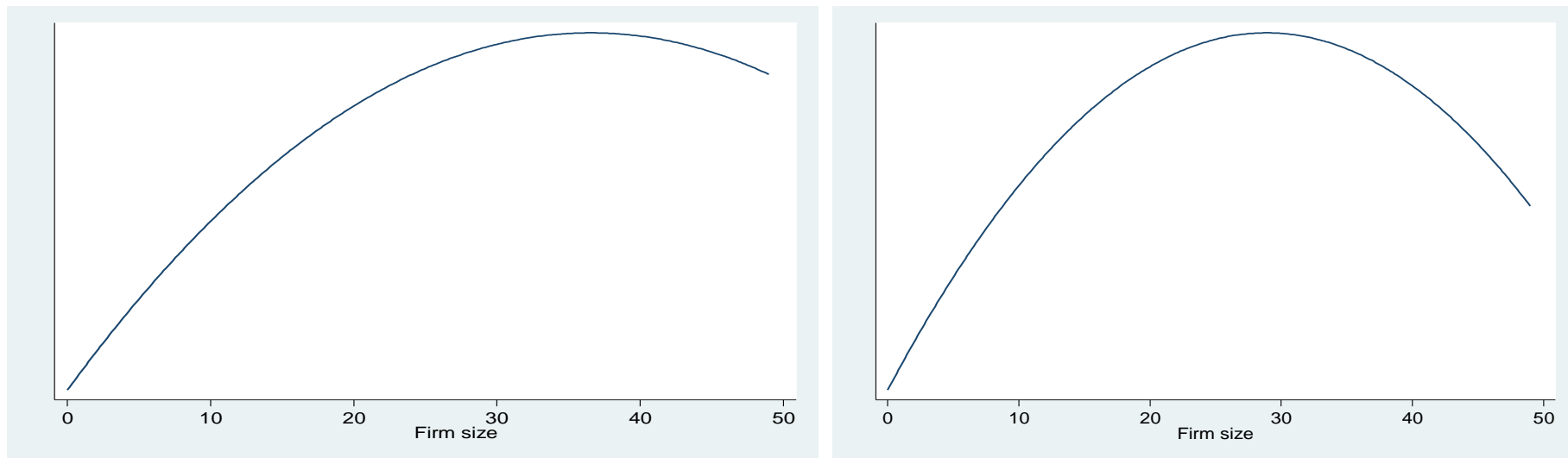


## Appendix Three

### Estimates of legal capacity and problems by size of enterprise

In estimating the turning points for legal capacity and legal problems, quadratic functions are used to capture decreasing or increasing marginal effects. The general formula for the turning point of a quadratic is  $x = -b_1/(2b_2)$ , which leads to a positive value if  $b_1$  and  $b_2$  have opposite signs and a negative value if  $b_1$  and  $b_2$  have the same sign (see Wooldridge, 2013). We use this method to plot the relationship between size of firm and marginal changes in legal capacity (Figure 1) and size of firm and legal problems.

**Figure 1.** Internal/external capacity as a quadratic function of firm size



**Figure 2.** Legal problems as a quadratic function of firm size

