

A No-Nonsense Guide to Reining in Entity Compliance

When it comes to **entity management**, are you being underserved?

If you are like most people, you likely are – regardless of the approach you take.

Whether you maintain legal compliance in-house, through a registered agent, or with run-of-the-mill entity management “software,” chances are good that you could be managing compliance in a *more efficient* and *less risky* way.

While “good enough” approaches to managing entities may have sufficed in the past, they fall woefully short in today’s globalized, remote work-enabled world. Modern companies often have more entities to manage than ever before – and a status quo approach can fall short in ways that leave a business exposed to significant risk.

We get it: entity management is not among the world’s most scintillating topics.

But we’ll let you in on a secret: providers have gotten away with underserving you *because* entity management is boring. Who wants to spend any more time than is necessary thinking about compliance?

Here’s the good news: if you invest a little time and energy now into understanding the basics, you can kiss your entity management challenges goodbye *forever*.

That’s right: entity management doesn’t need to be hard. Solutions **do** exist. There is no reason to struggle to maintain compliance.

The world has changed. Legal compliance has become more complex. Isn’t it time you upgraded your maintenance approach?

What is entity management?

Just so we are all on the same page: entity management is the process of organizing and filing a business’s legal entity documentation (annual reports, business registrations, DBA/fictitious names, licenses, etc.) so it complies with state and local jurisdictions.

How Most Organizations Manage Compliance (& the Associated Risks)

In-house (a.k.a. Excel Hell 🔥)

Research from **Forrester Consulting** found that 20% of compliance officers rely on data housed in spreadsheets to make business decisions. If your organization is part of that 20%, it is almost certainly operating with some (very avoidable) amount of risk.

Managing entities **manually** – on spreadsheets and with Google or Outlook calendar alerts to meet filing deadlines – is inherently risky. It's difficult to effectively organize (and locate) information, and it is nearly impossible to keep a reliable audit trail. Mistakes are bound to occur.

Day-to-day errors aside, manual management sets organizations up for long-term risk and disorder. When personnel changes occur (and they will occur), knowledge and expertise associated with entity management can be splintered or lost – sometimes permanently.

If you manage entity compliance manually and inherited a spreadsheet from your predecessor, you understand the struggle. When decisions are based off data housed in a spreadsheet (that may or may not be reliable) questions about whether you are *actually* in compliance are inevitable.

If you have a nagging feeling at the back of your mind that manual maintenance is risky, listen to it. Your intuition is right.

Did you know one in every 20 keystrokes is an error?

Corporate Finance Institute found that **up to 88%** of spreadsheets, such as those used to manage entity compliance, have errors.

Manual filing problems include:

- Missing entities & DBAs
- Application errors
- Late filings & incurred fines
- Compliance errors
- Weakened corporate governance
- Slow resolution of issues
- Lack of back-up for AP
- Risk of dissolution

External Partners

Registered Agents

Ah, registered agents. Famed for their responsiveness, conscientiousness and thoroughness.

The truth about registered agents (RAs) is this: most are generalists who provide a laundry list of services. And, while that breadth of services can be helpful in some arenas, it can dilute an RA's effectiveness in others – like entity management.

If you use an RA to manage legal compliance for your organization, you likely don't need to be told about how frustrating the process can be. But, for those who are curious, the reality of working with an RA generally goes a little something like this:

1. You submit documentation and information to your RA over email. (*"Is this a black box?" you wonder.*)
2. Your RA reaches out to you, requesting information you already provided them. (*"So, it is a black box," you think.*)
3. You have some compliance questions, so you shoot your RA an email. It takes two weeks to get a response, and it's only one answer to your five questions. (*"Odd... frustrating..."*)
4. You get a letter from the Secretary of State's office informing you that a filing is past due. (*"Don't I pay the RA to make sure that doesn't happen???"*)
5. An invoice arrives to your office from your RA. It is exorbitantly expensive and for a "service" you already paid for. (*"Seriously?!"*)
6. You leave a voicemail for your RA to discuss your concerns. (*"Maybe we can salvage this..."*)
7. You receive no response. (*"Guess not..."*)

Of course, things may not always play out that way. But unfortunately, they often do.

The way most RAs operate is opaque and costly. There is often no way to easily check on the status of entities and answers can be hard to come by.

Also, keep in mind that RAs manage entities *manually*. They aren't doing anything radically different than you would do in-house – only now you are getting invoiced for it.

The result? For many who work with an RA, it can be nearly impossible to know whether an organization is in or out of compliance.

If you are risk averse, that not knowing is a *killer*. Even if your entities are managed by an RA, the buck still stops with you. It's something chief legal officer, **Elizabeth Rushforth**, felt acutely after struggling with RAs for years.

"When you run a really lean in-house legal team, you don't want to be the one who dropped the ball because someone didn't respond to you," she said. "Every day they don't respond, you have to remember it... I had a sticky note on my computer reminding me to follow up. That note was rarely removed."

If you find an RA who allows you to “remove your sticky note,” that’s great– you should absolutely stick with them. *(But, if they are so great, what are you doing here?)*

If your RA isn’t easy to work with, constantly drops the ball, and offers zero transparency, it’s time to seek an alternative solution.

Entity Management “Software”

Maybe you tried a home-grown solution or worked with an unreliable RA and decided to level up to software... only to find that it didn’t quite cut the mustard.

While “entity management software” sounds great in theory, many of the options currently on the market are not the user-friendly, automated, transparent solution you were likely seeking.

Unfortunately, most of the “software” out there is **just an interface**... with a manual backend.

That’s right: most of the work is *still* done manually – and the team behind the software may or may not be totally reliable. Generally, filing reminders are the only **automated** part of the system. But those are just reminders – you still need to act on them. *(Wouldn’t it be great if a truly automated solution did exist? Hmm...)*

Do You Have a Compliance Problem? Here’s How to Tell.

Here’s a quick test: do any of these prompts apply to you?

- | | |
|--|--|
| <input type="checkbox"/> Spreadsheets are your only source of truth | <input type="checkbox"/> Your "compliance team" is siloed and disorganized |
| <input type="checkbox"/> You have difficulty locating important information | <input type="checkbox"/> You can't get an answer from your RA about your compliance status |
| <input type="checkbox"/> Records or information are hard to verify or are inaccurate | <input type="checkbox"/> Your RA's invoices are difficult to decipher |
| <input type="checkbox"/> You have delinquent subsidiaries | <input type="checkbox"/> Late filings happen... a lot |

If you answered “yes” to any of the above, you likely have a compliance problem. But don’t feel bad – compliance is something that many (*many!*) people struggle with.

In fact, among the gaps discovered in Filejet audits:

- ▶ **66%** of Filejet clients have out of compliance entities post-onboarding
- ▶ **44%** of Filejet clients have lost or “orphaned” entities post-onboarding
- ▶ **98%** of Filejet clients form new entities during the onboarding process
- ▶ **32%** of Filejet clients are operating in states where they are not registered

While noncompliance is a common (and fixable!) issue, it is one that should be addressed promptly.

Beyond creating administrative headaches, missing and orphaned entities can expose your company to the **risk of litigation** or **derail deals**.

So, let’s dig a little deeper to see whether it’s time for your organization to level up its entity compliance process.

To start: can you confidently say your organization is in compliance? If your answer is a solid “no,” you should conduct a **compliance audit** at your earliest convenience.

If you think you are *maybe, probably* in compliance – but aren’t 100% certain – think about whether you experience any of the following pain points:

Recurring Fines & Fees

Here’s the most obvious indication that something is amiss: your organization is constantly pummeled with fines and late fees due to non-compliance. If entity management is properly handled, you will *never* be fined.

Yes, this does matter!

Putting entity management on the back burner comes at a cost.

A 2022 Deloitte report showed that entity management errors:

- ↘ Drive sale prices down
- ⚠ Increase liability
- 💰 Inflate professional fees
- ❓ Put company credibility into doubt



While the fines might only cost a **couple thousand dollars**, they can add up if noncompliance is a regular issue – especially if interest accrues. These costs shouldn't be thought of as inevitable; they aren't the "cost of doing business."

Think, too, of the *opportunity cost* at play. Every hour you or your staff spends fighting fires related to noncompliance is an hour that could be spent performing more valuable (and potentially profitable) work.

If you ever spend money on compliance-related delinquencies – or lose hours cleaning up the resulting messes – take it as a sign that it's time to reassess your approach to entity management

Inflated (& Mysterious) Costs

Beyond fees and fines, the amount you spend on entity management, *itself*, may reveal important clues about the effectiveness of your approach.

If you work with an RA, pay close attention to the invoices you receive from them. Even though the service most providers deliver is subpar, the fees they charge are often exorbitant and **confusing** – a glaring red flag.

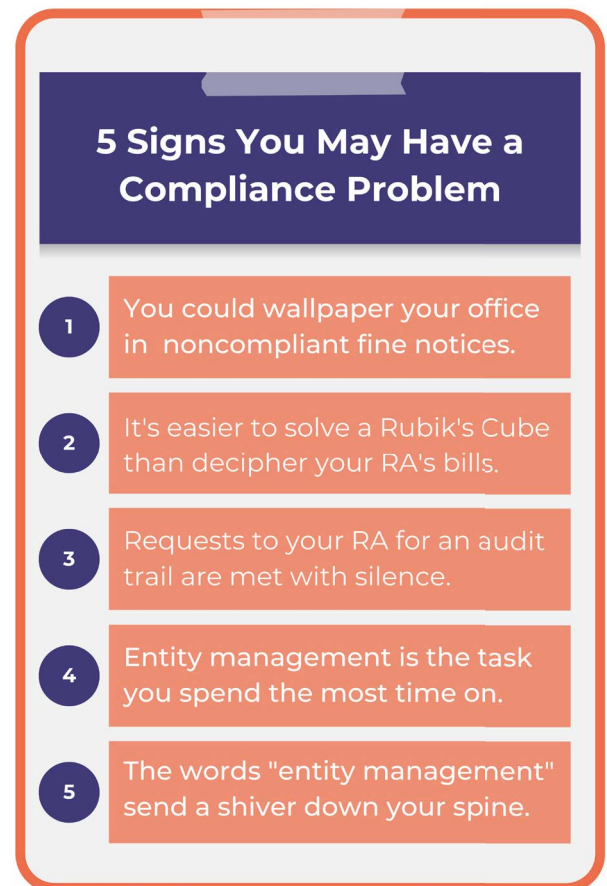
It's a red flag that **one PEO risk manager**, recognized immediately. His former RA – like many, unfortunately – had an opaque approach to invoicing. The risk manager received "follow-up" bills and past due notices from his RA – *even though he hadn't received the first invoice*.

Could you trust your organization's compliance to a system with glitches like that?

Here's the takeaway: if you aren't sure exactly how a provider manages your entities, just take a look at how they bill you. If their invoicing process lacks transparency, clarity and organization (or logic...), it could be a reflection of how they manage your entities – and is a fairly clear indication they don't have your back.

Nonexistent Audit Trail

Having a reliable **audit trail** is a vital part of maintaining legal compliance. Audit trails help organizations maintain data integrity and identify errors and inconsistencies. They are also critically important to have on hand if internal or external audits need to be conducted for regulatory purposes.



If you work from a spreadsheet, can you track the work that's been done (including changes made by predecessors)?

If you work with a third party, can they provide you with a cohesive report of the work they do for you?

If your answer is “no,” that should give you pause. The right entity management process will give you a dependable audit trail that can be accessed quickly and easily.

Wasted Time

Do you spend what feels like an inordinate amount of time thinking about or maintaining your entities? If you do, there is hope: entity management *doesn't* need to be a slog.

Improperly handled, entity management can quickly become a time-suck – especially if you work off a spreadsheet. According to **Ventana Research**, most organizations spend around one and a half workdays a month managing legal information in spreadsheets. And, in a **Dbriefs webcast** hosted by Deloitte, 20% of participants said their legal teams spend a whopping *third of their time at work* managing spreadsheets.

Unfortunately, folks who work with RAs often don't have it much better. Many people who work with RAs report spending an excessive amount of time chasing down answers – and cleaning up messes when things go wrong.

Here's the good news: if entities are properly maintained, it shouldn't take more than a few minutes to make sure everything is in order.

Frequent Headaches

Last, but certainly not least, if you find yourself continually beleaguered by entity management, it's a sign that something needs to change.

Whether you are carrying the weight of legal compliance solely on your shoulders, are under the gun to eke out answers from your RA, or struggle to keep entity information from disparate internal departments organized, know you are not alone. For decades, pain-free entity management solutions **just didn't exist**.

Luckily, they do now. Entity management no longer needs to be agonizing.

How to Heal Your Entity Management Woes

So, you've decided it's time to take a fresh look at how your organization handles entity compliance. That's great!

Here's how to embark on your journey.

Considering a Home-Grown Solution? Read This First.

For some organizations – and in certain, specific circumstances – legal compliance *can* be effectively managed in-house.

But notice all those qualifiers. For a vast majority of 21st century organizations, a manual approach just doesn't suffice.

Here's some food for thought: based on **extensive experience in the field**, Filejet estimates that, for every 100 entities you manage, one full-time employee is needed. If you have a manageable number of entities (and no plans to scale) and don't feel any of the pain outlined above, you are likely in good shape to continue going it alone.

But, if you have more than 20 to 30 entities, you should consider outsourcing the task.

What to Look for in an External Partner

The legal compliance services market is crowded: a few big players dominate, and an abundance of transactional mom-and-pop shops fill in the gaps. Choosing the right vendor can seem overwhelming.

Luckily, good providers – who deliver compliance peace of mind – do exist. Look for a provider who displays the following characteristics:

- ▶ Transparent
- ▶ Deeply knowledgeable
- ▶ Scalable & flexible
- ▶ Collaborative
- ▶ Proactive
- ▶ Partner-minded

Entity Management Provider Checklist:

- ☐ **Transparent**
Provider is transparent about the work they do and can provide you with real-time updates about the status of your entities.
- ☐ **Deeply Knowledgeable**
Provider keeps pace with larger industry trends and has their finger on the pulse of regulatory updates at local, state, federal and international levels.
- ☐ **Scalable & Flexible**
Provider can accommodate both organizational growth and changes to structure, ownership and legal requirements.
- ☐ **Collaborative**
Provider makes it easy for relevant departments and stakeholders within your organization to access information and act on compliance tasks.
- ☐ **Proactive**
Provider not only meets your organization's current needs, but also plans ahead to forestall any issues that may arise.
- ☐ **Partner-Minded**
Provider acts as an extended member of your organization. Beyond doing the required maintenance work, they are readily available to answer questions, and provide you with a dedicated representative who knows you and your business.

If you find an RA who checks those boxes, that's amazing! (Also, where did you find them? Where are they hiding?)

If not, it's time to think about investing in the *right* software. (We will give you a hint: *just software* isn't enough)

Steer clear of sales pitches for providers who profit off the pain many feel over entity management *without* providing true solutions. If a provider claims they can fully automate every aspect of legal compliance – and don't complement their software with top notch customer service – run for the hills.

The truth is this: many – but not all – compliance tasks can be automated. That means software alone doesn't suffice, no matter how snazzy it is. For true compliance peace of mind, you need a partner who provides software *plus* service, who will reliably handle any work their platform can't automate. They must be able to check all of the boxes above – in addition to delivering state-of-the-art software.

When it comes down to the nuts and bolts of their platform, here's what you should look for:

Automation

Manual entity management makes organizations vulnerable to risk.

The best way to neutralize that risk is by **automating** the work, whenever possible. When filings are automated, the risk of missed deadlines evaporates.

Beyond eliminating risk, automation significantly reduces the time and energy that needs to be spent on compliance.

Look for a software provider that can automate entity management – and handle anything that can't be automated with unparalleled service.

Customization

The best entity management process is one that works *for you*.

The right approach will look different for everyone. The right software solution will reflect that – and allow you to customize the platform in a way that makes sense for your organization and gives you the greatest peace of mind.

Entity Management Software Checklist:

- ☐ **Automated**
Platform has the ability to file automatically on your behalf, every year, as part of a managed service
- ☐ **Customizable**
Platform can also send automated filing alerts with Google & Outlook calendar integration, if you choose to file on your own
- ☐ **Transparent**
Platform gives you instant insight into the state of your entities and provides transparency about servicer workflow and invoicing
- ☐ **Secure**
Platform takes the security of your sensitive documents seriously; is cloud-based and SOC compliant
- ☐ **Centralized**
Platform stores and organizes documents and information in an easily navigable way
- ☐ **Collaborative**
Platform allows you to invite internal and external stakeholders and departments to view relevant information take action, when appropriate
- ☐ **Intuitive**
Platform has a user-friendly and easy-to-use interface that reduces the amount of clicks needed to get to the information you seek
- ☐ **Practical**
Platform allows you to create new entities, complete compliance tasks, and pay all associated fees directly in the portal

Transparency

When it comes to entity management, a lack of transparency leads to a **bevy of issues** including:

- ▶ Not knowing whether you are in compliance
- ▶ Not knowing where to find data about your entities
- ▶ Not knowing the status of compliance-related tasks
- ▶ Not knowing who is responsible for specific tasks
- ▶ Not knowing whether action is needed

All of that “not knowing” puts organizations at risk and leads to wasted time and confusion.

The right software provider will understand how critically important it is that you *know* exactly where your entities stand, when action is needed, and who is responsible. You should be able to access all that information in just a couple of clicks.

Security

A lot of **sensitive documentation** is required to maintain legal compliance. Emailing that information into an RA's black box or uploading it to a dodgy repository can be risky.

The right software provider will take security seriously. Look for a platform that is SOC compliant and cloud-based.

Centralization

When data is **siloed**, disorganized and difficult to find, the work of managing entities becomes exponentially harder. Decentralized data leads to avoidable inefficiencies – just think of how much time is wasted when documents need to be tracked down. That time could be better spent elsewhere.

Any software solution worth investing in will provide a centralized repository where data can be securely stored and easily accessed.

Collaboration

Entity management generally requires collaboration between disparate departments and various internal and external stakeholders.

An effective software solution will make it easy to invite those stakeholders to view documentation and take action on tasks.

Ease-of-Use

Entity management can be confusing – software should remove the pain and make it easy.

The right software will prioritize ease-of-use and navigation. You should be able to handle any compliance-related task – from adding entities to paying bills – directly on the platform. And you should be able to get there in a couple of clicks.

What Your Life Will Look Like Once Entity Management is Handled

If you want to reduce risks that could threaten business continuity, you *must* prioritize legal compliance. When entities fall out of good standing, a whole can of worms can open up. At the most extreme level, deals can be blocked, and mergers can fail.

The best way to reduce those risks is to invest in an effective entity management solution.

In a majority of cases, managing entities manually just doesn't cut it. As legal compliance grows more complex, the most efficient and effective way to manage entities is with a software provider who offers up both an advanced platform *and* concierge-level service.

Once you have control over entity management, a new world of opportunity will open up. You will be able to buy back hours of your life, have the capacity to focus on higher-level tasks, and save money. Most importantly, you will be able to sleep easy knowing compliance is handled.

Filejet Is Driving Change

Filejet is a trailblazing entity management solution that marries automated software with best-in-class service. It is the entity management solution you don't need to think about – unless you want to.

If you are tired of settling for the status quo – and are ready to take control of your organization's approach to entity management – Filejet may be the solution you've been searching for.

Filejet automates U.S. and international annual reports, business license and DBA filings, and more. Anything that can't be automated is handled by our team of responsive experts who do what it takes – emails, calls, smoke signals, carrier pigeons, etc. – to ensure clients never fall out of compliance.

Our unique blend of software and service has helped countless in-house legal teams, **general counsels, paralegals, managing directors**, CFOs and others escape from what **one client** called "maintenance hell," and achieve compliance peace of mind.

If you, too, are ready to escape from "maintenance hell," and want to learn more, read our whitepaper, ***Streamline Corporate Compliance with Automated Entity Management Tools***. If you like what you read, share the paper with any stakeholders who may also think your organization is being underserved by its current approach to entity management.

For more information about how Filejet can make stress over legal compliance a thing of the past, take a look at the **services we offer**.

Still have questions? Shoot one of our entity management experts an email at **hello@filejet.com**.

More: **filejet.com**

**"Filejet is just so different.
Like going from an abacus to
a supercomputer."**

— PEO Director of Risk Management