Filejet

Modernizing Legal Entity Management: A Guide for In-House Counsel

If your organization is looking to scale geographically, acquire new business or divest assets – or is simply searching for ways to mitigate risk amid increased regulatory scrutiny – consider modernizing your entity management process.

Well-managed legal entities are foundational to the healthy functioning of a business. Properly maintained entities mitigate compliance risks. They help organizations navigate evolving tax legislation. They guard against business interruptions. They contain the risk of litigation. They bolster credibility.

In short, the extent to which your organization's entities are – or aren't – well managed can have a significant impact on where your business operates, its ability to grow, and whether it will achieve its goals.

The key to keeping entities properly maintained? A modern, structured legal entity management program that is transparent, reliable and centralized.

The Entity Management Tipping Point

The need for clearly defined entity management processes has always existed – but is even more acute today. Business leaders agree: just under a third of respondents to a 2024 Governance Intelligence **report** said there "has been a slight or large increase in the frequency with which their board discusses entity management" since 2021.

The confluence of two factors, in particular, have contributed to this uptick in interest: an increase in compliance challenges and regulatory scrutiny, and the acceleration of business transformation and restructuring initiatives.

According to the Association of Corporate Counsel's (ACC) 2024 **Chief Legal Officers Survey**, the top issue "keeping CLOs up at night" is "regulations and enforcement." General counsel respondents to FTI Consulting's 2024 **General Counsel Report** shared a similar sentiment: the report found that "regulatory and global compliance worries dominated all other top risk areas for the first time" among respondents since the report's inception in 2020.

Many of these new or updated regulations impact specific industries. But others, like the recent **Corporate Transparency Act (CTA)**, are industry agnostic and have wide-reaching implications.

Despite the increasingly thorny regulatory landscape, businesses aren't halting their M&A, acquisition, geographic expansion, and divestment activities. In fact, 2024 is shaping up to be a year of growth and restructuring for businesses – from small- and mid-market organizations up to the enterprise level.

Of the global CEO respondents to EY's **2024 CEO Outlook Pulse Report**, just over a third said they are "actively planning to make an acquisition" and just under a third of respondents said they are "planning an asset sale of some kind" within the next twelve months. One third of the mid-market business leaders surveyed in **J.P. Morgan's 2024 Business Leaders Outlook**, reported they are "planning expansion into new geographic markets."

For those endeavors to be successful, entities must be properly maintained. A Deloitte **study** on the value of entity management found that, when it comes to M&A, poor entity management can – among other repercussions – damage the reputation of a company, decrease its perceived value and halt, or even kill, deals.

Amid this backdrop, the traditional way of managing entities – with spreadsheets and old school registered agents – won't suffice. To navigate new challenges effectively, you need to adopt a more modern approach to entity management.

The State of Legal Entity Management Today

The majority of organizations don't have confidence in the reliability of their entity management process. Only 24% of respondents to a 2023 entity management **survey** conducted by the ACC and Deloitte said they are "very confident" in their "organization's ability to track and stay in compliance with regulatory changes." Just under 90% of organizations surveyed in EY Law's 2021 **survey** of general counsels "reported challenges" maintaining their legal entities.

As a result, non-compliant entities are relatively common. Among the gaps discovered in Filejet audits, 66% of incoming Filejet clients have out of compliance entities and 44% have lost or "orphaned" entities.

These numbers – and low levels of confidence – aren't surprising given that the majority of entities are managed via manual processes. According to the ACC and Deloitte **study** cited above:

53% of respondents who work at companies under $1 billion in revenue use Excel to manage legal entities

27% of respondents have "no process to monitor annual compliance obligations"

25% of respondents "have no official policy or process to update company records including… entity management systems"

7% of respondents "exclusively use physical documents to maintain their corporate records"

Studies have proven that spreadsheets are an unreliable way to track and organize critical data. One **study**, conducted by Dartmouth's Tuck School of Business, found that, on average, a staggering 94% of spreadsheets have errors.

If your organization uses error-prone spreadsheets to manage dozens – or hundreds – of entities across jurisdictions, it is highly likely that at least some of your entities are non-compliant. Perhaps you are aware of some of these errors. But, depending on the number of entities you manage, you are, presumably, unaware of others.

These unknown entity problems are a risk:
though they may not be an urgent issue now, they have the potential to become a major problem at an inopportune moment. If, for example, a non-compliant entity is discovered on the brink of a merger, it could impede the deal. Or, if a secretary of state discovers you have a non-compliant entity, it could prevent you from operating in a certain jurisdiction and catalyze significant operational interruptions.
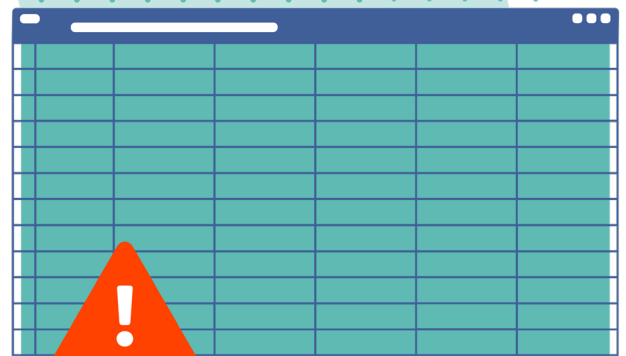
How to Modernize Entity Your Approach to Entity Management

If your organization lacks confidence in its ability to properly manage its legal entities – or lacks a process, altogether – it would be well worth your time and resources to invest in a solution that establishes a modern, well-defined entity management program.

Start by taking a critical look at your **registered agent (RA)**. Then look for a software solution that **automates** the process of entity management and establishes a single source of truth that takes the guesswork out of maintaining compliance.

Step 1: Reassess Your Relationship with Your Registered Agent

For most organizations, an RA plays a key role in keeping entities compliant. Unfortunately, the **traditional, national RAs** that dominate the industry have spotty track records. To pick up the slack left by the old guard, a new player has emerged: digital RAs.

Both traditional and digital RAs are external vendors that provide the same basic registered agent services, including:

- ▶ Receiving all legal correspondence (including service of process) and other official entity, tax and state mail on behalf of a corporation or LLC
- ▶ Forwarding all correspondence to clients in a timely manner
- ▶ Filing annual reports and renewing business licenses, business registrations, DBAs / fictitious names, etc. (or notifying clients when filings and renewals are due)

Here's a breakdown of how the two differ:

Traditional RAs: Opaque, Sluggish & Manual

Traditional RAs render their services the old-fashioned way: they physically forward your mail and email you notifications when deadlines for annual report and renewal filings are approaching. Most of these providers are **generalists** who offer an array of quasi legal services – like brand protection and global corporate trust services – which can pull their focus from keeping your entities compliant.

While some of these providers may have a portal, none are backed by technology. That means the work is still done manually – and is likely no different from the spreadsheet-powered process you would use in-house. Because of this, no single source of truth exists.

Many people who work with traditional RAs report communication delays, a general lack of transparency, limited insight into the status of entities, and unreliable, inefficient service.

Digital RAs: Transparent, Prompt & Agile

Digital RAs leverage software to deliver or update clients about mail and keep entities compliant. Once received, correspondence is promptly uploaded to a portal so clients can address action items in a timely manner. If mail comes from a state that only deals with hard copies, the digital RA will notify the client via portal and physically mail them the documents. By using software to initiate all mail-related activity, correspondence is generally received more quickly. This method also creates a paper trail – which gives organizations greater insight into compliance-related information and tasks.

Truly digital RAs (more on that below) automate all filing and renewal tasks that can be automated on behalf of their clients. Further, digital RAs specialize in entity management and closely related services, making them a better fit for mid-market organizations that operate in multiple national (and even international) jurisdictions but that may not require additional, tangentially related legal services.

Organizations that work with a digital RA report a slew of benefits, including:

- ☑ Fewer compliance issues
- ☑ Increased transparency
- ☑ Greater insight into the status of entities
- ☑ Faster mail delivery
- ☑ Time savings
- ☑ Cost savings
- ☑ More straightforward billing
- ☑ Heightened collaboration
- ☑ Greater provider accountability
- ☑ More proactive, reliable service

Step 2: Move Toward a Single Source of Truth & Automation

Over the past decade, a number of legal operations technology solutions – including contract management and e-billing software, and e-billing tools – have gained traction within the general counsel community. One newer entrant to the market is the antidote to manual entity compliance processes: entity management software.

Entity management software streamlines the end-to-end process that goes into keeping legal entity compliant. Most solutions will, at the most basic level, allow you to form new and dissolve old entities, file annual reports and beneficial ownership information (BOI) reports, and renew business licenses and DBAs/fictitious names.

There is a growing number of entity management software solutions currently on the market, but not all are created equally. A truly modern solution will provide:
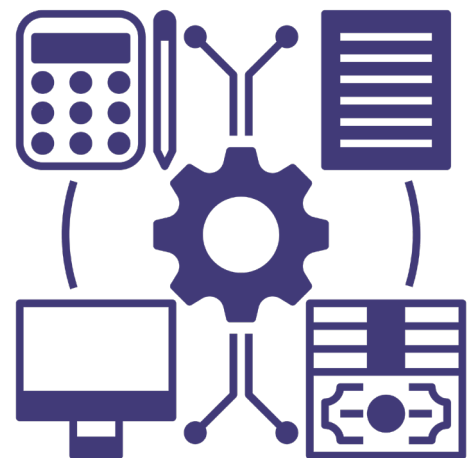
Digital RA Services

Some entity management software solutions offer digital RA services, and some do not. Others claim to provide digital RA services – but actually outsource the work to a traditional RA. Make sure you read the fine print.

Implementing an entity management software solution with a built in RA service centralizes all entity-related information, saves you from having to manage multiple vendors, and is more likely to keep your entities compliant.

A Single Source of Truth

Any organization with more than a handful of entities knows how challenging it can be to keep up with deadlines and track down information when it's scattered among desktops, spreadsheets and emails. If your organization is serious about maintaining legal compliance, entity information must be centralized and easily available to all internal and external stakeholders.

The right entity management software solution will understand this and have a portal that serves as a single source of truth for all entity-related information. When you have total insight into the status of your entities, you won't just have greater peace of mind – you'll also be able to make better informed strategic decisions.

Automation

Most entity compliance issues are a result of human error; it's challenging for any time-strapped attorney or paralegal to keep up with multiple filing deadlines across multiple jurisdictions. Automation is a simple way to guard against those errors.

Entity management software that leverages automation to complete filings and renewals not only streamlines the work of entity management – but also does a superior job of maintaining compliance. And, while many entity-related tasks can be automated, not all can – some level of human touch is still required to complete some tasks. Because of that, the right entity management software solution will offer an element of human service in addition to automation.

How Businesses Benefit from a Modern Entity Management Process

Organizations with a modern entity management process are better positioned to mitigate compliance, tax legislation, and litigation risk – and have a strategic advantage over those with an outdated or poorly defined process. Properly managed entities:

- ✅ Help contain risk
- ✅ Facilitate M&A, divestment and related activities
- ✅ Streamline subsidiary management
- ✅ Allow for uninterrupted operation across jurisdictions
- ✅ Protect your organization's reputation

...and as the regulatory and business landscapes continue to grow more complex, those benefits can only be achieved through a structured, technology-backed entity management process.

For in-house counsel, specifically, having a well-defined, centralized, automated entity management process will allow you to:

- **Reclaim time** formerly spent on busy work, and allow you to focus on the work you were hired to do
- **Gain insight** into how your business functions, and allow you to make more valuable strategic recommendations
- **Have confidence** that your entities are compliant and won't cause downstream business interruptions

Are you Ready to Modernize Your Approach to Entity Management?

Follow the steps and consider the questions below:

1 Assess your current entity management process

Do you have a clearly defined entity management program?

Do you use manual processes to manage your entities?

Do you rely on a traditional RA to keep your entities compliant?

Does your organization have complete visibility into the status of its entities?

2 Compile a list of your entities

Do you know exactly how many entities you have? *(Not sure? Consider a compliance audit)*

Do you have trouble keeping track of all your entities?

3 Think about your organization's growth plans

Does your organization plan to scale nationally or internationally?

Does your organization plan to acquire new businesses?

Does your organization have any mergers planned?

Does your organization plan on divesting assets?

4 Consider costs and intangibles

Do you know how much you spend on entity management?

Can you calculate approximately how much time your department spends on entity management?

If your organization lacks a defined entity management process, tracks entities manually, lacks insight into the status of entities, and overpays for entity management, you should strongly consider modernizing your approach. Consider an upgrade even more urgently if your organization plans to scale or restructure in any way.

If you believe your organization is ready establish a modern entity management program, but need help convincing other stakeholders of its value, use our **ROI calculator** to see how much properly maintained entities could save your organization.

About Filejet

Filejet is a modern entity management solution that combines cloud-based software and digital RA services to keep entities organized and compliant.

Filejet streamlines the delivery of SOPs and critical mail and automates the filing of all U.S. and international annual reports, BOI reports, business license and DBA/fictitious name renewals, and more. Anything that can't be automated is handled by our team of responsive experts who do what it takes to ensure clients never fall out of compliance.

To learn more about how Filejet helps businesses gain control of their entities, read our **case studies**. To see how Filejet can help your organization modernize its approach to entity management, **schedule a tour of the platform**.

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

More: **filejet.com**

Learn how to modernize entity management with Filejet.