



Building a better
working world



How can you evolve entity management into effective governance?

Robust legal entity management plays a key role in
reducing risk and delivering on business strategy – yet
many businesses are falling short.



The better the question.
The better the answer.
The better the world works.





Contents

- Key research findings2
- The current state of legal entity management3
- The opportunity of new technology5
- Why legal entity management and effective governance matters6
- New sourcing strategies and a more coordinated approach.....7
- How to improve legal entity management9
- Conclusion9

The survey methodology

In January 2021, EY Law and the Harvard Law School Center on the Legal Profession conducted interviews with more than 2,000 business leaders from 17 industries and 22 countries across the globe to assess the challenges and opportunities facing legal departments.

The first report on the research, [How do you turn barriers into building blocks?](#), focused on the insights gathered from 1,000 interviews with General Counsel, specifically looking at how law departments are transforming to meet the changing needs of their organizations.

The second report, [How does contracting complexity hide clear profitability?](#), looked at insights from law department, procurement, commercial contracting and business development, and explored challenges and opportunities for contracting teams.

This report, the third in the series, examines the unique area of legal entity management and its importance to organizations through interviews with over 900 law department leaders responsible for entity management.

In parallel, a broader and separate piece of EY research, [The CEO Imperative](#), spoke to CEOs about their business goals for 2021 and beyond.

Seen together, this research provides a 360-degree view of the contracting process, the enterprise-wide role it has to play and how it is perceived within large organizations.



How much visibility does your organization have into its legal entities?

It's a question many business leaders might think they'd be able to answer with confidence. Yet, data from a recent EY survey shows 89% of companies report facing challenges in managing their legal entities.

This facet of legal work often overlooked and doesn't top the typical list of business priorities. Despite this, legal entity management has a deep and real impact on your business. In the C-suite, if you don't ensure your legal entities are in good standing, you may face challenges pursuing other priorities, such as transactions and supply chain restructuring.

The good news is many organizations are starting to recognize the importance of legal entity management, the shortcomings of their current approach and the benefits that can be reaped by addressing them. These organizations are actively exploring new sourcing strategies and new technologies that promise to support legal entity management more effectively.

Key research findings

This report, the third in a series based on a comprehensive survey of 2,000 business leaders by EY Law and the Harvard Law School Center on the Legal Profession, examines insights from over 900 interviews with law department leaders who oversee their organization's legal entity management process. The interviews revealed key insights into the challenges and opportunities facing legal departments:

The interviews revealed that:

1. Limited resources

Many law departments rely on tax and finance functions for help with legal entity management processes, creating coordination challenges and increasing risk for the business.

2. Talent

87% of General Counsel report their department spends too much time on repetitive tasks such as legal entity compliance. Nearly half (47%) report that high volumes of this kind of work are hurting employee morale.

3. Technology

While a majority of organizations use purpose-built legal entity management technology, 96% currently report challenges with their systems.

4. Cost

88% of law departments are under pressure to reduce cost, and entity management is an area where many are looking to realize savings.

5. External sourcing

Two-thirds of organizations use multiple providers to manage their legal entities, which can lead to increased costs and lack of consistency. The rest use a single global provider and are realizing significant benefits over those who use multiple providers.



The current state of legal entity management

The EY research highlights some of the significant issues currently facing organizations in their legal entity management process. Most widespread are the lack of access to accurate, up-to-date information on legal entities (68% of respondents report this challenge) and the difficulty in keeping up with compliance demands in every jurisdiction where the organization has entities (66%).

At the root of these challenges is the complexity of the legal entity management process itself and the de-centralized, often under-resourced, way in which the process is managed at most organizations.



Top legal entity management challenges

Don't have access to accurate up-to-date information on legal entities



Difficulty staying up to date with regulations across all jurisdictions



While the number of legal entities varies significantly, the average large multinational organization typically has 100 to 500. Managing these often requires keeping track of hundreds of compliance requirements. For some organizations, it also requires coordinating with a disparate patchwork of third-party service providers around the globe, adding unnecessary cost and administrative complexity.

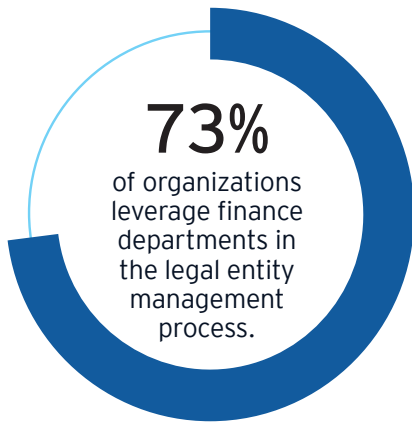
These challenges are exacerbated by the fact that legal entity management teams often lack the technology, project management and other expertise necessary to manage the volume and scope of work effectively. What's more, law departments, which are already balancing budget challenges and increasing workloads, often don't have the capacity to effectively manage the legal entity process. Indeed, 76% of law departments report having five or fewer employees aligned to entity management.

"This lack of resources dedicated to entity management places a greater burden on other functions, notably tax and finance, which are commonly drafted in to support the law department," says Seth McNary, EY Americas Legal Managed Services Leader. "But these functions are already busy managing significant pressures of their own and have other priorities.

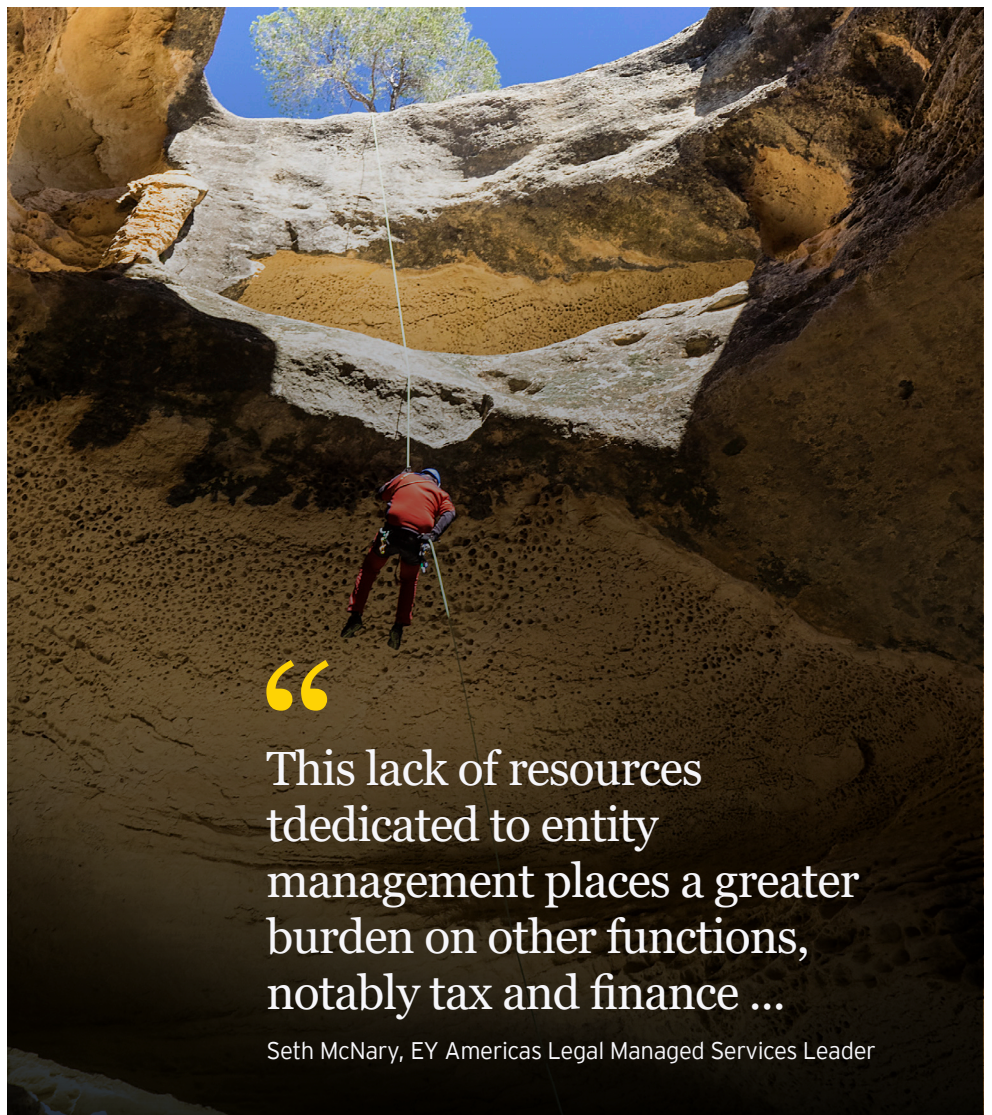
"They pitch in for the good of the organization but can lack the necessary expertise and visibility into local requirements to be effective," McNary says. "This can lead to rework and missed filings and puts further strain on the legal entity management teams."

While tax and finance teams can assist in gathering data, their lack of legal training may create risk for the organization. Additionally, when legal entity management work is spread across several functions, it can be difficult to standardize processes or drive efficiency.

Finance department



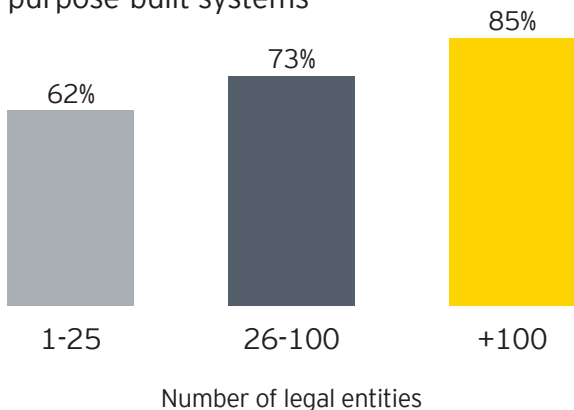
Tax department



The opportunity of new technology

While 65% of companies use a purpose-built legal entity management system – rising to 85% for large companies with over \$20 billion in revenue – 96% report facing challenges with their technology. Resolving these challenges, including updating to new technologies, will be critical to building a strong foundation for legal entity management.

Companies with more complex legal entity structures are more likely to use purpose-built systems



The most common challenge facing organizations with legal entity technology – as reported by 72% in the research – is the difficulty in keeping the system up to date. For many organizations, this issue arises out of two related challenges: ineffective implementation and an organization’s dependency on older systems that lack the user interaction and interface of modern technology.

Out-of-date user interfaces impair adoption of the system outside of the law department, as occasional users find it hard to access the data they need. This also results in data integrity and reliability issues as other stakeholders in the organization aren’t invested in maintaining the data, so it operates in a legal vacuum.

“Many organizations have a passive approach to entity management, and this is reflected in how they utilize technology,” says Mike Fry, EY Global Entity Compliance & Governance Leader. “Legal entity management systems are often perceived only as a tool to house entity data, often with a two- to three-month lag. Organizations should, instead, see these tools as a forward-looking solution to manage global compliance risks and to provide real-time governance reporting and monitoring for their global subsidiaries.”

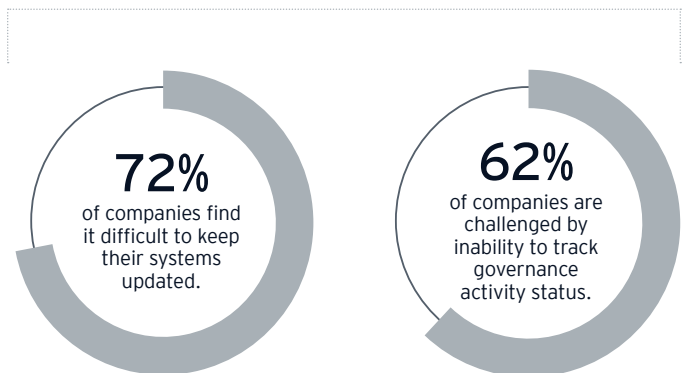
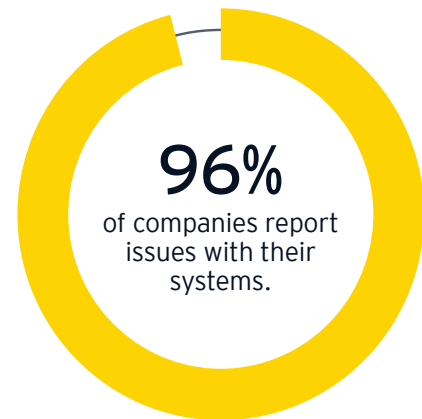
Modern legal entity management systems can also solve other technological challenges that organizations face. Sixty-two percent of organizations say their technology does not allow them to track the status of governance activities, reflecting the limitations of some legacy systems. Modern entity management systems, by contrast, offer significant opportunities.

They allow for automated workflows so all governance activities – from internal approval through local execution – follow a defined and improved process. Additionally, they can interface with a wide variety of corporate systems, providing a centralized location for data warehousing to build analytics tools from.

“Inefficiencies in older legal entity management systems are causing many organizations to create and maintain parallel processes and datasets around compliance deadlines, organizational charts and other governance activities,” says Fry. “This is inefficient and creates risk due to a lack of visibility and coherence.

“Leading technologies can resolve these challenges and deliver significant internal efficiencies across a broad range of stakeholder groups by creating a single source of truth for the organization and by utilizing entity data to provide real-time governance insights.”

Legal entity management systems



Why legal entity management and effective governance matters

Improved, well-supported legal entity management processes can help enable a wide range of strategic and operational business priorities.

Data from the 2021 EY [Capital Confidence Barometer](#) – a survey of C-suite members designed to identify boardroom trends – reveals large organizations have transactions top of mind this year. Forty-nine percent are planning to actively acquire in the next twelve months, with the majority looking to acquire international companies.

Other types of transactions, such as spin offs, are also being pursued. Seventy-eight percent of organizations say they have held on to assets too long and are looking to divest¹. Deal readiness is clearly a top strategic priority for organizations.

However, inefficiencies in legal entity management processes put deal readiness at risk. “If a company is engaging in a major corporate event, such as a restructuring or a transaction, legal entity management plays an integral role,” says Jennifer Cox, EY Asia-Pacific and EY Oceania Entity Compliance and Governance Leader. “Failures in legal entity management can lead to delays, timeline pressures and unnecessary and often unbudgeted costs.”

Risks and other issues created by entity management challenges:

- Lack of deal readiness
- Supply chain challenges
- Risk of de-registration
- Reputational risk
- Director liability

Operational priorities can also be put at risk by poor legal entity management processes. Eighty-five percent of companies are looking to make significant changes to their supply chains in the wake of the challenges create by the COVID-19 pandemic².

“The impact of legal entity management processes on supply chains is often overlooked,” says Cox. “Companies looking to pivot their supply chains quickly need to make sure their entities are in good standing across the world. If they aren’t fully compliant with local regulations, organizations can find their subsidiaries struck off or de-registered. This can grind global supply chains to a halt as goods are held by customs authorities.”

But the risks don’t end there. A lack of clarity around local-level activity can lead to legal costs, penalties, lost revenue, director liabilities and damage to the company’s reputation. Improving legal entity management with defined processes and well-designed technology can help mitigate these risks and enable a wide range of corporate priorities.



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Failures in legal entity management can lead to delays, timeline pressures and unnecessary and often unbudgeted costs.

Jennifer Cox, EY Asia-Pacific and EY Oceania Entity Compliance and Governance Leader

¹ 2021 Global Corporate Divestment Study | EY - Global https://www.ey.com/en_gl/divestment-study

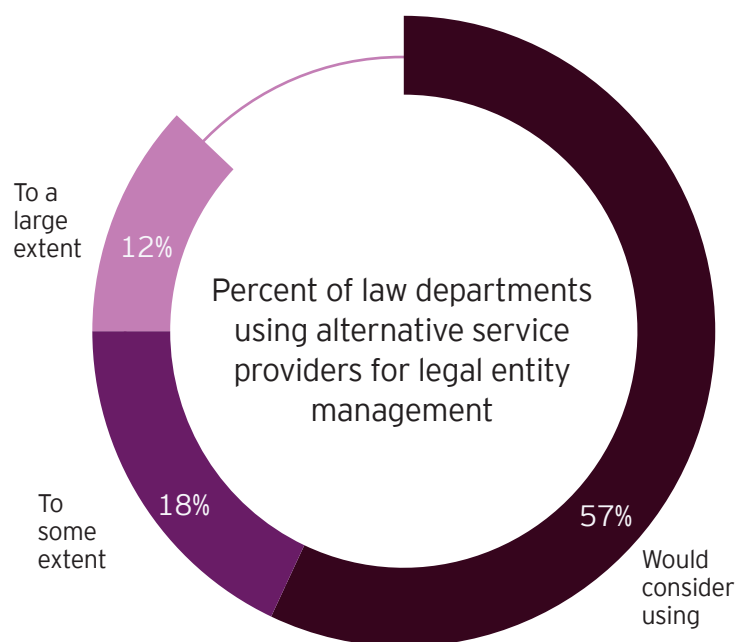
² 2021 EY Geostrategy In Practice Survey, https://www.ey.com/en_gl/geostrategy/the-ceo-imperative-are-you-making-political-risk-a-strategic-priority



New sourcing strategies and a more coordinated approach

Legal entity management needs to become an enterprise-wide practice, with coordinated visibility and control. Many companies are beginning to recognize this imperative. Currently, 32% of companies centralize their legal entity management processes through a single global provider. Fifty-seven percent of companies are currently looking to do so by shifting work away from traditional law firm support models.

For those who have already shifted to a single global provider, the benefits are clear. These companies are less likely to say they face challenges with legal entity management than those who use a network of local providers. They are also five times more likely to say they have a defined process, and they are less likely to say they face budget challenges.



Eighty-eight percent of law departments are planning to reduce the overall cost of the legal function over the next three years and entity management is an area where many are looking for savings.

“A single provider can be more cost-effective due to economies of scale,” says McNary. “Equally important is the impact on cost transparency. The way legal entities are managed at most organizations means it is often difficult to identify the overall cost of the program. Organizations would need to add up internal costs across legal, tax and finance and then review bills from dozens or even hundreds of law firms. A single global provider simplifies this and makes costs much easier to identify and control over time.”

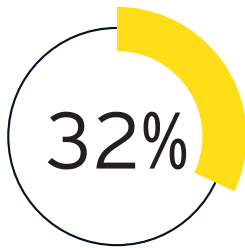
Generally, large alternative service providers offer the global network required to deliver legal entity management services. They are able to deploy local experts who understand the needs of complex

global organizations and execute local compliance requirements in a consistent and predictable fashion.

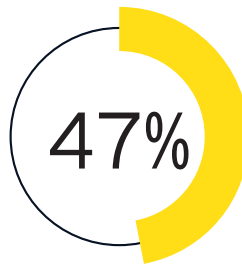
They have also invested in technology and process design to better gather, standardize, validate, analyze and share the complex data involved. In fact, 58% of law department leaders report that alternative service providers have stronger technology and process management capabilities than their in-house department.

An additional benefit of outsourcing to a single provider is that it can reduce the volume of work done internally. Eighty-seven percent of General Counsel report that they would like to reduce the volume of low-complexity repetitive tasks, such as legal entity compliance. And those that use alternative providers are most likely to say they want to expand their use.

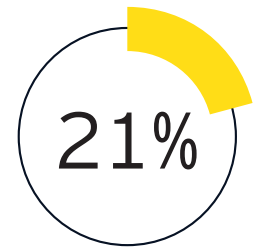
Models for managing legal entity management



of companies use a **single global provider** to manage all legal entities.



of companies use **multiple firms** based on the jurisdiction.



of companies **internalize** all legal entity management work.

Attributes of organizations that use this model include:

- ▶ Large organizations
- ▶ Most subsidiaries
- ▶ Many use ALSPs extensively and others considering

- ▶ Mid-size organizations
- ▶ Many subsidiaries
- ▶ Use law firms
- ▶ Sparingly use ALSPs, but interested in expanding use

- ▶ Smaller organizations
- ▶ Fewer subsidiaries
- ▶ Don't use law firms or ALSPs

Benefits of using a single global provider:

- ▶ Least likely to say they face challenges
- ▶ 5x less likely to have defined processes
- ▶ Less likely to say they face budget challenges

How to improve legal entity management

For any organization looking to gain a full understanding of the current state of its entity management, there are some practical steps that can be taken:

- ▶ Assess your subsidiary governance framework and determine whether this has been fully operationalized across the group. If you don't have a subsidiary governance framework, this warrants some attention.
- ▶ Run sample health checks on your legal entities in key markets to gauge their latest status, compliance requirements, exposure to risk and quality of the data in your entity management system.
- ▶ Assess if your organization's directors are aware of their responsibilities for each subsidiary to which they are named.
- ▶ Identify inefficiencies and gaps in your current operating model and quantify how this is impacting business users and other stakeholders.
- ▶ Consider whether the organization's current technology is an enabler. If other stakeholders in the business can't rely on the data quality and there is no self-service model for data and document extraction, this would suggest otherwise.
- ▶ Evaluate whether the right people are aligned to the right work. The right sourcing strategy will alleviate the operational challenges that legal entity management brings. Outsourcing to a single global provider can deliver the requisite talent and technology to improve your subsidiary governance profile, while also reducing external costs and risk.

Conclusion

It's no longer sustainable for legal entity management to rely on standalone technology and under-resourced functions. The risks to an organization and its directors can be significant. They can also be a potential barrier to strategy execution.

In order to meet the challenge of legal entity management, organizations need a well-resourced team supported by leading class technology, capable of lowering overall costs and reducing the organization's risk exposure.





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EYG no. 005865-21Gbl
2103-3722073
ED None

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