FAQs on B Corp Certification for Subsidiaries

How can a subsidiary of another company be a Certified B Corporation on its own?

A subsidiary is a distinct corporate entity, as opposed to a division of a company. While divisions or individual brands within larger corporations are not eligible for certification, complete and distinct subsidiaries of larger corporations can be certified as long as they meet the relevant performance and legal requirements for certification.

Why does B Lab certify subsidiaries?

Certifying subsidiaries gives new and existing Certified B Corporations more opportunities to scale or exit in a mission-aligned manner, including the opportunity to sell the company while ensuring that under the new ownership the subsidiary will continue to maintain a high level of social and environmental performance, accountability, and transparency. Certifying subsidiaries also gives existing mission-driven companies the opportunity to be acquired by non-B Corp Certified corporations without alienating the consumers upon whose trust and patronage they have built their brand equity.

Do subsidiaries meet the same performance requirement as Certified B Corporations that are not subsidiaries?

Yes.

How does a subsidiary meet the legal requirement for certification as a B Corporation?

The legal requirement for B Corp Certification generally has two components. First, directors must be legally obligated to consider the impact of their decisions on all stakeholders, not just shareholders. Second, shareholders must be able to hold directors accountable to this higher standard of conduct through an expanded right of action. These provisions are generally included in the company's articles of incorporation.

The expanded accountability to shareholders contemplated by the B Corp legal framework is not meaningful for a *wholly-owned* subsidiary, since the single shareholder of the wholly-owned subsidiary would have no reason to litigate against the company it owns—if the single shareholder felt the directors and/or management of the company were not meeting their B Corp duties, the single shareholder could simply replace them. On the other hand, the single shareholder of the wholly-owned subsidiary is itself a company that is required to maximize value for its own shareholders, thereby limiting the possibility that the single shareholder would litigate against its subsidiary. A wholly-owned subsidiary may adopt the legal requirement at its parent-company level. Otherwise, if done at the entity level of the wholly-owned subsidiary, it may need to meet additional requirements for certification.

Additional Requirements for Subsidiaries:

To counter the absence of meaningful shareholder accountability as a wholly-owned subsidiary, wholly-owned subsidiaries may be required to meet additional requirements designed to provide incremental accountability to the public:

- Mandatory Site Review: The company's B Impact Assessment is subject to a mandatory Site Review during each three-year certification term, at the company's expense. To add context, Certified B Corporations that are not wholly-owned subsidiaries are subject to a 20% chance of being selected at random for a Site Review during each certification term.

- Increased transparency: The following information must be transparent on the company's public B Corp profile:
  - the company's ownership structure (e.g. Ownership: Wholly-owned subsidiary of *x company*)
  - the company's full B Impact Assessment. In contrast, other Certified B Corporations are required only to make transparent the summary information in the B Impact Report.

The possible Site Review and mandatory increased transparency requirements are applicable to all wholly-owned subsidiaries seeking B Corp Certification, as well as majority-owned subsidiaries, depending on company size.

How can subsidiaries with the same name as their parent company achieve B Corp Certification?

Subsidiaries with the same name as their parent company may certify independently if the company demonstrates, and B Lab approves, the subsidiary is complete and distinct. However, to mitigate brand confusion and protect the credibility of the B Corp Brand, <$1B revenue parent companies with the same name as B Corp Certified subsidiaries need to commit to Certification themselves, and make their commitment public in three years and achieve certification in six years of the certification date of their first subsidiary that shares the name. Parent companies with greater than $1B in annual revenue must become B Movement Builders (or equivalent program as determined by B Lab) within three years of the certification date of their first subsidiary with the same name. **If the parent company, franchisor, or affiliate group does not meet the above requirements in the required timeframe, or subsequently loses its Certification or B Movement Builder Status, B Lab may revoke certification for the certified subsidiary/ies, franchisees, or affiliates with the same name.**

[B Lab welcomes questions regarding the certification process for subsidiaries and other unique or unconventional legal entities or structures.]