



## **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, 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?**

The ability to certify subsidiaries ensures that existing Certified B Corporations have more opportunities to scale or exit in mission-aligned ways, including the opportunity to sell the company while maintaining independent third-party validation that under new ownership the subsidiary will continue to maintain a high level of social and environmental performance, accountability, and transparency. Certifying subsidiaries also gives large (non B Corp Certified) corporations the opportunity to acquire existing mission-driven companies in a manner that mitigates the risk of alienating the very consumers upon whose trust the mission-driven company's brand equity has been built.

### **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 basic 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 has the option to 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 mitigate against the absence of meaningful shareholder accountability as a wholly-owned subsidiary, in connection with its certification, 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 Report is subject to a possible Site Review during each two-year certification term. In contrast, 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 [www.bcorporation.net](http://www.bcorporation.net):
  - o the company's ownership structure (e.g. Ownership: Wholly-owned subsidiary of *x company*)
  - o 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.

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