



Client Information Sheet

Multi-site Organizations

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Multi-site Organization

DAkkS*, Germany's national accreditation body, recently issued a strict, purely legalistic interpretation stating that, in the future, all accredited certifying bodies will require a broader range of information from their clients in order to review and approve multi-site certifications (organizations with multiple locations). It must be made clear that the terms "location" or "site" used in the language of the standard are to be understood as "legal entity" or "legal partnership". This means that you must mentally replace the standard terms "location" or "site" with "legal entity".

It is in your interest to give us this additional information and evidence. Without it, we will be unable to prove to DAkkS that you are eligible for multi-site certification. Your multi-site certification would then have to be converted into individual certifications.

To clarify matters, the following section lays out the criteria of IAF MD 1:2018 that must be met when certifying a multi-site organization.

3.3: Multi-site Organization

*A multi-site organization need not be a unique legal entity, but all sites shall have a **legal or contractual link** with the central function of the organization (headquarters) and be subject to a single management system, which is laid down, established and subject to continuous surveillance and internal audits by the central function. **This means that the central function has the right to require that the sites implement corrective actions when needed in any site.***

5: Eligibility of a Multi-site Organization for certification

- 5.1 *The organization shall have a single management system.*
- 5.2 *The organization shall identify its central function. The central function is part of the organization and shall not be subcontracted to an external organization.*
- 5.3 *The central function shall have organizational authority to define, establish and maintain the single management system.*
- 5.4 *The organization's single management system shall be subject to a centralized management review.*
- 5.5 *All sites shall be subject to the organization's internal audit program.*
- 5.6 *The central function shall be responsible for ensuring that data is collected and analyzed from all sites and shall be able to demonstrate its authority and ability to initiate organizational change as required in regard, but not limited, to:*
 - i. *system documentation and system changes;*
 - ii. *management review;*
 - iii. *complaints;*
 - iv. *evaluation of corrective actions;*
 - v. *internal audit planning and evaluation of the results; and*
 - vi. *statutory and regulatory requirements pertaining to the applicable standard(s).*

What is the significance of the legal or contractual link and the right of intervention?

The above requirements **CANNOT** be satisfied by presenting an organizational chart or management manual.

This has nothing to do with processes or manuals that have clearly been embraced and followed for years in accordance with the requirements for multi-site certifications (often known as “matrix certification”). It is solely about ensuring these requirements are satisfied in a strictly legal sense. This presents organizations with the special challenge of producing appropriate evidence that is not purely a non-binding self-disclosure. For example, an organization chart with percentages of ownership or company shares alone is not sufficient. The lists of owners from the German commercial register (HRB) (Section A) must be enclosed. While such evidence is unproblematic for German domestic companies, it can sometimes be difficult for foreign companies, so that other suitable official evidence can also be accepted.

The contractual link does not have to be synonymous with the right of intervention. They may be identical, but do not have to be, and so should be treated differently.

The legal link is probably relatively easy for many companies to demonstrate since the central function generally owns the sites. Any organizations where this is not the case will have to present a contractual agreement. One possible example of this is when the “group parent” is not the central function.

This point is illustrated in our client information sheet *“Examples of Organizational Structures – legal and contractual links and intervention options”*, which presents various organizational structures.

Examples for a link with a right of intervention:

- ✓ Legal link: Central function holds more than 50% of the shares of each site
- ✓ Contractual link: Central function has entered into a domination agreement with the sites

The right of intervention **HAS** to be set out in a contract if the central function does not have a domination agreement and does not hold more than a 50% share in each of the sites.

Why is a right of intervention required in the first place?

As a general rule, the authority to direct the actions of a business owner or CEO of a legal corporation rests with said owner or CEO, unless there is a contractual obligation specifying otherwise.

To be clear, it is not necessary for the central function to have comprehensive decision-making powers over the sites covered by the certification. All that is needed is for the central function to have the authority to require that necessary corrections “concerning the management system” be made. If a CEO refuses to assume that kind of obligation in accordance with No. 5.6, it must be made clear that the organization cannot be part of a multi-site certification.

Finally, the right of intervention can be easily explained as follows:

“Can the central function, by virtue of its ownership stake or legal link, legally order the sites covered by the certificate to take a particular action?”

First and foremost, all formalities must have been observed. A contract or manual that contains the correct binding language but has not been signed by all the CEOs will have no legal effect.

One possible way of handling this matter is described in this client information sheet on page 9, *“Possible provisions for contractual connection and right of intervention”*.

DQS GmbH

Examples of Organizational Structures

Legal and contractual links and intervention options

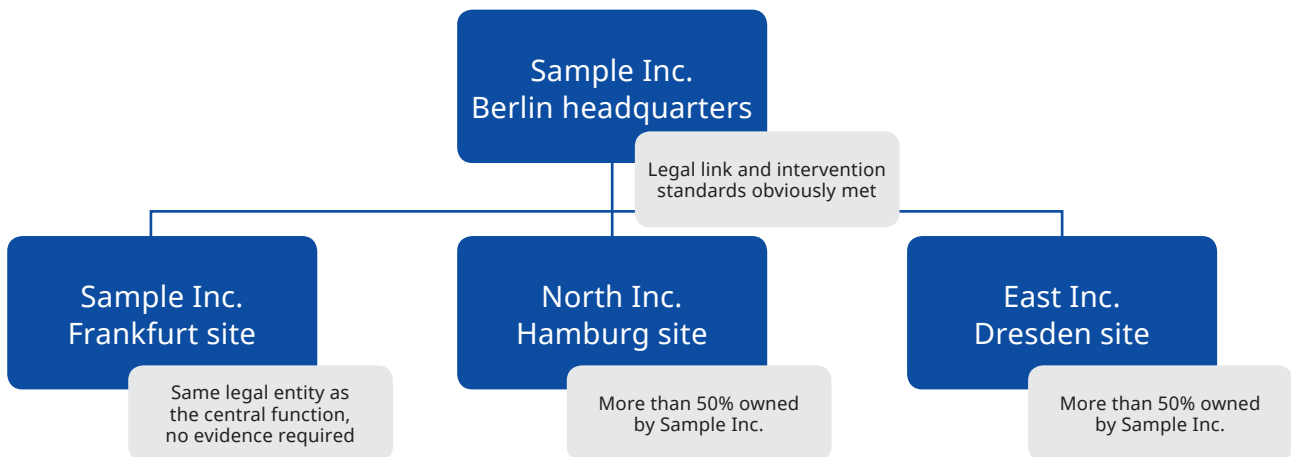
This document presents various possible organizational structures and relationships that meet the legal and contractual link and intervention requirements to qualify as a multi-site organization. It will help you determine what evidence you need to provide.

Case 1: "Sample Inc." (straightforward)

Central function and sites are a legal entity, e.g. all sites are named "Sample Inc."

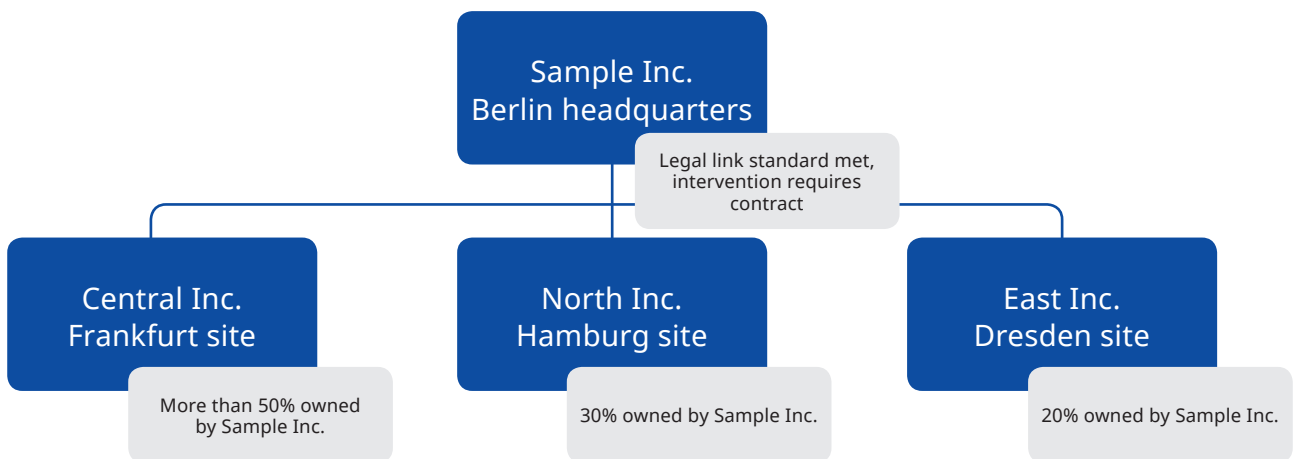
Case 2: Organization with several sites (legal entities) that are majority-owned by the headquarters (central function)

Legal link and right of intervention applies throughout the organization, hence it qualifies as a multi-site organization:



Case 3: Organization with several sites (legal entities), but not all of them are majority-owned by the headquarters (central function)

Right of intervention must be specified in part. Otherwise, some sites may not be considered part of a multi-site organization.



Central Inc.:

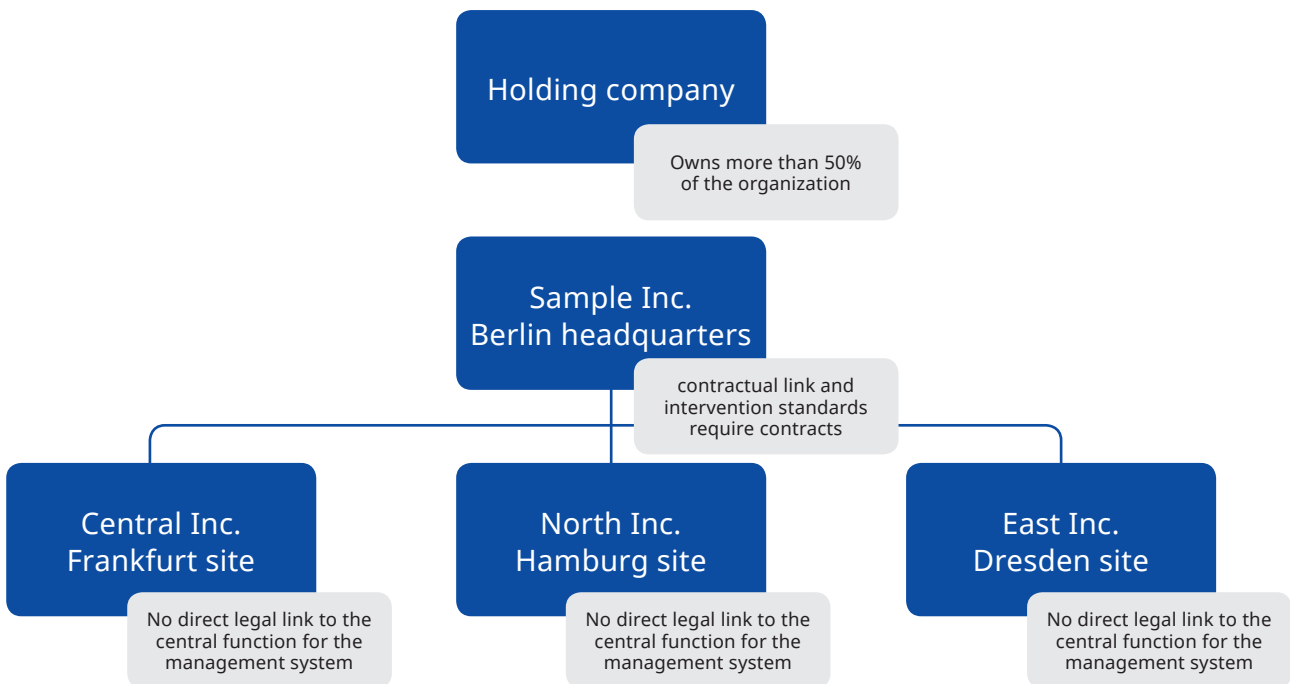
- ✓ Legal link and right of intervention are given.

North Inc. & East Inc.:

- ✓ Legal link is given.
- ✓ However, these sites are not majority-owned. There is thus no binding right of intervention.
- ✓ Result: The right of intervention has to be defined in a contract for both of these sites (legal entities).

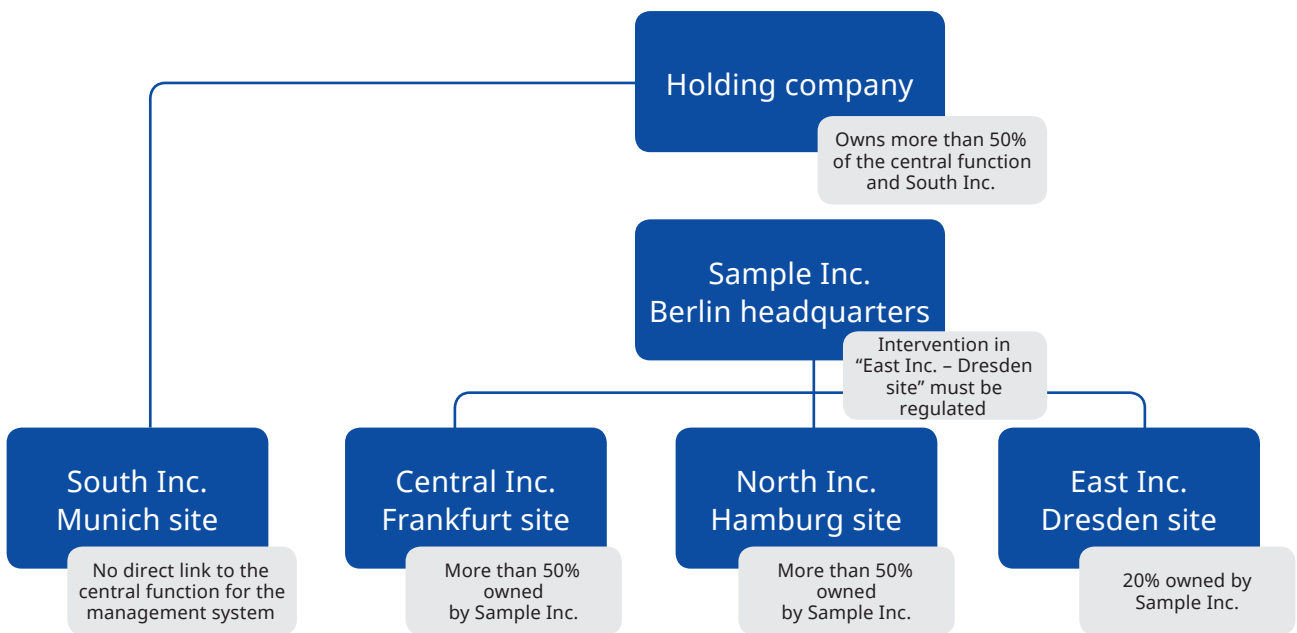
Case 4: Organization with a holding company that majority-owns the sites (legal entities). The central function is part of this organization but does not directly own any shares in the sites (legal entities).

The central function has no legal link or right of intervention; only the holding company does. However, these rights must be held by the central function for the management system. The organization is not eligible for multi-site certification without a contract that satisfies both of these requirements.



Alternatively, instead of the “Sample Inc. – Berlin headquarters”, the “Holding company” could take over the function as headquarters. In this case, the multi-site capability would be given due to its majority ownership. Only the evidence for the legal connection must be provided.

Case 5: Organization with a holding company that majority-owns the central function.
The central function for the management system holds shares in all the sites (legal entities) except for South Inc.



Holding company:

Is not covered by the certification but has a legal link to, and right of intervention over, the central function, Sample Inc.

Central Inc. and North Inc.:

- ✓ Have a legal link and right of intervention over central function, Sample Inc.

East Inc.:

- ✓ Legal link is given.
- ✓ However, these sites are not majority-owned. There is thus no binding right of intervention.
- ✓ Result: The right of intervention has to be defined in a contract for this site (legal entity).

South Inc.:

- ✓ Since the holding company is not covered by the certification, the central function, Sample Inc., does not have a direct legal link to South Inc. and so does not have a right of intervention.
- ✓ Result: The contractual link and right of intervention has to be defined for South Inc. as a management system site (legal entity) in a contract with the central function, Sample Inc.

Conclusion: Contracts must be drawn up for East Inc. and South Inc. to ensure they can still be covered by the multi-site certification. Otherwise, individual certifications will have to be maintained for these two sites.

Alternatively, instead of the "Sample Inc. - Berlin headquarters", the "Holding company" could take over the function as headquarters. In this case, the multi-site capability would be given due to its majority ownership. Only the evidence for the legal connection must be provided.

Possible provisions for contractual connection and right of intervention

(Content or Annex to Management Manual)

Supplemental agreement on the implementation and maintenance of a multi-site certification for multi-site organizations

Preamble

The purpose of this supplemental agreement is to implement and maintain a multi-site certification with several independent legal entities.

Transfer of duties

The managing directors of the legal entities covered by the management system agree to satisfy the following preconditions and requirements in their legal entities in a legally binding manner and transfer the responsibility for administering the management system to the legal entity of the central function (company name).

Multi-site organization

(IAF MD 1:2018 – 3.3 in conjunction with 5)

1. A multi-site organization need not be a unique legal entity, but all sites (legal entities) shall have a legal or contractual link with the central function of the organization and be subject to a single management system, which is laid down, established and subject to continuous surveillance and internal audits by the central function. This means that the central function has the right to require that all sites (legal entities) implement corrective actions when needed in any site (legal entity).

- ✓ The organization shall have a single management system.
- ✓ The organization shall identify its central function. The central function is part of the organization and shall not be subcontracted to an external organization.
- ✓ The central function shall have organizational authority to define, establish and maintain the single management system.
- ✓ The organization's single management system shall be subject to a centralized management review.
- ✓ All sites (legal entities) shall be subject to the organization's internal audit program.
- ✓ The central function shall be responsible for ensuring that data is collected and analyzed from all sites (legal entities) and shall be able to demonstrate its authority and ability to initiate organizational change as required in regard, but not limited, to:
 - system documentation and system modifications;
 - management review;
 - complaints;
 - evaluation of corrective actions;
 - internal audit planning and evaluation of the results; and
 - statutory and regulatory requirements pertaining to the applicable standard(s).

2. The managing directors of the following site (legal entity)

company name / address

agree to provide their full support to (central function/ company name) in ensuring the suitability, adequacy and effectiveness of the management system and to take the required measures.

Required measures may include the drafting of provisions analogous to the central function's instructions as long as the central function acknowledges them as comparable and approves them.

Breach of duties and removal from the multi-site organization

1. If a site (legal entity) fails to carry out a required measure that the central function has required it to perform in a timely fashion, the central function shall give the the relevant site (legal entity) a deadline extension of 6 weeks in order to initiate the required measure. The mea-

sure shall be completed and the solution demonstrated with appropriate documents to the certifying body at the latest 90 days total after the auditor's finding.

2. If the deadline expires without compliance being appropriately demonstrated, the central function is entitled and obliged to terminate the contract with the unsuccessfully instructed site (legal entity) without notice for good cause and to remove it from the management system. Any existing certification for the site (legal entity) is to be terminated without notice to the certifier with immediate effect, stating that the necessary certification requirement for a multi-site organization according to IAF MD 1 has ceased to apply to the site (legal entity) and that the certificate for the site (legal entity) is therefore to be withdrawn immediately.

Signature / date for all managing directors / site (legal entity)

company name / address



Note

DQS GmbH urges the managing directors of all the sites (legal entities) covered by the certification to sign the management manual as a binding contractual declaration of consent and application. The manual will otherwise not be binding.

These explanations make no claim to being complete or binding but are merely intended to present a possible approach. DQS strongly recommends having your legal department or legal advisor review your own terms and adapt them to your organization.

DQS: Simply leveraging Quality.

In everything we do, we set the highest standards for quality and competence in every project. As a result, our actions become the benchmark for our industry, but also our own guiding principle, which we renew every day.

We consider ourselves important partners of our customers, with whom we work at eye level to achieve sustainable added value. Our goal is to give organizations important value-adding impulses for their entrepreneurial success through the simplest processes, as well as the utmost adherence to deadlines and reliability.

We consider ourselves pioneers and innovators with the aim of maintaining, creating, and improving internationally comparable benchmarks. Products, processes or services thus become more secure and of higher quality worldwide. Our certifications simplify the global exchange between companies, regulatory agencies or organizations, and at the same time strengthen the trust of customers and consumers in products, services, and organizations. We therefore understand our work to be an important contribution to society.

Our core competencies lie in the performance of certification audits and assessments. This makes us one of the leading providers worldwide with the claim to set new benchmarks in reliability, quality, and customer orientation at all times.

More than 2,500 highly qualified and experienced auditors perform over 125,000 customized audits annually in over 60 countries and according to over 200 recognized standards and specifications.

We have been setting the highest standards of expertise, experience and quality for our customers since 1985. This applies to every phase of the collaboration. Only in this way can we achieve our goal of maximum customer satisfaction.

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