

# **TYPES OF BUSINESS COMPANIES IN LEBANON**

**INTRODUCTION**

**THE PARTNERSHIP COMPANY**

**THE SIMPLE COMMANDITE COMPANY**

**THE JOINT VENTURE OR PARTICULAR PARTNERSHIP COMPANY**

**LIMITED LIABILITY COMPANY**

**JOINT STOCK OR LIMITED COMPANY**

**COMMANDITE SHAREHOLDING COMPANY**

## INTRODUCTION

When a businessman decides to undertake a commercial or an industrial business of any kind he has to follow one of either ways:

**FIRST:** To undertake the business alone when his financial position and the nature of the business allow that.

**SECOND:** To associate with other people either by joining work and capitals together or by joining capitals alone.

- The actual conditions of commerce and industry have come increasingly to impose this association, for the combining of efforts and capitals enhances the development of commerce and industry. It is through the increase in the amount of capital that a given company is enabled, if properly managed, to face competition, restrict it or eliminate it; it also leads, in most cases, to the improvement of quality in industry and to the development of ways and means of doing commerce.
- This association might take one of various forms according to the desire of partners, except in certain cases when law imposes a specific form, as we shall see later.
- The Lebanese Commercial Law, in its process of organizing business companies, has recognized five forms. If we depend the inter - relationship of partners in each of these forms, we might say that there are some sorts of companies which we can call companies of persons, and others, which we can call companies of capitals.
- Some companies are called companies of persons because they are created on the basis of acquaintanceship and confidence between partners and as such they are said to be based on the unification of both efforts and capitals.

These companies are:

The Partnership Company

The Simple Commandite Company

The Particular Partnership Company or Joint Venture

- Some companies are called share capital companies because they are usually composed of persons who invest their money jointly in the company without having any previous knowledge of each other.

These companies are:

The Joint Stock or Limited Company

The Share Holding Commandite Company

- Worthy to be noted is the fact that the Lebanese law had authorized in 1967 a new additional form of companies, not recognized in Lebanon before, known as limited liability companies, and since it has been created, this form of companies is greatly depended in business in view of its distinguishing characteristics.

This form of company combines a number of characteristics pertinent to both types mentioned above, that of persons' companies and of share capital companies. But it is considered a persons' company since the shares are not freely negotiable. It was given the name of limited liability company because the liability of a partner is restricted to the amount of capital he has invested in the business.

These are the types of companies authorized in Lebanon out of which a businessman should choose if he desires to carry on business in association with others. We shall review hereafter the broadlines of the legal or organisational structure, characteristics and management policies of these companies.

## **THE PARTNERSHIP COMPANY**

### **MAIN CHARACTERISTICS**

1 - Each partner has the legal position of a merchant and is therefore subject to commercial and bankruptcy laws i. e. the bankruptcy of the company might lead to the personal bankruptcy of the partner.

2 - Creditors of the company can sue one partner or all partners personally and seize their private estates in settlement of their claims, if the company fails partially or totally to do that. This responsibility on the part of partners is collective in that the creditor can sue even one partner for all the debts of the company.

3 - The title of the company should carry either the name of one partner or the names of some partners added the word «partners».

4 - A partner is not permitted to sell his share in the company to others without the consent of the other partners.

### **ESTABLISHMENT PROCEDURES**

1 - Two or more persons are required for the establishment of a partnership company. Each person should naturally enjoy the legal capacity to perform contracts and to practice business.

2 - The partners sign what is called a statute or by - laws regulating the terms of the company mainly:

Capital required (no minimum amount is imposed), location, title, subject and term of the company, the share of each partner, the extent of his participation in profits and in losses and the manner of ceding his shares as well as the management policy of the company.

3 - Each partner submits to the company the amount of capital he had promised to invest whether money or other.

4 - The statute of the company should be registered and deposited at the commercial register.

5 - A declaration about the date of the beginning of work should be submitted to the Ministry of Finance...

## **MANAGEMENT POLICY**

The management of a partnership company is achieved by:

1 - All partners (when partners are few).

2 - One partner, more partners or any outsider as determined in the statute of the company or in any succeeding document. Such is the case, other partners assume no active responsibility in management, their functions are restricted to those of control and supervision.

3 - Authority of the manager should be determined in the by - laws of the company, provided it 'will not be below the minimum extent imposed by law.

4 - Manager's actions, within the limits of his authority, are binding on the company. In exchange, the manager is held responsible towards the partners for all faults he might commit, and towards others for any harm they may sustain because of his unlawful acts.

## **THE SIMPLE COMMANDITE COMPANY**

### **MAIN CHARACTERISTICS**

1 - This type of company, like a partnership company is established on the basis of confidence and acquaintanceship between partners, and as such a partner is not allowed to dispose of his shares without the consent of all other partners.

2 - The company is composed of two categories of partners:

Silent or sleeping partners and authorized partners (no restriction is imposed upon the number of partners in each category).

This company is usually created between two kinds of persons: those who want to invest the capitals they have in the company in anticipation of profits. They prefer to be partners ready to bear risks and to share profits rather than being lenders especially in cases when the company is not willing to borrow. These are the silent partners whose names do not appear publicly and who are not allowed to take an active part in the management of the business; their functions are those of management control, and any appearance as partners in the company shifts them into acting or authorized partners.

The position of the second category of partners i. e. authorized or acting partners, is similar to that of partners in a partnership company. Partners of this kind may offer their money, experience, business reputation and work to the company. They are the ones who assume the management responsibility.

They are liable individually and collectively for the debts and obligations of the firm, i. e. every partner assumes full personal liability for the debts, whereas the liability of a silent partner is limited to the amount of capital he has invested in the company.

3 - Unlike an acting partner, a silent partner does not possess the legal position of a merchant and cannot act as such.

### **ESTABLISHMENT PROCEDURES**

This company is established along the same lines of a partnership. The only difference is that a silent partner should not be known by customers and his name should not appear in the title of the company.

### **MANAGEMENT PROCEDURES**

Management of this company is accomplished along the same lines of a partnership company. The only difference is that the right to management responsibility is restricted to acting partners, whereas the functions of silent partners are those of management control and supervision. This does not prevent a silent partner from working in the company as an employee on condition that he does not act publicly as partner and would not be known as such by customers.

## **THE JOINT VENTURE OR PARTICULAR PARTNERSHIP COMPANY**

### **MAIN CHARACTERISTICS**

1 - This company has no legal presence; it exists only between partners and is not known by outsiders. It deals with customers and others in the person of one of the partners who carries out its affairs not in his capacity as a representative of the company, but as the sole owner of the business.

2 - Adjustment of shares and participation in profits and losses are agreed upon between partners.

### **IS A JOINT VENTURE PUBLICLY ESTABLISHED?**

There is no need for a joint venture to be publicly established, that is registered at the commercial register, since it does not appear to public. There is only the contract or deed of the company which is set by partners and limited solely to them.

### **MANAGEMENT POLICY**

Management is undertaken publicly by one of the partners whose activities are submitted to his associates' control.

# LIMITED LIABILITY COMPANY

## MAIN CHARACTERISTICS

- 1 - The liability of a Partner is proportional to his investment in the company, and a partner does not possess the legal quality of a merchant and as such his position is similar to that of a partner in a joint stock company.
- 2 - The establishment of this company does not undergo same complicated formalities as those of a joint stock company.
- 3 - The number of partners is relatively small (a maximum of twenty partners) as is the case in other companies of persons.
- 4 - A partner does not have the right to dispose of his shares without the consent of a minimum of three fourth of the partners.

## ESTABLISHMENT PROCEDURES

- 1 - The creation of a limited liability company requires the association of a minimum of three persons and a maximum of twenty. If the number of persons exceeds twenty, the company has to be transformed into a joint stock or limited company.
- 2 - Partners united should contribute a maximum total of L L 50.000 as capital.
- 3 - After the statute of the company is set up and contributions both in kind and in money are delivered, the following arrangements are taken:
  - Contributions in kind are assessed by an expert juryman.
  - Statute is hung at the door of the head quarters of the company.
  - Shares are distributed among partners.
  - Statute is registered and deposited at the commercial register where the headquarters of the company are located.
  - A declaration about the date of the beginning of operations is submitted to the Ministry of Finance.

- ❖ As far as regards the subject of the company, i.e. nature of its business, limited liability companies are not permitted to engage in operations related to insurance, savings, organized air transport, banking or capital investments for the account of others. He who wants to undertake such operations has to choose another form of company usually a joint stock company.
- ❖ A controller has to be appointed when capital invested amounts to L.L. 50,000 or more.

## MANAGEMENT POLICY

One or more partners or any outsider may assume the management responsibility as is the case in a partnership company.

The manager's obligations are to a certain extent inspired by those of a joint stock or limited company except that the procedures depended in relation to a limited liability company are of a more flexible nature than those of a joint stock or limited company.

## **JOINT STOCK OR LIMITED COMPANY**

### **MAIN CHARACTERISTICS**

1 - All partners are shareholders and each partner owns one or more shares of the capital.

2 - A partner does not possess the legal position of a merchant.

3 - The personal liability of a partner is limited to the amount of his investment in the enterprise.

4 - The title of the company does not include any of the partners' names; it is usually descriptive in that it indicates the nature of the business undertaken by the firm.

5 - The form of a joint stock company is usually depended in big well organized businesses requiring great amounts of capital, and most often the businessman resorts to such form of company either because he does not possess the total amount of capital required, or if so, he prefers to invest only a part of this capital in the business under consideration.

To depend the form of a joint stock company means the establishment of a company with a big number of partners. (At certain times, membership is limited to some persons or even to founders alone) This is made possible by inviting the general public for subscription to the shares of the company.

6 - Certain joint stock companies enjoy the membership of the stock exchange where their stocks are traded. The advantage of such an arrangement is that the shares of a partner are made more readily convertible into cash.

7 - The limited form of company is legally imposed on certain business organisations such as insurance companies, banks and other financial institutions.

8 - The interests of a partner are safeguarded through his right to management control and by the detailed legal regulating process of managerial functions required in such kinds of companies.

### **ESTABLISHMENT PROCEDURES**

1 - The establishment of a joint stock company calls for the association of a minimum of three persons.

2 - The statute should be specified in writing (it is preferred to secure the services of a lawyer for that purpose) and duly signed by establishors.

3 - The statute has to include the terms of the company mainly: the subject of the company, its title, headquarters, branches, term, amount of capital, (provided it is not less than L. L. 300.000) number and classification of shares, value of each share, determination of contributions in kind, ways of capital adjustment, management policy, general assemblies, profits and reserves.

4 - The statute should be registered and deposited with the notary public concerned.

5 - Subscription to the shares should be called for through press (accomplished usually by a bank).

6 - Contributions in kind should be assessed by an expert juryman.

7 - The meeting of the establishing general assembly of shareholders should be previously called through press. Agenda of business before the assembly being:

- The approval of the "Statute, of the establishing functions and of the assessment of contributions.
- The election of the members of the board of directors.
- The appointment of the controller.

8 - The statute of the company should be registered and deposited at the commercial register where the headquarters of the company are located.

9 - A declaration about the date of the beginning of work should be submitted to the Ministry of Finance.

## **MANAGEMENT PROCEDURES**

1 - The management functions are carried out by a board of directors composed of a minimum of three members and a maximum of twelve (half of whom should be lebanese citizens).

- The term of office of the board is five years if appointed by the by - laws, and three if elected thereafter.
- The board elects its president who is equally the general manager of the firm.
- The board is subject to the control of the general assembly. It is concerned with the implementation of the decisions of the assembly and as such it assumes the overall management responsibility of the company.

2 - The controller supervises the right application of laws and regulations and the safety of the financial position of the company.

3 - Each member of the board has to own a certain number of qualification shares of nominal value.

4 - The members of the board are held collectively responsible for acts of fraud, cheating, distrust or violation of laws and regulations of the company, Such acts constitute a civil and sometimes a criminal offence, in which case courts concerned can automatically seize the personal estates of each member or condemn members to imprisonment in accordance with the provisions of the penal code.

S - The authorities of the board of directors equally with those of the general manager are determined in the statute of the company provided they match with those stipulated by law.

## **COMMANDITE SHAREHOLDING COMPANY**

### **MAIN CHARACTERISTICS.**

1 - The commandite shareholding company is composed of two categories of partners: the acting partners who assume full personal and collective liability for the debts of the company, and who are solely entrusted with management responsibility towards the public, and the silent partners whose personal liability is limited to the amount of capital each has invested in the business.

2 - The company may carry for title the name of one or of more acting partners.

3 - Except for these two characteristics which are similar to those of a simple commandite company, this form of company is subject to same establishing laws and operating procedures as those of a limited liability company, except for certain simple differences, examples of which are:

- A minimum of two persons are required for the creation of such a company, instead of three as is the case in a limited liability company. These two persons are: the silent partner and the acting partner.
- Management responsibility is limited to acting partners or trusted to an outsider.
- A board of directors is not necessarily required, and managers are not supposed to own qualification shares (as a guarantee for their managerial conduct).

## TYPES OF BUSINESS COMPANIES RECOGNIZED IN LEBANON

Type of company	Characteristics	Management policy	Amount of capital	Establishment procedures	General observations
Partnership Company	<ul style="list-style-type: none"> <li>• Based on acquaintanceship and confidence between associates.</li> <li>• Each partner possesses the legal position of a merchant.</li> <li>• Partners are personally and collectively liable for debts and obligations of the Co.</li> <li>• A partner is not allowed to dispose of his shares without the consent of all other partners.</li> </ul>	<ul style="list-style-type: none"> <li>• Management functions are assumed either by one or by some or by all partners or by an outsider.</li> <li>• Authorities of the manager are determined in his contract of appointment provided they are not below the minimum extent imposed by law.</li> </ul>	Not fixed	<ul style="list-style-type: none"> <li>• Statute of the company is specified in writing.</li> <li>• Statute is registered and deposited at the commercial register.</li> <li>• A declaration about the date of the beginning of operation is submitted to the Ministry of Finance.</li> </ul>	<ul style="list-style-type: none"> <li>• Title of the company carries either the name of one partner or the names of all partners.</li> <li>• Minimum number of partners required is two.</li> </ul>
Simple commandite Company	<ul style="list-style-type: none"> <li>• Based, like a partnership, on acquaintanceship and confidence between partners.</li> <li>• Composed of two kinds of partners: acting partners and silent partners.</li> <li>• Position of an acting partner as similar to that of a partner in a partnership Company.</li> <li>• Liability of a silent partner is limited to the amount of capital he has invested in the Company.</li> <li>• A silent partner does not process the legal position of a</li> </ul>	<ul style="list-style-type: none"> <li>• Management functions are assumed either by one or by all acting partners.</li> </ul>	Not fixed	<ul style="list-style-type: none"> <li>• Statute of the company is specified in writing.</li> <li>• Statute is registered and deposited at the commercial register.</li> <li>• A declaration about the date of the beginning of operation is submitted to the Ministry of Finance.</li> </ul>	<ul style="list-style-type: none"> <li>• The title of the Company carries only the name of an acting partner.</li> <li>• A minimum number of partners required is two.</li> </ul>

	<p>merchant. He does not appear to customers or to others as a partner.</p>				
<p>Joint venture or particular partnership company</p>	<ul style="list-style-type: none"> <li>Established between partners and does not appear to public.</li> <li>If appeared to public it is transformed towards that public into a partnership company.</li> <li>Its affairs are carried out in the name of one of its partners, and relations with customers and others are limited to that same partner.</li> </ul>	<ul style="list-style-type: none"> <li>Management functions are undertaken by the partner publicly declared.</li> </ul>	<p>Not fixed</p>	<ul style="list-style-type: none"> <li>Establishment formalities are not required.</li> <li>Created according to a secret and non registered contract between partners.</li> </ul>	<ul style="list-style-type: none"> <li>Minimum number of partners required is two.</li> </ul>
<p>Limited Liability Company</p>	<ul style="list-style-type: none"> <li>The liability of a partner for the debts of the Company is restricted to the amount of capital he has invested in the business.</li> <li>A partner does not possess the legal position of a merchant.</li> <li>A partner cannot dispose of his shares without the consent of a minimum of three fourth of the partners.</li> </ul>	<ul style="list-style-type: none"> <li>Management functions are assumed either by one or by more of the partners or by an outsider.</li> <li>Manager's authorities are similar of those of a manager of a partnership Company, but his obligations are, to a certain extent, similar to those of a joint stock or limited Company.</li> </ul>	<p>A minimum of LL 50,000</p>	<ul style="list-style-type: none"> <li>Statute of the Company is specified in writing.</li> <li>Contributions are delivered and assessed by and expert juryman.</li> <li>Statute is hung at the door of the Company.</li> <li>Statute is registered and deposited at the commercial register.</li> <li>A declaration about the date of the beginning of operations is submitted to</li> </ul>	<ul style="list-style-type: none"> <li>Not allowed to engage in operations such as: savings, organized air transport, banking and capital investment for the account of others.</li> <li>A controller has to be appointed if capital invested amounted to L.L. 50,600 or</li> </ul>

		<ul style="list-style-type: none"> <li>• Management functions are subject to the control of all partners.</li> </ul>		the Ministry of Finance.	<p>more.</p> <ul style="list-style-type: none"> <li>• Number of partners ranges from three to twenty.</li> </ul>
Joint stock or Limited Company	<ul style="list-style-type: none"> <li>• All partners are shareholders, and each partner owns one or more shares of the capital.</li> <li>• The liability of a partner is restricted to the amount of capital he has invested in the company.</li> <li>• A partner does not possess the legal position of a merchant.</li> <li>• The Company does not have a common title; title is anonymous.</li> </ul>	<ul style="list-style-type: none"> <li>• Management is undertaken by a board of directors composed of a minimum of three members and a maximum of twelve who are elected by the general assembly from among partners.</li> <li>• The board of directors is headed by a chairman who is equally the general manager of the Company; he has the right to delegate his authorities to any other person.</li> <li>• Management policy is regulated in details by law and is subject to fixed regulations.</li> </ul>	A minimum of LL 300,000	<ul style="list-style-type: none"> <li>• Statute of the Company is specified in writing.</li> <li>• Statute is registered and deposited with the notary public.</li> <li>• Call for subscription for shares is made; value of shares subscribed for should amount, in the least, to 25% of the capital.</li> <li>• Contributions are assessed.</li> <li>• Establishing general assembly is called.</li> <li>• Statute is registered and deposited at the commercial register.</li> <li>• A declaration about the date of the beginning of operation is submitted to the Ministry of Finance.</li> </ul>	<ul style="list-style-type: none"> <li>• This type of Company is legally imposed on certain business organizations such as insurance companies banks or other financial institutions.</li> <li>• Minimum number of partners required is three.</li> </ul>
Commandite shareholding company	<ul style="list-style-type: none"> <li>• Composed of two categories of partners: acting partners and silent</li> </ul>	<ul style="list-style-type: none"> <li>• Management is undertaken either by one, or by some or by all acting partners.</li> </ul>	A minimum of LL 300,000	Same regulations as those of a joint stock or limited Company.	<ul style="list-style-type: none"> <li>• Minimum number of partners required is three.</li> </ul>

	<ul style="list-style-type: none"> <li>• partners.</li> <li>• Acting partners are personally and collectively liable for the debts and obligations of the Company up to the full value of their personal estates.</li> <li>• Acting partners are the ones solely entrusted with management responsibility.</li> <li>• The liability of silent partners is limited to the amount of capital each has invested in the business.</li> <li>• It can have a common title.</li> </ul>	<ul style="list-style-type: none"> <li>• Management control functions are assumed by three authorized controllers.</li> </ul>			
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