COMPARATIVE STUDY: LIMITED LIABILITY COMPANY VERSUS UNLIMITED LIABILITY COMPANY

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Abstract

Our goal is to differentiate between the legal regime of the limited partnership and that of the unlimited company, by drawing a comparison between civil and special settlement in terms of the following criteria: definition, contributions, capital divisions, the Articles of Association, registration, management control, withdrawal/exclusion of a partner, dissolution/liquidation. The opinions expressed in the chapter devoted to conclusions are relevant to Romanian and French Law as well.

Keywords: limited partnership, unlimited company, Romanian Civil Code, the Law no.31/1990 concerning commercial companies.

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1. Introductory considerations (notes)

A comparison of the texts that regulate the two forms of partnership would seemingly reveal a perfect overlapping of the limited partnership and the unlimited company! It is not so in our opinion, and this is the reasons underlying the present investigation. The analysis is grounded on the rule introduced by the new Civil Code (art. 1887-1888), according to which a limited partnership is common law in relation to companies and, therefore, commercial companies as well! Among commercial companies, the one closest to a civil society, regulated by the previous Civil Code, was the unlimited company, so I wanted to bring forth the differences between them, to better understand what the lawmaker intended and, primarily, to analyse the theoretical and practical consequences of these differences.

2. Definition

The limited partnership is a contract under which two or more persons pledge to cooperate in carrying out an activity and to contribute to it through an input of capital, assets, specific knowledge or services, with a view to sharing benefits or using the savings resulting from it.

The unlimited company is the company set up through the association, based on full confidence, of two or more persons who pool together certain assets in order to carry on a commercial activity with a view to sharing the benefits resulting from it, and in which the partners have an unlimited, solidary and subsidiary liability for company shares.

We can notice that there are no significant differences in terms of definition, but only insofar as the legal personality is concerned. When the limited partnership is a legal entity, the partners can have a limited liability. When it is not a legal entity, there’s an unlimited liability. In case of an unlimited company, there is always an unlimited liability and the company becomes a legal entity from the moment of its very registration. The type of liability corresponds to the personal nature of the company, is given by the confidence the partners have in one another, which makes it be considered (in terms of doctrine) a closed company.

As far as the goals are concerned, the similarity consists in the fact that they both have a lucrative purpose. The limited partnership, however, provides the opportunity for the partners to take advantage of the savings resulting, for example, from building a rest house for company employees only, whereas the lucrative purpose of a commercial company always stems from making and sharing profit among partners.

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From the point of view of the participants in both types of companies, the partners can be natural or legal persons, with no restriction whatsoever.

As far as the formalities for setting-up the limited partnership are concerned, they must be met under article 1890 (corroborated with art. 1884) from the new Civil Code, in written form, required ad probationem (in keeping with article 1884, paragraph 1), when the partnership does not enjoy a legal personality; the same form is imposed under penalty of absolute nullity, when it has a legal personality (in keeping with article 1884, paragraph 2), when the assets one has contributed with include a building! (article 1890, corroborated with article 1883).

An amendment to the company contract can be made with the observance of the provisions for its valid conclusion (we assume one implicitly refers to the provisions of articles 1881 – 1886 from the new Civil Code), if there is no express provision to the contrary in the very company contract or when the Law defines it differently (article 1891).

For an unlimited company, as a company of persons, however, the authentic form is mandatory (in keeping with article 6, letter b of the LSC – Law on Commercial Companies)

3. Contributions

With both types of companies, contributions take the following forms, without any other differences:

- in cash (a)
- in kind (b)
- in receivables (c)
- in industry (d)

a) For cash contributions, the contributing partner owes, in case of failure to contribute: the sum of money he pledges to contribute, the legal interest rate at maturity date and any other damages incurred, having rightfully received formal notice (articles 1898 of the new Civil Code). These provisions constitute the materialization of the interest rate and damages put together, admitted as an exception in Civil Law when the partner is late, but also by Law no. 31/1990 concerning commercial companies, in article 65, paragraph 2 and article 84, paragraph 2.

b) For contributions of assets, other than the fungible ones, the contribution is made by transferring the rights over those assets and by their actual handing over in good state, in keeping with their social purpose (article 1896, paragraph 1). To differentiate between someone who contributes with title deeds over an asset and someone who contributes with the right of using that asset, the drafters of the new Civil Code use the formula according to which the partner that contributes with a property or another real right over an asset is accountable for making the contribution just like a seller is accountable to his customer; the partner who contributes the right of using an asset is accountable like a landlord to his tenant (article 1896, paragraph 2). The LSC settlement is more severe, meaning that when a company contract does not specify the exact type of contribution, one infers it is meant as a property deed contribution.

The contribution of fungible assets or consumables is accepted only as a title deed one (they cannot be admitted as assets to be used). Thus, they become the property of the partners, even if the company contract does not expressly stipulates this.

c) As for receivables, the partner who brings such a contribution is accountable for the existance of the receivable (at the time the contribution is made) and when it is cashed in, in case of delay, the partner has the obligation to cover its value plus the legal interest rate, payable from the date of maturity, as well as any other damages incurred from it.

d) For a contribution of services or specific knowledge, the rules are stipulated by article 1899 in the new Civil Code.

Only for Law no.31/1990 and not the Civil Code, there is a special provision regarding the contribution in industry. Thus, Law no.31/1990 expressly stipulates that the contribution in industry does not represent a contribution to the share capital, whether made upon the setting-up of the commercial company or occasioned by a capital increase.
Article 1894, paragraph 3 regulates the legal regime of labour contributions to limited partnerships. We notice that unlike the LSC, which expressly stipulates that the work or services rendered cannot constitute a contribution to setting-up or increasing the share capital (in keeping with article 16, paragraph 4), in the Project, this contribution has the value of company contribution. In exchange for it, in keeping with the constitutive act, the contributing partner participates in the sharing of benefits and the covering of losses, as well as in the decision-making process within the company (similarly with article 16, paragraph 5 of the LSC).

We consider that the new labour contribution regime is more clearly defined in the new Civil Code. Instead of pointing out what it is not, one clearly stipulates the rights it brings. Thus, it becomes possible to accept it in any type of company.

4. Share capital Divisions

With both types of companies, we are speaking about the cumulated share capital contributions, divided into shares of interest, which, being indivisible, run the obligation of appointing a representative party, in case they are inherited by several successors.

The LSC did not use the term shares of interest (we first find it in reference to the group of economic interest as an unlimited company, in the Law 161/2003 concerning some measures meant to ensure transparency of public office activities and of the business environment, to prevent corruption and punish those found guilty of it), article 1894., paragraph 2 of the new Civil Code points out that the shares of interest are the divisions of the subscribed share capital. Therefore, for both types of companies, capital divisions bear the name of shares of interest, their legal regime being identical (indivisible nature, voting rights, subscribed and paid-up capital).³

We appreciate the novelty of these provisions in the Romanian Civil Law, but they are taken over from the LSC.

We think that the civil provisions on the partners’ preemption rights and cession are original and useful. Thus, the protection of the partner who was not consulted before the selling of shares of interest to third parties, has the possibility to redeem them (any partner can redeem them, by substituting in the acquirer’s rights, the shares of interest onerously acquired by a third party without the agreement of all the partners, within 60 days from the date he became aware or should have become aware of the cession. If several associates concomitantly exercise this right, the shares of interest are allocated proportionally with the net profit quota, in keeping with article 1901, paragraphs 1-2; the more so as any transfer is considered onerous (article 1901, paragraph 4).

Particularly important are the provisions regarding the assessment of contributions, because there have been several opinions on conventional or specialised evaluation⁴.

Thus, under the LSC, there is a possibility to conventionally evaluate the contributions in kind, by the partners, based on the value mentioned in the acquisition deeds for the respective assets (in keeping with article 16, paragraph 1 of the LSC, the contributions in kind must be subject to an economic assessment). We consider that only through the coming into effect of the new Civil Code, the provision on the mandatory assessment through expertise actually becomes a rule, under article 1901, paragraphs 2-3, which, although it deals with the cessation of the shares of interest to third parties, through its practical value of protecting third parties, it is applicable to contributions in kind (“the assessment of the shares of interest in case of cession, stipulated in article 1901, paragraph 2, as well as any time the law imposes cession, is done by an expert accepted by all the parties to the cession or, lacking an agreement, by the Court of Law, in keeping with article 1901, paragraph 3).

5. Constitutive Act

Article 5, paragraph 1 of the Law 31/1990 stipulates that the unlimited company is set up through a company contract. The Authentic form of the constitutive act is mandatory when the
assets subscribed as share capital contribution include a building and always for the setting up of an unlimited company or with capital invested by a sleeping partner.

The Constitutive Act of the unlimited company will include (in keeping with article 7 of the Law 31/1990 with subsequent amendments and completions):

a) The identification data of the partners;
   b) Form, name and company headquarters;
   c) Scope of activity, specifying the field and the main activity;
   d) Share capital, mentioning the contribution of each partner, in cash or in kind, the value, number and nominal value of the shares, as well as the number of shares allotted to each partner in exchange for his contribution;
   e) The partners who represent and manage the company or the un-associated managers, their identification data, the prerogatives bestowed upon them and if they are to exert them together or separately;
   f) Each partner’s share in the benefits and losses;
   g) Secondary headquarters – branches, agencies, representative offices or any other such units without legal personality – when they are set up along with the company, or the conditions for their subsequent setting-up, if one envisages it;
   h) Duration of the company;
   i) The method for dissolving and liquidating the company.

According to article 7 of the Law no.31/1990, the partners can be natural or legal persons. One cannot set up an unlimited company with a single partner, because the only exemption from the rule on the association of at least two persons, found in the Law no.31/1990, concerns the limited liability company with a single partner.

We notice that the new Civil Code includes a similar rule concerning the limited partnership. Among the conditions for the validity of company contract (in keeping with article 1523) insofar as the clauses of the constitutive act are concerned, there is the possibility for the partner to be a natural or legal person.\(^2\)

The required registration is the written form, al validitatem, only when a limited partnership with a legal personality is to be set up.

The duration of the company (in keeping with article 1885 from the new Civil Code) can be limited/unlimited, depending on the express provisions in the company contract; the rule is similar to the one in the LSC.

More detailed provisions than the Law no.31/1990 can be found in the new Civil Code, about the relationship between the partner and the company, concerning the expenses made on behalf of the company.\(^3\)

The company is the name or, depending on the case, the label under which a trader is doing business and puts his signature. The trade sign of an unlimited company must include the name of at least one of the partners. One has in view the name and surname or the last name and the initial of his first name, accompanied by the «unlimited company» mention written in full. If a person allows his name to be used in an unlimited company, he (or she) is not accountable for social obligations unless he enjoys the status of partner.\(^4\).

6. Registration/ Matriculation

An unlimited company becomes a legal entity and acquires the status of trader on the date of its matriculation in the Trade Registrar. The matriculation of a limited partnership must be understood while keeping two aspects in mind:

\(^2\) The regulations in the Romanian Civil Code dating back to 1864 does not settle this issue. See S. Cristea, loc. Cit. no.3, page 67
\(^3\) Idem, for the analysis of article 1907, 1908, new Civil Code, pages 71-72.
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- if it has a non-lucrative purpose and no legal personality, it needs no matriculation; if it has the same purpose but it acquires legal personality, it will be registered at the Associations and Foundations Registrar (in keeping with article 17 in the Government Ordinance 26/2000 regarding associations and foundations\(^5\) from the Registry of the competent territorial Court of Justice;

If it has a lucrative purpose and acquires legal personality, the conditions for its registration will be given by the chosen form, which can only be that of an unlimited company.

Under article 1893 of the new Civil Code, one considers to be limited partnerships all the companies subject to the condition of being matriculated in keeping with the Law and left unmatriculated, and the companies de facto as well.

As it does not have a legal personality, a limited partnership is a contract with all the general clauses found in all contracts, but with some special clauses as well.\(^6\)

7. Operation

7.1. Management

For a limited partnership, the drafters of the new Civil Code have ruled that the manager is a sort of attorney (article 1919 of the new Civil Code), taken over from article 79 of the LSC.\(^7\)

As far as the accountability of the managers who worked together is concerned, the new Civil Code introduces the group accountability (boundary management); however, depending on the relations between them, the Court can hold them accountable depending on each and everyone’s fault or offence\(^8\) (in keeping with article 1915, paragraph 2).

A new provision contains article 1917 of the new Civil Code, according to which, if the company contract stipulates that managers make decisions unanimously or with a majority of votes, they can only manage the company together, unless they have an event of force majeure on their hands, when making no decision might bring serious damage to the company.

The unlimited company is managed by one or several managers. They can be appointed through the constitutive act or subsequently, through the vote of an absolute majority of the share capital. The managers can be un-associated natural or legal persons, if the constitutive act expressly stipulates such a hypothesis. If the constitutive act does not stipulate who the managers are or the appointment was not made public through the Trade Registrar, each and every partner is a manager. Moreover, the French Law mentions that the manager can be a foreign national.

Under article 78, paragraph 1 of the Law no.31/1990, if a manager takes the initiative of conducting an operation that exceeds the ordinary boundaries of the trade the company is involved in, he must let the other managers know about it before its conclusion, under the penalty of covering the possible losses resulting from it.

7.2. Company management control

The Law no.31/1990 does not rule that management control in an unlimited company should be done through specially designed persons, such as censors. Consequently, management control is ensured by the partners who use their prerogatives provided for by the law. Majority partners also exert control by picking and dismissing managers, by establishing their exact mandate and by settling possible differences.

8. Withdrawal and exclusion of a partner from the company

The voluntary withdrawal of a partner from a company calls for amending the company contract; the partner loses his status, but the existence of the unlimited company continues.

(1) A partner can withdraw from an unlimited company:

\(^6\) See Smaranda Angheni, loc. Cit.4, page 68.
\(^7\) See Silvia Cristea, loc cit. 3, page. 58.
\(^8\) Idem, see the comments made at page 57 and 72-73 concerning the accountability of managers.
a) in the situations stipulated in the constitutive act;
a') in the cases stipulated in article 134
b) with the agreement of all the other partners
c) when there is no provision in the constitutive act or when a unanimous agreement is not reached, the partner can withdraw for serious reasons, based on a Court decision, subject to appeal only, within 15 days from the notification date
(1) The right to withdraw can be used, in the cases stipulated at paragraph (1) letters a) and b), within 30 days from the date when the decision of the general assembly of partners is published in Romania’s Official Gazette, Part IV. The provisions of article 134, paragraph (2\(^1\)) are enforced accordingly.

(2) In the situation stipulated at paragraph (1) letter c), the Court of Justice will also rule, through the same decision, on the structure of the other partners’ participation in the share capital.

(3) The rights the withdrawn partner is entitled to in exchange for his shares, are established by agreement of the partners or by an expert they designate or, in case of a disagreement, by a Court of Justice. The evaluation fee will be paid by the company.

The exclusion of a partner was not expressly stipulated in the 1864 Civil Code. The rights of the excluded partner (laid out in article 1929 of the new Civil Code) are taken over from the provisions of articles 224-225 of the LSC\(^9\).

Articles 217, paragraph 1, stipulates that an unlimited company can exclude:
a) the partner who is given formal notice and does not make the contribution he pledged to bring;
b) the partner with unlimited liability in a state of bankruptcy or who legally became incapable to make his contribution;
c) the partner with an unlimited liability who unrightfully interferes in management issues or fails to observe the provisions of articles 80 and 82;
d) the managing partner who commits fraud to the detriment of the company or who uses his signature or the share capital in his or other people’s own interest.

Law no.31/1990 does not introduce the general assembly of partners as a form of managing an unlimited company, the applicable principle being that the majority rules. The partners representing the absolute majority of the share capital decide on matters related to:
- choosing one or several managers among themselves, establishing their prerogatives, the duration of their assignment and their possible salary, except for the case when the articles of association stipulate otherwise (article 77, paragraph 1);
- dismissing managers or limiting their powers, except for the situation in which the managers were appointed through the constitutive act (article 77, paragraph 2);
- settling the differences between managers, if the constitutive act calls for managers to work together and their decisions to be made unanimously (article 76, paragraph 1 and article 78, paragraph 2);
- approving the company’s balance-sheet (article 86);
- the managers’ accountability.

9. Dissolution and liquidation

Article 1930 of the new Civil Code stipulates that the company contract expires and the company is dissolved in the following cases:
a) the company accomplishes its goal or there is no doubt about the impossibility to reach it
b) the partners’ consent;
c) court decision, for legitimate and sound reasons;
d) company duration is complete (unless there is a tacit prorogation);
e) invalidity of the company;

\(^9\) See Silvia Cristea, loc cit. 3, page 59.
f) other causes stipulated in the company contract.

We notice that the Lawmaker has altered the cessation conditions (especially the ones at letters b) and c), drawing inspiration from the special legislation (LSC), from which it has also taken over the provision under which the company that is being dissolved is finally liquidated.\(^\text{10}\)

Under article 222 of the Law on commercial companies, an unlimited company is dissolved because:

a) the time line established for the duration of the company has elapsed;
b) it is impossible to reach its goals or the task has been completed;
c) the company is declared invalid;
d) the general assembly makes a decision in this sense;
e) the Court rules in favour of dissolution upon the request of any of the partners, for sound reasons such as serious disagreements between partners, which prevent its proper functioning;
f) the company is bankrupt;
g) other causes stipulated by law or the articles of association of the company.

An analysis of the text of law reveals the following defining aspects:

1. the general cases of dissolution of a commercial company can be classified into: rightful dissolution, voluntary dissolution and judicial dissolution.
2. Special causes: the bankruptcy of one of the partners, a partner is incapacitated, one or several partners are excluded, one partner withdraws from the company, the death of a partner.

The liquidation is the next stage after dissolution, which completes the process that brings about the disappearance of the legal personality of the commercial company.

The liquidation consists in a number of operation necessary to put an end to the current business of the company, to identify, evaluate and turn assets into cash, establish the debt, pay social creditors and share the results of the liquidation between the partners.

Moreover, under French Law, the dissolution of the company takes place even if all the social rights are in the hands of a single person and that person calls for the liquidation of the company.

10. Conclusions

10.1. In Romanian Law

Despite the fact that many of the provisions concerning the limited partnership (found in the new Civil Code) are identical to the LSC ones regarding the unlimited partnership\(^\text{11}\) there are enough differences between the legal regime of the two types of companies. Casting aside the fact that a limited partnership is common law as far as companies are concerned, compared to which the unlimited company is a special entity, we notice that that the Lawmaker took over many provisions from the LSC, and included them in the new Civil Code.

We note the fact that while it is impossible for an unlimited company to be set up as a single partner company, it would be desirable to have the possibility to set up a sole trader limited partnership in Romania, thus abiding by Directive XII no.89/667/CEE on the limited liability company with a single partner, but also the French legislation pattern that has already regulated the limited partnership with a share capital. The step forward to a new Romanian law will probably be taken only when one will have given up the contract theory on companies; a remarkable but still hesitating step forward\(^\text{12}\) was made through article 31 of the new Civil Code, concerning the dedicated assets.

We note that the means of regulating the cessation of the activity of a limited partnership, with special emphasis on invalidity cases, reflects the new stand of the Lawmaker on the

\(^{10}\) For comments on the cessation causes, see Silvia Cristea, loc cit. 3, pages 74 – 75, but also the ones on company pages 61 – 64.

\(^{11}\) Smaranda Angheni, loc. cit. 4, page 69.

\(^{12}\) See Smaranda Angheni, loc. cit. 4, page 41, and Silvia Cristea as well.
dichotomy: absolute invalidity – relative invalidity. The detailed rules on the partner’s opportunity to defend his rights over the company (read the minority partner versus the majority partner) are nothing but theoretical attempts to balance the scales currently tipping in favor of the relative invalidity (as a rule) and consider that the absolute invalidity is an exception to the rule.

As for special companies (read commercial companies), judicial practice had recorded many cases in which the minority partner resorted to the penalty of an absolute invalidity of the company as a defense mechanism against the decisions made by the general assemblies of partners, which promoted the interest of the majority.

The same strategy to protect majority partners is also promoted through the introduction of non-competition among the clauses of the limited partnership contract (taken over from the LSC, as a rule specific to associations of persons, therefore to unlimited companies).

We have doubts about the practicality of the general rule about the limited partnership’s lack of legal personality, because the judicial regime of the assets acquired through the company’s activity remains uncertain, as long as a new Law topic does not arise. The communion of assets, which is natural in case of a family enterprise for example, can become an obstacle to making speedy decisions, in the general assembly of a limited partnership, which needs the agreement of all the co-owners of an asset in order to sell it!!!

10.2. Comparative Law, the French Legislation Case

As far as the rules for an unlimited company are concerned, drawing a comparison between the LSC and the “Loi du 24 juillet 1966” with its subsequent amendments and completions and the French Commercial Code (the rules for unlimited companies are found in articles L. 221-1 to articles L. 221-16 of the “Code de commerce”).

Similarities between the two legislations:
- in both countries, the companies’ share capital is divided into shares of interest, and their members are called partners;
- partners enjoy a joint and unlimited accountability for the debts and obligations of the company;
- the managers of the company can be the very partners;
- the first managers are appointed through the Constitutive Act;
- the partners holding the majority of the share capital can pick one or several managers among them, setting their prerogatives, duration of the task and possible salaries;
- the contributions to the company’s capital can be made in cash, in kind and in industry;
- each partner’s share of the losses and benefits is proportional to the number of shares of interest;
- no partner can be excluded from benefits or exonerated from covering losses;
- the articles of association must be authenticated;
- companies are registered with the Trade Registrar’s Office, so the necessary documents are quite similar;
- in both countries, an unlimited company can be dissolved through incapacity or the death of a partner, as well as following a court decision or by rightful dissolution because the term has expired or the goal has been reached;

Differences between the two legislations:
- in France, all the partners can also be managers, whereas in Romania, the management can be ensured by one or several partners or even by non-partners;
- in France, partners enjoy the status or traders, whereas in Romania, there is no such characteristic;
- in French Law, along with the obligation to make the existence of an unlimited company public, it will be registered at the Trade Registrar’s: independently of the procedures related to the formalities required for registration at the Public Treasury, the following advertising formalities are mandatory:
  a) publication of the company headquarters in a journal for legal notices;
b) submission of two copies of the statute and the managers’ nomination paper at the registry of the Trade Court;
c) matriculation of the company at the Trade Registrar’s;
d) printing by the town clerk in the Official Bulletin of Civil and Commercial Notices. In French Law, this activity will be authorized by the clerk, whereas in Roman Law, this task is performed by the judge delegate.

- in Romania, managers can be dismissed by the majority of partners, whereas in France, managers can only be replaced by unanimous consent of the partners.

While the Romanian Law does not establish than an unlimited company’s activity be controlled by censors, in the French Law, the partners have the obligation to designate a commissioner of accounts and a deputy commissioner if, at the end of the financial year, the unlimited company surpassed at least two of the three thresholds, this is, a total balance-sheet of 1.5 million euro, a business turnover of 3 million euro and the number of employees is higher than 50\(^{13}\).

- in Romania, the contributions to the capital of an unlimited company can also consist in receivables, which are absent in France.

- the sources for regulating companies in France have remained the same as the ones in 1990, meaning the French Civil Code, the French Commercial Code and the Law on commercial companies\(^{14}\).

Bibliography

