

1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 01 (Class XI, Part- 1)
Module Name/Title	Forms of Business Organisation/ Joint Hindu Family Business – Part 2
Module Id	kebs_10202
Pre-requisites	Knowledge about business and Sole proprietorship form of organisation
Objectives	<p>After going through this lesson, the learners will be able to understand the following:</p> <ul style="list-style-type: none">• Meaning of Joint Hindu family business• Systems of Joint Hindu family business• Features of Joint Hindu family business• Merits of Joint Hindu family business• Limitations of Joint Hindu family business
Keywords	Family Business, Karta, Co-parceners, Family Property, Share, Liability

2. Development Team

Role	Name	Affiliation
National MOOC Coordinator	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Rejaul Karim Barbhuiya	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Dr. Punnam Veeraiah	CIVE, RIE Campus, Bhopal
Course Co-Coordinator / Co-PI	Dr. Nidhi Gusain	CIET, NCERT, New Delhi
Subject Matter Expert (SME)	Mrs. Madhu Vaswani	Delhi Public School, Mathura Road, New Delhi
Review Team	Dr. Munipalle Usha	UPGC, Osmania University, Hyderabad
Technical Team	Mr. Shobit Saxena Ms. Khushboo Sharma	CIET, NCERT, New Delhi CIET, NCERT, New Delhi

Table of Contents:

1. Introduction
2. Meaning of Joint Hindu family business
3. Systems of Joint Hindu family business
4. Features of Joint Hindu family business
5. Merits of Joint Hindu family business
6. Limitations of Joint Hindu family business
7. Summary

*All business organizations are based on some **form of ownership**. This choice affects a number of managerial and financial issues, including the amount of taxes the entrepreneur would have to pay, whether the entrepreneur may be personally sued for unpaid business bills, and whether the venture will die automatically with the demise of the entrepreneur.*

Business Ownership is a Bundle of Rights:

Since the business owners invest money in it, they have multiple rights.

- i) The **first right is of exclusive ownership**. For example, if you buy a book, then no one else can claim ownership to the copy you hold. Same is with your business.
- ii) Apart from the right of exclusive ownership, business owners also have a **right to run and manage** the business.
- iii) Another important right of business ownership is the **right to dispose of and transfer the ownership** of the business. Further, this includes the transfer of ownership by succession after the death of the owner. In such cases, the succession is smooth if the owner registers a will, dividing the ownership in the business among his successors.

Business may be Owned Singly or Jointly:

We can have a **single owner** of a business – sole-proprietorship concern. In the case of a single owner, if all profits belong to the owner, then so do the losses.

Jointly/Shared ownership is particularly useful while undertaking large projects. This is because, in shared ownership, the owners pool the capital together. Another important reason for joint/shared ownership is the sharing of risks.

A joint/shared family business is viewed as family property and the ownership lies with the family members. The **joint family business** is a concept similar to **Hindu Undivided Families** in India. In such cases, the sharing of ownership is not only to raise large sums of money or sharing risks. It is more about distributing ownership rights among family members.

Meaning of Joint Families:

The joint family system constituted the basic social institution of Hindus and traditionally the family among the Hindus was joint type. The family among the Hindus did not consist of only husband, wife and their children but also of uncles, aunts, cousins and grandsons. This system is called joint family or extended family system which was a peculiar characteristic of Indian social life.

Joint family is a household which has greater generation depth and the members of which are related to one another by property, income, mutual right and obligations. By joint family we mean the family in which several generations live together within the context of mutual obligations.

“A joint family is a group of people who generally live under one roof, who eat food cooked at one hearth, who hold property in common and who participate in common worship and are related to each other as some particular type of kindred. Families in India have moral and religious base. It is founded on a specific ideology which governs the total family life. The sources of understanding of Indian family are Vedic literature, the epics, the Mahabharata and the Ramayana, the Sutras.

Hence, the joint family consists of blood relations who live together and who share a common life and common worship.



The origin of the Joint Hindu Family firm is to be found in the principles of inheritance under Hindu Law. Under this school, the property of a Joint Hindu Family is inherited by a Hindu from his father, grandfather, and great grandfather and is called ancestral property.

Thus, three successive generations can simultaneously inherit the ancestral property. This interest in inheritance is called coparcenaries' interest and the members of the Joint Hindu Family (Hindu Undivided family (HUF) Firm) are called **coparceners** and the senior most are called as **karta**.

Joint Hindu family business is a specific form of business organisation found only in India. It is one of the oldest forms of business organisation in the country. It refers to a form of organisation wherein the business is owned and carried on by the members of the Hindu Undivided Family (HUF). It is the non-corporate, group ownership form of family business operative in India. **It is governed by the Hindu Law.** The basis of membership in the business is birth in a particular family and three successive generations can be members in the business. The business is controlled by the head of the family who is the eldest member and is called karta. All members have equal ownership right over the property of an ancestor and they are known as co-parceners.

In the Hindu Law, there were originally two schools:

- (i) **Dayabhaga**, which was applicable in Bengal and allows both the male and female members of the family to be co-parceners
- (ii) **Mitakshara**, which was applicable in the rest of India except West Bengal and allows only the male members to be co-parceners in the business.

With Gender Equality in the Joint Hindu Family a reality according to the **Hindu Succession (Amendment) Act, 2005**, the daughter of a coparcener of a Joint Hindu Family shall, by birth, become a coparcener. At the time of partition of such a 'Joint Hindu Family' the coparcenary property shall be equally divided to all the coparceners irrespective of their gender (male or female). The eldest member (male or female) of 'Joint Hindu Family' shall become Karta. Married daughter has equal rights in property of a Joint Hindu Family.

Features:

The following points highlight the essential characteristics of the joint Hindu family business.

(i) Formation: For a joint Hindu family business, there should be at least two members in the family and ancestral property to be inherited by them. The business does not require any agreement as membership is by birth. It is governed by the Hindu Succession Act, 1956.

(ii) Liability: The liability of all members except the karta is limited to their share of coparcenary property of the business. The karta, however, has unlimited liability. The Karta is the senior most male member of the family. He works in consultation with other members of the family but ultimately he has a final say. The members of the family have full faith and confidence in Karta. Only Karta is entitled to deal with outsiders. But other members can deal with outsiders only with the permission of Karta.

(iii) Control: The control of the family business lies with the karta. He takes all the decisions and is authorised to manage the business. His decisions are binding on the other members.

(iv) Continuity: The business continues even after the death of the karta as the next eldest member takes up the position of karta, leaving the business stable. The death, lunacy or insolvency of any member of the family does not affect the existence of the business of Joint Hindu Family. The family goes on doing its business. The business can, however, be terminated with the mutual consent of the members.

(v) Minor Members: The inclusion of an individual into the business occurs due to birth in a Hindu Undivided Family. Hence, minors can also be members of the business. As soon as a child is born in family, he becomes a member. Membership requires no consent or agreement.

(vi) Implied Authority of Karta:

In a joint family firm, only Karta has the implied authority to contract debts and pledge the credit and property of the firm for the ordinary purpose of the businesses of the firm.

(vii) Dissolution:

The Joint Hindu Family Business can be dissolved only at the will of all the members of the family. Any single member has no right to get the business dissolved.

Merits:

The advantages of the joint Hindu family business are as follows:

(i) Effective control: The karta has absolute decision making power. The organisation, management, and control of the business is vested in the Karta of the family. This results in the 'unity of command' and non-interference in the conduct of business. This non-interference makes quick decisions, prompt action maintenance of secrecy, etc., possible.

This avoids conflicts among members as no one can interfere with his right to decide. This also leads to prompt and flexible decision making.

(ii) Continued business existence: The death of the karta will not affect the business as the next eldest member will then take up the position. Hence, operations are not terminated and continuity of business is not threatened. The existence of this family firm does not come to an end by the death, insanity, or bankruptcy of any coparcener either.

(iii) Limited liability of members: The liability of all the co-parceners except the karta is limited to their share in the business, and consequently their risk is well-defined and precise.

(iv) Increased loyalty and cooperation: Since the business is run by the members of a family, there is a greater sense of loyalty towards one other. Pride in the growth of business is linked to the achievements of the family. This helps in securing better cooperation from all the members.

(v) Maximum numbers: There is no limit to the membership of the Joint Hindu Family Firm. However, it is restricted to the three successive generations in the family.

Limitation:

The following are some of the limitations of a joint Hindu family business.

(i) Limited resources: The joint Hindu family business faces the problem of limited capital as it depends mainly on ancestral property. This limits the scope for expansion of business.

(ii) Unlimited liability of Karta: The karta is burdened not only with the responsibility of decision making and management of business, but also suffers from the disadvantage of having unlimited liability. His personal property can be used to repay business debts.

(iii) Dominance of Karta: The karta individually manages the business which may at times not be acceptable to other members. This may cause conflict amongst them and may even lead to break down of the family unit.

(iv) Limited managerial skills: Since the Karta cannot be an expert in all areas of management, the business may suffer as a result of his unwise decisions. Like sole proprietor, the Karta may not be possessing all the management skills required in the fields of production or purchasing, marketing, personnel and industrial relations, financing, and other enterprise functions. These limitations of management reflect in the efficiency and effectiveness of business operations.

His inability to decide effectively may result into poor profits or even losses for the organisation. The joint Hindu family business is on the decline because of the diminishing number of joint Hindu families in the country.

(v) Disproportionate relationship between work and reward: The relationship between the works and reward is not positively proportionate. The profit of the family business is divided among all the members, whereas the Karta is the only earner.

(vi) Short life of business: The life of the family business is shortened if family quarrels take precedence over business interests.

Distinction between Partnership and Joint Hindu Family (HUF) Firm:

Basis	Partnership	Joint Hindu Family Business
Mode of creation	Through an agreement	Operation of law and by birth
Status of Minor	Basically incompetent, but may be taken in	Becomes member by birth
Rights of Members	Right is there unless one waives such a right	Only Karta conducts, but may invite others, if he so desires
Accounts	Every partner can inspect	A co-parcener has no such right

Liability of Members	Every partner personally liable, including his personal estate	Only Karta is liable for the debts of business
Membership	No restriction about caste, colour or creed	Only Hindus, the members of the same family
Law on Disputes	Agreement will give direction	According to Hindu Law
No. of Members	Maximum limit is there	No maximum limit
Suit by or against Members	Third party can sue or sued by the firm; in some cases an individual partner can be sued	Can't sue or be sued in the firm's name
Duration	May or may not have perpetual succession	Perpetual succession till the last member of HUF survives
Registration	May or may not get registered	Does not require registration

Suitability of Joint Hindu Family Firm:

- (i) Where investment required is moderate
- (ii) Where application of personal skill and judgement is necessary like services.
- (iii) Where avoidance of risky business due to unlimited liability of business is given precedence.
- (iv) Normally found in small manufacturing, trading and services.

Why Joint Hindu Family Business is losing popularity?

The main cause for its decline is the gradual breaking of the joint family system itself. The present day trends of industrialisation and westernisation are giving way to individual/nuclear family system.

Summary:

One of the important right of business ownership is the **right to dispose of and transfer the ownership** of the business. Further, this includes the transfer of ownership by succession after the death of the owner. In such cases, the succession is smooth if the owner registers a will, dividing the ownership in the business among his successors.

A joint/shared family business is viewed as family property and the ownership lies with the family members. The **joint family business** is a concept similar to **Hindu Undivided Families** in India. In such cases, the sharing of ownership is not only to raise large sums of money or sharing risks. It is more about distributing ownership rights among family members.

Meaning of Joint Families:

“A joint family is a group of people who generally live under one roof, who eat food cooked at one hearth, who hold property in common and who participate in common worship and are related to each other as some particular type of kindred. Families in India have moral and religious base. It is founded on a specific ideology which governs the total family life. The sources of understanding of Indian family are Vedic literature, the epics, the Mahabharata and the Ramayana, the Sutras.

Joint Hindu family business is a specific form of business organisation found only in India. It is one of the oldest forms of business organisation in the country. It refers to a form of organisation wherein the business is owned and carried on by the members of the Hindu Undivided Family (HUF). **It is governed by the Hindu Law**

With Gender Equality in the Joint Hindu Family a reality according to the **Hindu Succession (Amendment) Act, 2005**, the daughter also of a coparcener of a Joint Hindu Family shall, by birth, becomes a coparcener.

Features:

The following points highlight the essential characteristics of the joint Hindu family business.

(i) Formation: For a joint Hindu family business, there should be at least two members in the family and ancestral property.

(ii) Liability: The liability of all members except the karta is limited to their share of co-parcenary property of the business. The karta, however, has unlimited liability.

(iii) Control: The control of the family business lies with the karta.

(iv) Continuity: The business continues even after the death of the karta as the next eldest member takes up the position of karta, leaving the business stable.

(v) Minor Members: As soon as a child is born in family, he becomes a member. Membership requires no consent or agreement.

(vi) Implied Authority of Karta:

In a joint family firm, only Karta has the implied authority to contract debts and pledge the credit and property of the firm.

(vii) Dissolution:

The Joint Hindu Family Business can be dissolved only at the will of all the members of the family.

Merits:

The advantages of the joint Hindu family business are as follows:

(i) Effective control: The karta has absolute decision making power.

(ii) Continued business existence: The death of the karta will not affect the business as the next eldest member will then take up the position.

(iii) Limited liability of members: The liability of all the co-parceners except the karta is limited to their share in the business, and consequently their risk is well-defined and precise.

iv) Increased loyalty and cooperation: Since the business is run by the members of a family, there is a greater sense of loyalty towards one other.

(v) Maximum numbers: There is no limit to the membership of the Joint Hindu Family Firm. However, it is restricted to the three successive generations in the family.

Limitation:

The following are some of the limitations of a joint Hindu family business.

(i) Limited resources:

(ii) Unlimited liability of Karta:

(iii) Dominance of Karta:

(iv) Limited managerial skills: Since the Karta cannot be an expert in all areas of management, the business may suffer as a result of his unwise decisions.

(v) Disproportionate relationship between work and reward:

(vi) Short life of business: The life of the family business is shortened if family quarrels take precedence over business interests.

Suitability of Joint Hindu Family Firm:

(i) Where investment required is moderate

(ii) Where application of personal skill and judgement is necessary like services.

(iii) Where avoidance of risky business due to unlimited liability of business is given precedence.

(iv) Normally found in small manufacturing, trading and services.