

Joint Hindu family business ,Merits and Limitation

Merits

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

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

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. His inability to decide effectively may result into poor profits or even losses for the organisation.