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Meaning

Business Collaboration is when two or more entities work together by sharing ideas and thinking together to achieve common goal.

Ex: Software development Company + Hardware company = Mobile Company

Laptop Companies + Microsoft = Pre-installed Microsoft office

Tata teleservices + Docomo = Tata Docomo

Types of Business Collaboration

1. Horizontal Collaboration

Businesses in same functional area (Business field) collaborate to improve their competencies.

Ex: Infosys and Wipro conducting joint research

: Reliance, Jio, Airtel share cell towers to reduce infra cost.

2. Vertical Collaboration

Business Collaborate with supplier or distributors in their supply chain (upward / downward).

Ex: ITC (e-Choupal) and Indian Farmers

Zomato and Restaurants chain

3. Intersectional [Cross Industry] Collaborations

Businesses from different functional area collaborate to share special knowledge or mutual advancement.

Ex: Jio partners with Netflix, Hotstar

Indian Railways with Paytm

Google India with CBSE for digital learning tool.

4. Joint Venture

Two or more businesses form a new company with profits shared as per formal contract.

Ex: Maruti + Suzuki = Maruti Suzuki India Ltd.

ICICI + Lombard = ICICI Lombard

5. Equity Collaboration

A company acquiring minor equity stake in another business in exchange for investment.

Ex: Sequoia Capital investing in Zomato.

Google Capital investing in Policy Bazaar.

Key differentiating factor

Horizontal = Same level

Vertical = Supply Chain

Intersectional = Different Area

Joint Venture = New Entity

Equity = Ownership Investment

Foreign Collaboration

Foreign Collaboration is alliance (partnership) formed to carry out task collectively (jointly) with participation of Resident and atleast 1 Non Resident Entities.

Approval Process

- Approval from government authority of domestic country is required before starting the collaboration.
- Prepare a preliminary agreement stating contribution, generally Non Resident entity provides finance, Technology or Know-how. Resident entity provides land, labour and Raw Material.
- Tenure (Duration) is specified in the contract.

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Objectives of Foreign Collaboration

The main intention (prime goal) of foreign collaboration is to:

(i) Improve the financial growth of collaborating entities.

(ii) Occupy a major market share for collaborating entities.

(iii) Reduce the higher operating cost of Non-Resident entities.

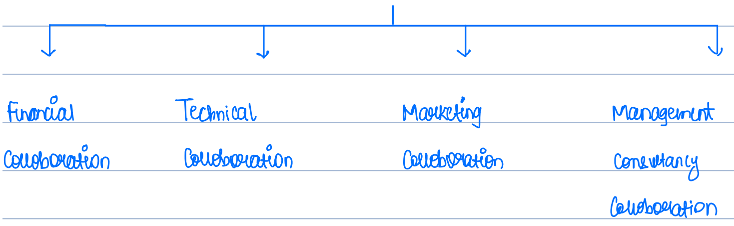
(iv) Make optimum and effective use of resources available in resident entity's country.

(v) Generate employment in resident entity's country.

Features of Foreign Collaboration

1. It is a type of partnership b/w domestic and foreign entity.
2. It requires government approval.
3. Entities from Developing and Developed Countries
4. Benefit to developing and developed country.
5. Better utilisation of resources
6. Promote growth

Types of Foreign Collaboration



(1) Financial Collaboration

- Inflow of foreign funds into domestic (host) country.
- Either through ownership shares, long term loans or credit facility.
- Finance flows from developed to developing country.
- Ex: Sequoia Capital (America) investing into Paytm.

(2) Technical Collaboration

- Modern foreign technology integrates with domestic method.
- Foreign Company provides know-how, install automated machine and offer expertise.
- Reduces technological gaps in developing countries.
- Ex: Tata Steel with Nippon Steel (Japan) for adopting advanced steel manufacturing technology.

(3) Marketing Collaboration

- Inflow of goods and services to foreign and international markets.
- Foreign Companies use their distribution network.
- Increases exports for developing Countries and helps access global markets.
- Ex: BKT tyres partnering with football leagues like La Liga to promote BKT brand globally.

(4) Management Consultancy Collaboration

- Inflow of management expertise from foreign Company to enhance domestic management practices.
- Modernises business processes.
- Improve efficiency in Private & Public Sector.
- Ex: Mckinsey advising Indian Railways.

Joint Venture

- Joint Venture (JV) can be defined as an enterprise where two or more investors share ownership and control over property rights and operations.

- JV can be for single project or for continuing business relationship.

- Ex: Maruti + Suzuki (Japan) = Maruti Suzuki
  Mahindra + Renault (France) = Mahindra Renault

Advantages of JV	Disadvantages of JV
1. Risk Sharing	1. Lack of equal involvement
2. Economies of Scale	2. Lack of clear communication
3. Market Access	3. unreliable partner
4. Exploring global Market	4. Creation of competitor
5. Cost efficiency	5. Cultural Differences

Strategies for entering into Joint Venture

(1) Identification of Prospective JV Partners
Partner should be strong in business, technology and resources.

(2) Trustworthy Partners - Choose partner who are reliable and trustworthy.

(3) Develop Strong JV Relationship
Relationship that is easy to maintain, financially rewarding and long lasting.

(4) Equal Contribution in terms of skill, resource, capital.

(5) Written Agreement that defines terms, rights and responsibilities.

(6) Limiting scope of JV initially. Once trust established, scope can be expanded with consent.

(7) Well defined business model - Clearly define the customer proposition, cost, value chain, investment

(8) Flexibility - Open to working with partners who show same level of adaptability.

(9) Establish exit routes - establish protocols (rules) for amending or unwinding relationship if venture fails to meet expectations.

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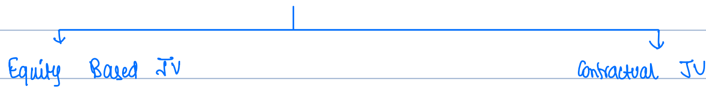
Formation of Joint Venture



Equity Based JV — Contractual JV

(1) Equity Based Joint Venture

A separate legal entity is created with parties contributing resources to form a company.

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- Agreement to create new entity
- Shared ownership by parties involved
- Shared responsibilities regarding capital investment and other financing arrangement.
- Shared profits and losses according to JV arrangement.

(2) Contractual Joint Venture

No new entity is formed. Relationship and terms are defined through contracts.

Characteristics of Contractual JV

- No ownership sharing; both parties exercise control.
- Common intention of running business venture.
- Input from both parties
- Relationship is long term, not one off transaction.

When Contractual JV is useful?

- Contractual JV might be useful where establishment of separate legal entity not needed or feasible.
- Parties do not want to share ownership but each party want to exercise some control.
- Situations where project involves narrow task or limited

Documents of Joint Venture

(1) Memorandum of Understanding (MOU)

This document is prepared at Familiarisation Stage.

Simple, brief and without any legal jargon.

MOU define roadmap ahead.

(2) Contractual Joint Venture

- Prepared at Engagement Phase.
- For medium term commitment with resource allocation (distribution).
- Legally binding and well drafted.

(3) Final Stage

- Preparation of JV Agreement (JVA)
  - Shareholder Agreement (SHA)
  - LLP Agreement / MOA and AOA

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Essential Component of Joint Venture Agreement (JVA)

1. Description : Nature of agreement
2. Parties : Details of parties involved.
3. Recitals (Introduction) : Background and intention of parties
4. Operative (Operation) Part :
   - ↳ Entity name and constitution
   - ↳ Equity investment and loan rules
   - ↳ Board Constitution, key appointments, Remuneration
5. Legal Aspects
   - ↳ Procedure for amendment
   - ↳ Duration of agreement
   - ↳ Dispute Resolution Mechanism
   - ↳ Confidentiality and Non-Disclosure Agreement
   - ↳ Non Compete and Indemnification clauses.

Special Purpose Vehicle (SPV)

SPV is an entity created for a specific, lawful purpose with its operation limited to acquiring and financing specific (particular) assets.

- A separate distinct identity which operates independently of its promoters, sponsor or shareholders.
- Operation ceases (stop) once the purpose is achieved.

Purpose of forming SPV

- Enable leveraged (debt) or speculative investment without endangering parent company.
- Help bank in securitisation of loans and receivable.
- Government use SPV for easy financing and large projects.
- Tax savings through asset acquisition.

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Benefits of SPV

- Risk Separation – Shield (protect) parent company from insolvency or operational risk.

- Tax Benefits – can save tax through jurisdiction (place) selection.

- Legal Protection – limit liability in case of project failure.

- Attractive Financial Reporting – Debt of SPV are not reflected in sponser's balancesheet.

- Ease of Asset ownership

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Why do you form LLP for SPV ?

1. Low cost of incorporation and maintainance as compared to company.

2. Flexible management as it is governed by LLP Agreement.

3. No Dividend Distribution Tax applies on LLP.

4. Not mandatorily required to get accounts audited.

5. Simplified winding up procedures.

6. 100% FDI approval in some sectors. eg: IT industry, professional service, R&D.