A Study of Human Capital Funding

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Abstract. Human capital is an emerging type of capital that differs from physical capital in that it has substantial economic value and practical uses. There is no need for excessive specialization because it has distinctive qualities like changeability and certainty, personal dependence and transferability, and it also resembles monetary contributions in terms of subscription period. Configuring the risk control rules is all that is necessary when setting up the system for human capital contributions. With the aid of a third-party assessment platform, it is possible to set up a dynamic assessment mechanism, allow for the separation of voting rights and dividend rights during the investigation period, and strengthen the disclosure system during the public disclosure process.

Keywords: human capital contribution · personal dependency · dynamic assessment · formula disclosure

1 Introduction

Companies contribute significantly to social development as a significant component of the social economy. However, businesses have long prioritized the growth of physical capital at the expense of the value of human capital, creating a significant disparity between the two in China. The human capital investment approach has only recently come into focus, but there has been debate over whether or not human capital can be used as a form of corporate capital contribution. The human capital theory is still under economic analysis, not legal analysis, both domestically and internationally. For the legalization of human capital contribution in the current economic society, the legal analysis of human capital as a significant productive force is urgently required. Recognizing human capital's legal status is in accordance not only with the law of economic development but also with the process of establishing the rule of law in a society. This article begins with a definition of the meaning of human capital, then proceeds to a jurisprudential analysis of the legitimacy of human capital contribution and the construction of the system of human capital contribution in three parts, redefining the fundamental characteristics of human capital and demonstrating that personal dependency does not preclude transferability, so human capital contribution satisfies the requirements of the legal way of shareholders' contribution. It also makes reference to the ex-director of the company in question.

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2 Defining the Connotation of Human Capital Contribution

2.1 The Concept of Human Capital Contribution

An economic concept in and of itself is human capital. The term "human capital" was first used by Adam Smith, the father of British classical political economy. Smith emphasized the value of human experience, knowledge, and talent for social development and first proposed that both human talent and physical capital are tools for social production [1]. Later, American economist Theodore Schultz broke the conventional theory that capital is only material capital by dividing it into human capital and physical capital. He held the view that human capital is embodied as intangible property in people, i.e., the producer himself as a means of production to produce income. Physical capital, on the other hand, is defined as capital on existing material products, such as plants, machines, equipment, raw materials, land, money, etc. [2]., which is implicitly reflected in our company law. At the legislative level in China, there is no clear definition of what constitutes a human capital contribution, but normative texts published around the China provide an overview. In February 2005, Shanghai Pudong New Area issued the "Proposed Regulations on Human Capital Contribution in Pudong New Area" defined the connotation of human capital contribution refers to "the talent resources attached to the investor, which can bring the expected economic benefits to the company, through the legal form of capital transformation. It is the knowledge, skills and experience of management talents, technical talents and marketing talents, etc." [3] However, the proposed regulations does not specify the statutory transformation methods, and in addition, the introduction of the concept of human resources when the definition of human capital contribution is unclear adds to the intrusiveness of the definition of the content of human capital contribution. In June 2020, "Human Capital Value Contribution Management Measures (Trial)" was introduced in Jinan, Shandong Province, improves the basic connotation of human capital contribution, pointing out that human capital contribution is "a comprehensive quantitative value attached to the contributor's creativity, influence, and creditworthiness, which can create economic benefits and be determined through evaluation, and can be expressed as the contributor's R&D capability, management talent, marketing skills, etc." [4] In my opinion, human capital contribution is the dynamic process of converting intangible assets like professional knowledge, expertise, entrepreneurial solutions, management experience, business models, and marketing skills into company capital by valuing the unique talent that has the potential to generate multiples of revenue value through the company, based on a review of the academic literature and the normative documents issued around the world.

2.2 Analysis of the Basic Attributes of Human Capital

2.2.1 Variability and Certainty Go Hand in Hand

Due to the subjective nature of human capital, there is a great deal of variety in how it functions and how it reacts to environmental changes. Measuring human capital is highly challenging due to the unpredictability and lack of visibility of the potential for it to increase or decrease in value, both in terms of life cycle and technological advancement. Human capital is always changing due to changes in knowledge, experience, learning, and interpersonal interactions, among other things. Human capital is constantly evolving, but that does not make it any less valuable. The commercial value of non-monetary types of capital typically falls within a normal range when seen from a macro viewpoint. The certainty of intangible property is ultimately determined by the range, not the value, due to the varying value of intangible property and the subjective nature of assessment. Therefore, human capital contributions meet the criteria for determining the scope as a form of non-monetary contribution.

2.2.2 Personal Attachment and Transferability Go Hand in Hand

The personal attachment of human capital contributions is their most important quality. Human capital is embodied in the person, is both capital and human, and is a source of future fulfillment or revenue [5]. The human being is the only means through which human capital can be created or destroyed; it cannot be passed on through inheritance or be transferred to another person. Human capital has a strong sense of personal attachment, yet that does not exclude its transferability.

For instance, even though the state and the collective own the land, the right to utilize it may be financed. Although human capital in the case of a company is physically dependent, the firm is nonetheless able to exercise its right to utilize it since the owner of the capital genuinely intends to limit the right to use it freely and to transfer it.

3 Jurisprudential Analysis of the Legitimacy of Human Capital Contribution

3.1 Human Capital Contribution is in Line with the Value Objectives of Corporate Law

Li Yougen thinks that the company's value goals should include property security, capital efficiency, and investment flexibility. [6] The freedom of investment refers to the investor's freedom to decide how much and what sort of money to invest; this freedom is based on the company's economic function and the goal of the company law, which is to modify the relationship between the firm. In the fierce competition of the modern market, a company's competitiveness is determined by its limited resources. At the moment, human resources will be the source of results in this knowledge-based economy. Thus, in accordance with the value objectives of company law, human capital contribution has evolved into a legal form of capital contribution. This gives it a legal status in the law and can maximize the company's financing and profit-making functions as well as increase the efficiency of capital and business operations. The interests of human capital contributors, other shareholders, the company, and creditors are also involved, and company law has a responsibility to balance these interests and manage any conflicts that may arise. The right use of human capital contributions is helpful for improving the business environment, correcting the imbalance of interests, and preserving the security of property under the present trend of "creditors' protection."

3.2 Human Capital Contributions Do not Conflict with the Company's Capital System

The "three principles of capital" are a general theory in China that states that a company's capital system should be based on three principles: capital determination, capital maintenance, and capital unaltered. [7] Both the capital maintenance and the unchanging capital principles mandate that a company's assets cannot be decreased while it is operating [8]. However, it is challenging to put these concepts into practice due to the mutable nature of human capital and the complexity of pricing. The global economy has, nevertheless, been moving away from a safety-focused creditor-centrism and toward an efficiency-focused shareholder-centrism. According to the author, since the capital system of the company is being reformed to be more liberalized and the capital contribution method virtualized, there is no need to be concerned about the capital system becoming weaker because, as long as the post-regulation is strengthened, it will be more beneficial to the company's operation than the previous rigid capital system.

4 Institutional Construction of Human Capital Contribution

4.1 Valuation

When a firm is established or admitted, the shareholders can select how much human capital will be contributed. It is not acceptable to establish an overly rigid relevant system during the admission process because this will not promote the flow of resources into the market. The efficiency principle should be adopted in the early stages of human capital contribution, requiring only that shareholders and other shareholders make their own decisions based on market judgment or with the assistance of third-party appraisal agencies, and to issue appraisal valuation proposals and reports on the outcomes of appraisal valuations. Later in the process, there are further risk control mechanisms in place to manage the contributions of human capital.

4.2 Public Disclosure

The cost of disclosure has decreased dramatically and its effectiveness has grown due to the recent rapid development of electronic platform technology, making it possible to integrate human capital contributions in the realm of required statutory disclosure of corporations. A triple monitoring system of social supervision, internal corporate supervision, and contributor self-monitoring will be formed by improving the information disclosure method, including human capital contributions in the scope of disclosure, and timely updating the contributions. Transparent disclosure will guarantee that contributors always exercise caution, fulfill their obligations, and comply with their obligations. It will also ensure that they do not deteriorate over the course of the contribution period due to the length of the contribution period or other unusual personal factors, which may cause the depreciation of human capital.

4.3 Separation of Voting Rights and Dividend Rights

According to China's corporate law, shareholders of a corporation obtain ownership in the firm in exchange for their capital contributions, and the primary rights that have an impact on the shareholders' significant interests are their right to vote and their right to dividends. The right to dividends from human capital shares during the adaptation period or inspection period may, however, be temporarily withheld from the company or the proceeds of dividends may be deposited with the company, and the proceeds of dividends during the inspection period may be returned to the human capital contributors when the adaptation period or inspection period is over in order to protect the interests of the company and creditors from harm. The investor. The voting rights of human capital contributors on significant business topics shall not be altered in any way during the inspection period in order to maximize the utilization of human capital shares and emphasize the operational function of human capital shares. We actively recognize the legitimacy of human capital contributions with the intention of utilizing the excellent operational capabilities of the human capital contributor to the fullest extent possible or utilizing them in some other way to bring the company significant benefits.

4.4 Equity Deposit System

The equity deposit system, which tackles the risk prevention of human capital contributions, is a method that was developed from American actual experience. Until the contributor has fully complied with his or her contribution obligations, the human capital shares are temporarily deposited with a third party. If the contributor ultimately fails or refuses to comply with the corresponding contribution obligations, the relevant dividend distribution will be partially or fully cancelled, and even the relevant human capital shares will also be cancelled [9]. This system is characterized by the fact that the contributor receives some level of restraint from the outset by controlling the human capital shares. This keeps the risk of default on the contribution as close to the contributor as possible, which in turn gives the contributor an incentive to actively fulfill his or her contribution obligations.

4.5 Restrictions on the Proportion of Human Capital Contribution

Some local regulatory documents make it clear that human capital is just as crucial to a company's operation as physical capital. As a result, there are no special regulations that need to be put in place, but it is not advisable to rush and overdo it at this early stage of the development of the human capital contribution system because there are still some misconceptions about human capital, the human capital system has not yet been implemented, and the quality of human capital varies. According to the author, it is more wise to adhere to the 30% cap specified in the majority of local normative legislation. Therefore, a 30% human capital contribution ratio can be established at the system's early stages of development. However, once the system is complete and at a mature stage, the ratio can be totally loosened and the principle of autonomy reinstated.

5 Conclusion

The development of a system for contributing human capital is a physical representation of the value of talent, and human capital participation provides benefits for the advancement of intellectually-intensive businesses. Human capital is currently under the influence of material capital, which continues to dominate the capital market. The true investigation into the conversation between the two categories of capital and the cutting-edge investigation into whether intangible property contributions are suitable is the legal recognition of human capital contributions. To encourage the development of China's corporate legal capital system and to address the "avoidance of chaos" in the actual shareholder contributions, a human capital contribution system can be built. [10] It can expand the talent pool and enable top talent from all spheres of society to share in the profits of businesses, which is advantageous for optimizing the resource allocation mechanism in China's business environment.

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