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The Double Equity System Theory: A Shariah-Aligned Alternative to Conventional Corporate Capital Structure

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Abstract

Corporate capital structure has traditionally been organized around debt and equity. This research blog proposes the Double Equity System Theory as a Shariah-aligned alternative to this conventional architecture. The theory replaces interest-bearing debt with Zakat-Based Beneficiary Equity while retaining Shariah-Compliant Investor Equity. The first pillar is grounded in recognized Shariah standards for shares and continuing Shariah governance. The second pillar draws on Qur'anic principles of Zakat, relevant fiqh rulings on productive Zakat investment, and emerging scholarship on Zakat-based ownership. Under the proposed system, eligible Zakat recipients would become genuine corporate owners. Zakat institutions would also provide structured financial and governance education so beneficiaries could independently exercise their ownership and voting rights. Building on Uddin and Hossain's Zakat-based ownership model, the theory extends Zakat-based ownership into corporate capital structure. It therefore proposes a movement from interest-bearing financing and concentrated capital ownership toward shared productive ownership, economic capability, and wider wealth allocation.

Keywords: *Double Equity System; Zakat-based equity; capital structure; Shariah compliance; distributive ownership*

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Rationale

How should corporations finance their activities? Modern corporate finance has traditionally answered this question through different combinations of debt and equity. Modigliani and Miller (1958) established a major theoretical foundation for examining capital structure and firm value. Later theories introduced financial distress, agency conflicts, information asymmetry, financing hierarchies, and market timing into the discussion (Baker & Wurgler, 2002; Jensen & Meckling, 1976; Kraus & Litzenberger, 1973; Myers & Majluf, 1984). Myers (1977) further explains how existing debt can discourage firms from undertaking otherwise valuable investments. The rationale of a research blog should establish the relevance of an issue before developing a new scholarly position (Hasan et al., 2026). The central question raised here is therefore whether the conventional debt-equity architecture should remain the dominant framework for understanding corporate capital.

This question becomes more important from a Shariah perspective. The Qur'an permits trade while prohibiting riba (The Qur'an, 2004, 2:275). The Double Equity System Theory does not argue that every financial obligation is prohibited. Islamic finance recognizes several legitimate financing arrangements. Rather, the theory questions the normal dependence of corporations on interest-bearing debt and asks whether part of that financing function can be replaced by another form of genuine ownership capital.

The theory also responds to a wider concern about the purpose of an economic system. Wealth creation is necessary for investment, innovation, employment, and development. The problem arises when productive assets and opportunities remain highly concentrated and economically marginalized people remain outside systems of ownership. Research has documented substantial concentrations of wealth in contemporary economies (Piketty & Zucman, 2014; Saez & Zucman, 2016). Islamic economic scholarship has also questioned systems driven excessively by self-interest, accumulation, and weak distributive justice (Babur et al., 2026; Hasnat et al., 2025a; Khandakar et al., 2025).

Babur et al. (2026) argue that meaningful systemic change requires more than modifying isolated practices. Economic systems are also shaped by deeper ideological and behavioral foundations. From this perspective, moving toward an Islamic economic paradigm requires structures that reflect justice, accountability, and moral responsibility. Hasnat et al. (2026b) similarly identifies greed and excessive accumulation as concerns that can damage wider social well-being. These arguments provide an important ethical background for reconsidering a financial structure in which access to productive ownership often depends on already possessing investable capital.

The Double Equity System Theory proposes a different corporate financing architecture:

Conventional Capital Structure:

$$\textit{Corporate Capital} = \textit{Debt} + \textit{Equity}$$

Double Equity Capital Structure:

$$\textit{Corporate Capital} = \textit{Shariah-Compliant Investor Equity} + \textit{Zakat-Based Beneficiary Equity}$$

The two components are separate but complementary pillars.

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Pillar 1: Shariah-Compliant Investor Equity

The first pillar preserves the productive role of private investment. Individuals and institutions can provide capital to corporations and receive genuine ownership in return. However, equity should not automatically be treated as Shariah compliant merely because it represents shares rather than debt. The underlying business, the nature of the shares, financial practices, and continuing activities of the corporation must satisfy applicable Shariah requirements.

AAOIFI Shari'ah Standard No. 21 provides an important institutional reference concerning financial papers, including shares. The proposed theory therefore requires the investor-equity component to operate within recognized Shariah parameters rather than treating conventional equity markets as automatically permissible. Shariah compliance should also continue after the initial investment. AAOIFI's Governance Standard GS 1 (Revised 2024), Shari'ah Governance Framework, reinforces the broader importance of institutional arrangements for maintaining Shariah governance. Accordingly, participating corporations would require appropriate screening, monitoring, accountability, and independent Shariah oversight (AAOIFI, 2024, n.d.).

This continuing governance dimension is essential. A corporation may initially satisfy Shariah requirements but later change its activities, financial relationships, or investments. Shariah-Compliant Investor Equity must therefore be understood as governed equity rather than simply labeled equity. Institutional knowledge, transparency, monitoring, and continuing compliance are also important for modern Islamic financial organizations operating in complex environments (Hasnat et al., 2025b).

Pillar 2: Zakat-Based Beneficiary Equity

The second pillar represents the central innovation of the theory. Zakat-Based Beneficiary Equity would use an eligible portion of professionally administered Zakat resources to create genuine corporate ownership for qualified Zakat recipients.

The Qur'an identifies recognized categories of Zakat recipients, including the poor and needy (The Qur'an, 2004, 9:60). The Prophet Muhammad also instructed that Zakat be taken from the wealthy and returned to the poor, demonstrating its redistributive role within Islamic economic life (al-Bukhari, n.d., 1395). The proposed theory begins with these principles but introduces a new institutional mechanism for connecting eligible beneficiaries with productive corporate ownership.

A government Zakat authority or qualified Zakat institution could initially select a defined geographical community for a pilot program. Eligible beneficiaries would be identified through transparent Shariah and socioeconomic criteria. Their immediate and essential needs would remain the first priority. Only an eligible portion of Zakat resources would then enter the productive ownership mechanism.

This safeguard is consistent with Resolution No. 15 (3/3) of the International Islamic Fiqh Academy. The resolution permits, in principle, the investment of Zakat funds in productive projects that eventually become owned by eligible Zakat recipients or remain under the administration of the responsible Zakat authority. It also requires that immediate beneficiary needs first be satisfied and that adequate safeguards against loss be established (International Islamic Fiqh Academy, 1986). The Double Equity System builds on this jurisprudential opening but proposes a specific corporate ownership mechanism that would still require further Shariah and legal validation before implementation.

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A corporation seeking Zakat-based capital would undergo financial, ethical, and Shariah screening. If approved, it would receive investment capital in exchange for genuine equity shares. The money would not constitute an interest-bearing loan. The Zakat institution would act as an administrator, educator, and facilitator. It would not become the permanent ultimate economic owner of the shares. Ownership would be allocated to the eligible beneficiaries for whose benefit the Zakat resources were used.

Research Gap

The research gap lies in the limited integration of capital structure theory, Zakat management, corporate ownership, and beneficiary governance capability. Capital structure theories generally examine how financing choices affect firm value, financial risk, agency relationships, information asymmetry, and financing decisions (Modigliani & Miller, 1958; Jensen & Meckling, 1976; Myers & Majluf, 1984). Zakat scholarship has largely focused on collection and distribution, poverty alleviation, institutional governance and efficiency, and the socioeconomic welfare of beneficiaries (Mohamed Esa et al., 2026). Corporate governance scholarship examines shareholder participation, voting, ownership rights, and mechanisms through which shareholders influence corporate decisions (Iliev et al., 2015). These areas have rarely been integrated into one theoretical framework. Identifying such a missing connection is essential when developing a clear scholarly contribution (Hasnat et al., 2026a).

Uddin and Hossain (2025) provide the closest conceptual foundation. Their Zakat-based ownership model proposes creating ownership opportunities for Zakat recipients in business enterprises as a pathway toward sustainable poverty alleviation. This represents an important movement beyond short-term consumption-based distribution.

The Double Equity System Theory supports this central insight but advances it into another theoretical domain. Uddin and Hossain primarily reconsider Zakat management and poverty alleviation through ownership. The Double Equity System asks whether Zakat-based beneficiary ownership can become an institutionalized component of corporate capital structure itself.

The theoretical difference can therefore be expressed clearly:

Uddin and Hossain's model:

Zakat → Business Ownership → Sustainable Poverty Alleviation

Double Equity System Theory:

Zakat → Beneficiary Equity → Corporate Capital Structure → Ownership Capability → Independent Governance Participation

The new theory changes the financing question. Instead of asking only how a corporation should balance debt and ordinary investor equity, it asks whether capital formation can also create productive ownership for people who would otherwise remain outside corporate ownership structures.

This introduces a new stakeholder into capital structure theory: the economically marginalized future owner. Conventional capital structure theories were developed mainly around firms, managers, shareholders, creditors, markets, and financing costs (Baker & Wurgler, 2002; Jensen & Meckling, 1976; Myers & Majluf,

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1984). The Double Equity System adds a distributive question: when corporations raise new capital, can the financing architecture also widen ownership?

The theory does not argue against lawful wealth creation. It questions a system in which productive ownership can repeatedly circulate among those who already possess substantial capital. The Qur'an expresses a broader concern that wealth should not circulate only among the wealthy (The Qur'an, 2004, 59:7). The immediate context of this verse concerns fay' rather than Zakat. It should therefore not be interpreted as direct jurisprudential authorization for Zakat-based corporate investment. However, its distributive principle provides an ethical foundation for reconsidering structures that allow productive ownership to remain highly concentrated.

This position also builds on arguments that Islamic finance should move beyond narrow formal compliance and contribute more directly to equity, justice, and sustainable development (Khandakar et al., 2025). Hasnat et al. (2025a) similarly argues for Islamic alternatives to economic arrangements associated with inequality and excessive material concentration. Babur et al. (2026) adds that meaningful systemic transformation requires underlying structures and human behavior to align with a different ideological foundation. The Double Equity System translates these broader arguments into a specific corporate financing proposition.

However, giving shares to poor people is not sufficient by itself. Legal ownership without the capability to understand and exercise ownership rights may produce only symbolic inclusion. This leads to another theoretical contribution: ownership capability.

The Zakat institution would therefore conduct structured training for selected beneficiaries. Qualified experts could teach basic financial literacy, shareholder rights, dividends, corporate risks, annual reports, voting procedures, and the responsibilities of ownership. Financial literacy can be understood as a form of human capital that supports financial decision-making (Lusardi & Mitchell, 2014). Research also connects financial literacy with financial market participation (van Rooij et al., 2011), while shareholder voting can serve an important governance function (Iliev et al., 2015).

Training must not become control. The Zakat institution should educate beneficiaries but should not instruct them how to vote. Once sufficiently trained, beneficiaries should independently exercise the rights attached to their shares. Where beneficiaries collectively hold a meaningful ownership position, legal arrangements could also allow them to elect representatives, subject to applicable corporate law.

The theory therefore proposes another central principle:

Economic ownership without ownership capability provides only partial empowerment.

The complete pathway becomes:

Zakat eligibility → beneficiary selection → corporate ownership → ownership education → independent voting → participation in corporate returns and governance.

The Prophetic emphasis on productive effort and reduced dependence also provides a broader ethical basis for this direction (Muslim ibn al-Hajjaj, n.d., 1042a). This Hadith does not establish the proposed corporate mechanism. Rather, it supports the wider principle of building economic capability instead of maintaining permanent dependency.

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Future Implications

Future implications in research blogging should connect scholarly arguments with policy, practice, and future innovation (Khandakar et al., 2026). The Double Equity System should therefore first be tested through a carefully controlled pilot rather than introduced immediately as a large-scale financial reform.

A pilot could involve one qualified Zakat institution, one defined community, and a limited number of financially viable Shariah-compliant corporations. Immediate beneficiary needs would first be protected. Participating corporations would then undergo financial, ethical, and Shariah due diligence. Pillar 1 would operate through recognized Shariah principles for corporate shares and continuing Shariah governance. Pillar 2 would operate through applicable Zakat principles, qualified Shariah supervision, beneficiary ownership protections, and safeguards consistent with relevant fiqh rulings.

Investment risk would require particular attention. Genuine equity cannot promise a guaranteed return. Zakat-based beneficiary ownership would therefore need diversification, professional assessment, transparent reporting, and appropriate safeguards. Portfolio diversification provides a foundational financial principle for reducing concentration risk, although it cannot eliminate investment losses (Markowitz, 1952). The protection of economically vulnerable beneficiaries should therefore remain central to the design.

The selected beneficiaries would also complete an Ownership and Corporate Governance Literacy Program. Training could cover basic financial statements, shareholder meetings, dividends, voting, business risks, governance responsibilities, and relevant Shariah principles. After completing the program, beneficiaries would exercise their rights independently. The Zakat institution could continue providing technical support but should not control beneficiary votes or permanently dominate their ownership decisions.

The theoretical contribution of the Double Equity System is therefore broader than a new method of distributing Zakat. First, it challenges the conventional debt-equity binary by proposing a double-equity capital structure. Second, it separates two distinct Shariah foundations within that structure. Shariah-Compliant Investor Equity is grounded in Shariah standards governing legitimate equity and continuing governance. Zakat-Based Beneficiary Equity is grounded in Zakat principles, relevant fiqh rulings, and emerging ownership-based Zakat scholarship. Third, the theory introduces ownership capability as the connection between asset allocation and meaningful economic participation.

The practical contribution is equally important. Corporations could obtain another source of ownership-based capital without creating an interest-bearing obligation. Eligible Zakat recipients could acquire productive assets rather than relying only on periodic transfers. Zakat institutions could develop an additional role as facilitators of ownership capability. Corporate governance could become more inclusive by allowing economically marginalized people to participate as genuine owners with independent voting rights.

At a broader level, the theory proposes a shift from excessive wealth accumulation toward wider wealth allocation through productive ownership. This does not require hostility toward wealth, entrepreneurship, or private property. Lawful wealth creation remains essential. The concern is whether economic systems provide meaningful pathways for people without existing capital to become owners of productive assets.

The Double Equity System therefore changes what corporate capital structure is expected to accomplish. Capital structure would no longer be understood only as a financial decision about minimizing costs or maximizing firm value. It could also become an institutional mechanism that influences the distribution of productive ownership.

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The corporation gains capital. The beneficiary gains a productive asset. The Zakat institution facilitates the process and develops ownership capability. Shariah governance protects the integrity of the system. The beneficiary ultimately becomes not merely a recipient of assistance, but an informed owner with an independent voice.

This is the central proposition of the Double Equity System Theory. A Shariah-aligned corporate capital structure can combine Shariah-Compliant Investor Equity with Zakat-Based Beneficiary Equity to finance productive activity while widening access to ownership. In doing so, the theory extends the Zakat-based ownership insight of Uddin and Hossain (2025) into corporate capital structure and connects financing, redistribution, financial literacy, and governance within one conceptual framework.

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