What capital does within institutions

On time, allocation and uncertainty

Within institutions, capital is often approached as a means. It is allocated, managed and assessed on the basis of return, risk and time horizon. In that approach, capital appears as something that can be deployed - an instrument within a larger whole.

But in institutional contexts, capital is rarely only a means.

Capital functions not only as a carrier of value, but as a structure within which choices are made. The way capital is organised - in funds, obligations, mandates and rules - determines not only what is possible, but also what is seen as self-evident.

In that sense, capital is not neutral. It orders.

This ordering works through time. Allocation decisions do not only fix current choices; they create paths along which future choices must move. What is fixed today limits or expands what can still be imagined tomorrow. Capital therefore has a temporal dimension: it connects present and future in one structure.

Within institutions, this means that capital allocation is less about selecting investments and more about shaping room for action.

This room for action is not unlimited. It is bounded by obligations, regulation and expectations concerning stability and continuity. Capital must not only generate returns; it must also fit within an institutional context in which risks are shared and outcomes are not borne entirely by individuals.

Uncertainty again does not play an external role, but an internal one. The future toward which capital is directed is, by definition, unknown. Allocation decisions are made without full visibility of outcomes, but with the necessity of giving direction nonetheless.

In this situation, the meaning of allocation shifts.

Allocation becomes less an attempt to choose the right outcome, and more a way of taking positions in relation to possible futures. Not the outcome itself is central, but the relationship to uncertainty.

This means that capital allocation always has two layers.

The first layer is visible: portfolios, distributions and returns. This is the formal representation of capital.

The second layer is less visible: assumptions about the future, implicit risk appetite and the extent to which flexibility is preserved or given up. This is the factual structure within which capital operates.

The distinction between these layers becomes visible when circumstances change. What appears stable in the formal layer may turn out to be fragile in the underlying structure. Flexibility that has not been explicitly organised then proves absent at the very moment it is needed.

This creates a tension.

On the one hand, institutions require stability, discipline and predictability. Capital cannot be reorganised constantly without losing coherence.

On the other hand, acting under uncertainty requires flexibility, optionality and the ability to adjust positions when reality develops differently than expected.

In this tension, it becomes visible that capital within institutions does not primarily function as a means to maximise value, but as a mechanism for structuring choices through time under uncertainty.