

# Measuring Institutional Excellence

## A Governance Tool for Central Banks

By John Mendzela

Central banks have always applied themselves to measuring their performance in policies and operations, and have tended to neglect institutional considerations. But over recent decades, individual central banks and multinational organisations have become aware how institutional capacity plays a crucial role in policy and operational performance. In today's dynamic and often unpredictable world, defining and measuring institutional excellence deserves equal attention.

Each central bank is a unique institution within its own national or international jurisdiction. Those institutions vary greatly, across any and every specific categorisation. Benchmarking between even closely similar central banks is far harder than benchmarking within other industries. Can we measure the excellence of central banks in some consistent and useful way?

Over a long career, I worked as an independent consultant with dozens of individual central banks to improve their institutional governance, management and operations. Each was indeed a unique institution, and each faced its own special challenges and circumstances. To develop advice and recommended action programs it was crucial that I first understand those particular features, challenges and circumstances, and then work with internal teams to develop a practical and customised forward path.

I could often apply specific ideas and tools from other experience (with central banks and elsewhere) to develop parts of that forward path. But I consciously avoided the “one size fits all” methodologies of consulting firms (who rarely know much about central banking) and the “have model will travel” approaches that are all too frequent in technical assistance from the official sector. Pragmatism was necessary and that suited my personal style. But then a Board member at one client central bank asked me a simple but profound question: “Can you give us please a simple but comprehensive set of measures, specifically suitable for central banks, to help us become an excellent institution?”

I confessed I could not, for the reasons outlined above. But I began to think about how to positively answer that question. Gradually, from direct experience and through trial and error, I constructed **INEX<sup>1</sup>** – a

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<sup>1</sup> The **INEX<sup>SM</sup>** framework is available for public domain use, but please attribute its origin to John Mendzela.  
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framework to define and measure institutional excellence in central banking, and began to consciously apply it in my consulting work.

The 12 dimensions of institutional excellence listed below could in principle be applied to many types of institution. But their sequence and corresponding order of priority specifically reflects the requirements of central banking (other institutions would have different priorities):

- Without a clear and feasible mandate, institutional excellence will be impossible to achieve
- Even with a clear and feasible mandate, appropriate governance is required to direct realisation of that mandate
- Without adequate funding, the institution will struggle to deliver its mandate as directed by its governing body
- The less tangible dimensions of culture and reputation matter more than the traditional preoccupations of management consulting: capability, organisation structure and management systems.
- Only when all of the above dimensions have been successfully realised will the central bank have a sound operational foundation on which to build excellence in the final four dimensions

#### **The Dimensions of Institutional Excellence**

1. Mandate
2. Governance
3. Funding
4. Culture
5. Reputation
6. Capability
7. Organisation
8. Management
9. Communication
10. Resilience
11. Change Management
12. Crisis Management

How can the status of each dimension be assessed? Very simply. Define a target outcome for each dimension, and ask how well that target outcome is being realized.

Target outcomes can be defined broadly, indeed almost generically in some cases, to set the scene for measuring excellence. For example:

Dimension	Target Outcome
1. Mandate	Clear, cohesive and feasible mandate with the statutory authority and powers to credibly fulfil that
2. Governance	Structures and processes meet good practice standards and capably represent stakeholder interests
3. Funding	Sufficient financial resources and provisions to credibly deliver services in most foreseeable circumstances
4. Culture	Attuned to deliver current and future value for external stakeholders and support proper accountability and disclosure
5. Reputation	Seen by key stakeholders as a credible, competent, professional and trustworthy institution that adds value for society
6. Capability	Technical knowledge, skills, and resources to sustainably deliver all key services
7. Organisation	Roles and resources are deployed and managed to apply capability and attain synergy, effectiveness and efficiency
8. Management	Strategic and operational management systems identify services, plan service delivery and measure performance
9. Communication	Information is disseminated to support service delivery and appropriately protect and meet stakeholder needs
10. Resilience	Operations monitored and performance evaluated against real-world comparators and events and alternative scenarios
11. Change Management	Management systems and service delivery anticipate and respond to changing circumstances and demands
12. Crisis Management	Planning and risk management guarantee delivery of crucial services in most foreseeable circumstances

How can the **INEX** framework then be applied to monitor or target institutional excellence? I have helped central banks do that at different levels of investment, which can be best explained through examples.

Most simply, the dimensions of institutional excellence can be used informally to guide strategic planning. For example, one client central bank wanted to know how strongly to emphasise culture change within its strategic plan, compared with other objectives. Through research and discussion, we quickly confirmed that target outcomes were being at least adequately achieved for all the dimensions of institutional excellence with a higher priority than culture: namely mandate, governance and funding. Looking further down the list from culture, reputation and capability could also be rated highly. So projects to systematically resolve the Board's demonstrable concerns about institutional culture were given a high and immediate priority in the strategic plan, while improvements in organisation and management were deferred. No further direct use was made of the **INEX** dimensions.

A more systematic and ongoing – but still “light” and simple – use of the **INEX** framework is to make it a governance-level tool to help manage enterprise risk. For example, the table below applied the **INEX** framework to develop a one-page enterprise risk management (ERM) score for a central bank board. Achievement (a self-assessment) and verification

(objective evidence, preferably external) was rated and colour-coded for each dimension of potential institutional risk. The scores indicated at a glance where gaps existed, or might exist, between target outcomes and actual outcomes. Specific actions could then aim to close gaps and verifiably achieve all target outcomes. For example, while the central bank believed it had achieved at least a neutral rating for reputation, it had no external evidence to support that self-assessment (and so a red rating for verification). An ongoing external survey was quickly begun.<sup>2</sup>

Dimension	Target Outcome	Achievement	Verification
<b>1. Mandate</b>	Cohesive mandate that can be feasibly delivered within likely resourcing		
<b>2. Governance</b>	Structures that represent stakeholder interests, + good practice processes		
<b>3. Funding</b>	Financial resources and support to credibly deliver all services in most circumstances		
<b>4. Culture</b>	Attuned to objectively add value and for stakeholders, and to enforce accountability		
<b>5. Reputation</b>	Widely perceived as a competent and trustworthy institution that adds real value		
<b>6. Capability</b>	Knowledge, skills, and support resources to sustainably deliver all mandated services		
<b>7. Organisation</b>	Resources are deployed to apply capability efficiently via specialisation and synergy		
<b>8. Management</b>	Strategic and operational systems and processes identify services, plan delivery, and measure and report performance		
<b>9. Communication</b>	Information disseminated to support service delivery, protect confidentiality and appropriately inform stakeholders		
<b>10. Resilience</b>	Operations monitored and performance evaluated against real-world comparators and events and alternative scenarios		
<b>11. Change Management</b>	Planning, service delivery and capability development systematically anticipate and respond to changing needs and wants		
<b>12. Crisis Management</b>	Planning, risk management and culture target delivery of crucial services in all reasonably foreseeable circumstances		

For central banks able and willing to make a greater investment, the **INEX** framework can be developed into a comprehensive analytical tool, to apply as a one-off project or as an ongoing measurement framework.

<sup>2</sup> A more comprehensive outline of how central banks can genuinely apply enterprise risk management concepts (not just operational risk management) and use **INEX<sup>SM</sup>** to assist with enterprise risk management is available at [https://www.mendhurst.com/files/1115/6772/8103/To\\_Govern\\_Well\\_Manage\\_ENTERPRISE\\_Risk.pdf](https://www.mendhurst.com/files/1115/6772/8103/To_Govern_Well_Manage_ENTERPRISE_Risk.pdf)  
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One central bank applied the framework as an adjunct to inform and broader strategic planning process. Each dimension was broken down into a number of more detailed aspects that were evaluated in turn, as in the example below. The analysis broke down the overall score for each dimension to identify specific aspects that might need greater attention.

<b>1. Mandate</b>	<b>Clear, cohesive and feasible role, welcomed by the institution and all stakeholders</b>			
<b>Aspect</b>	<b>Requirement</b>	<b>Achieved?</b>	<b>Verified?</b>	<b>Comment</b>
Constitutional	CB role falls within national constitutional framework and norms			
Relevant	CB role will continue to support needs today and for the foreseeable future			
Context	CB's role is defined to reflect and be congruent with the realities of the national economy and its institutional structures			
Clarity	CB's role is intelligible to all stakeholders			
Acceptance	CB's role is accepted by government, the general public and other stakeholders			
Core statute	Establishes a clear and modern mission			
Related statutes	Do not compromise or confuse mission			
Related institutions	Related mandates and their implementation do not seriously compromise or confuse CB role			
General law	Applies to CB, except for justified and relevant exemptions			
Authority	Statutes confer upon the CB all the powers necessary to perform its mission			
Fulfilment	CB performs all its statutory duties			
Limitation	CB does not conduct any activities that have no statutory rationale			
Scope	CB does not apply unreasonable or immoderate discretion in interpreting its role			
International Orientation	CB has an appropriate representational and compliance role, which it credibly fulfils			
Evolution	Statutes allow practical implementation of CB mission to evolve, within its mandate			

In that project I worked collaboratively with the strategic planning team to challenge their thinking and ultimately produce mutually agreed evaluations, which were internally carried forward for attention.

A similar project for another central bank took a different approach. The Board felt their internal team was relatively inexperienced and so it also wanted independent quality assurance. After helping the team develop their internal report, I presented an independent report that reviewed and disagreed in some important respects with the conclusions of the project team. The Board then heard both an internal and external view.

The examples above are by no means exhaustive. The key takeaway message from this article is twofold:

1. Recognise the importance of measuring institutional excellence as a prerequisite to achieve it (“what gets measured gets managed”),
2. Use a practical and flexible tool, developed from a unique body of experience specifically for central banks: the **INEX** framework