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THE MAIN STAGES OF DEVELOPING CORPORATE STRATEGY IN THE PUBLIC SECTOR AND EXTERNAL GOVERNANCE MECHANISMS

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Abstract: This article examines the main stages of corporate strategy development and external governance mechanisms in state-owned joint-stock companies. The research focuses on Uzbekistan Railways JSC, a strategically important entity of Uzbekistan's transport infrastructure. The methodological framework includes a systems approach, comparative analysis, SWOT analysis, statistical analysis and an institutional approach. The study systematizes the corporate strategy development process into the following stages: external environment analysis, assessment of internal capabilities, formulation of strategic objectives, selection of strategic alternatives, strategy implementation and performance monitoring. The analysis of the transformation processes of Uzbekistan Railways JSC during 2023–2025 demonstrates positive developments in organizational restructuring, digitalization, improved utilization of freight wagons and financial performance. According to official government information, the company ended 2024 with a net profit of UZS 47 billion, while the establishment of Temiryo'lkargo increased the efficiency of freight wagon utilization twofold. The study emphasizes the need to clearly separate the state's ownership function from operational management, strengthen the strategic role of the supervisory board, improve external audit and compliance mechanisms, and integrate KPI systems with corporate strategic objectives. The article also proposes an improved governance model and practical recommendations for strengthening corporate strategy and external governance mechanisms in state-owned joint-stock companies.

Keywords: public sector, corporate strategy, strategic management, state-owned enterprise, joint-stock company, external governance, corporate governance, state ownership, supervisory board, compliance, KPI, railway transport.

INTRODUCTION

Under the conditions of globalization and increasing competition, improving the efficiency of state-owned enterprises has become one of the important priorities of a country's economic policy. State-owned enterprises, particularly those operating in sectors such as transport, energy, communications, and natural monopolies, function not only as economic entities engaged in

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commercial activities but also as institutions responsible for providing strategic infrastructure for the national economy. Therefore, the development of corporate strategy in such enterprises differs to some extent from strategic planning in the private sector. This is because, in addition to profitability and financial stability, state-owned enterprises must also take into account social interests, transport safety, territorial connectivity, economic security, and the priority areas of state policy.

Corporate strategy represents a system of decisions that determines an enterprise's long-term development directions, identifies priorities for the allocation and use of resources, and ensures the enterprise's ability to adapt to changes in the external environment. In the theory of strategic management, A. Chandler associated strategy with determining the long-term objectives of an enterprise and allocating the resources necessary to achieve these objectives, while M. Porter interpreted strategy as a means of achieving sustainable competitive advantage in a competitive environment.[1] With regard to state-owned enterprises, these approaches need to be integrated with the institutional characteristics of state ownership and corporate governance. The OECD Guidelines on Corporate Governance of State-Owned Enterprises, updated in 2024, state that the government should act as an "informed and active owner," establish clear expectations for state-owned enterprises, and, at the same time, ensure their operational independence. The OECD identifies the separation of the state's ownership function from the day-to-day management of enterprises, respect for the independence of boards of directors, and ensuring transparency in the activities of state-owned enterprises as key principles.[2] These principles demonstrate the particular importance of external governance mechanisms in the development of corporate strategy in the public sector.

In Uzbekistan, reforms aimed at transforming state-owned enterprises and improving their management efficiency have accelerated in recent years. In particular, Resolution No. PQ-329 of the President of the Republic of Uzbekistan, dated October 10, 2023, established a set of measures aimed at fundamentally reforming the railway transport sector.[3] The reforms implemented within the framework of this document accelerated the processes of reviewing the organizational structure of "Uzbekistan Railways" JSC, separating its areas of activity, and improving management efficiency.

The strategic importance of railway transport provides an important basis for selecting this sector as the object of the present study. According to data from the National Statistics Committee, in 2024, 73.9 million tons of freight were transported by public mainline railway transport in the Republic of Uzbekistan. This figure represented 100.3% of the corresponding level recorded in 2023.[4] In addition, in 2024, 9.8 million passengers were transported by railway,

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[1] Chandler A.D. Strategy and Structure: Chapters in the History of the Industrial Enterprise. Cambridge: MIT Press, 1962-yil.

[2] OECD. OECD Guidelines on Corporate Governance of State-Owned Enterprises 2024. Paris: OECD Publishing, 2024-yil.

[3] Resolution No. PQ-329 of the President of the Republic of Uzbekistan, dated October 10, 2023, "On Measures to Fundamentally Reform the Railway Transport Sector of the Republic of Uzbekistan."

[4] National Statistics Committee of the Republic of Uzbekistan. Volume of Freight Transported by Railway Transport. Statistical Data for 2024.

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while passenger turnover amounted to 4.078 billion passenger-kilometers.[5] These indicators confirm the strategic role of railway transport in the national economy.

In this regard, the purpose of this article is to systematize the stages of developing corporate strategy in the public sector, identify the substance of external governance mechanisms, and assess the practical effectiveness of these mechanisms using "Uzbekistan Railways" JSC as a case study. To achieve this objective, the following tasks were defined: to analyze the theoretical foundations of strategic management in state-owned enterprises; to assess the transformation processes of "Uzbekistan Railways" JSC; to conduct a SWOT analysis of the company; to identify the existing external governance mechanisms; and to develop scientific and practical recommendations for improving strategic management.

MAIN PART

The methodological framework of the study is based on systemic, institutional, and strategic approaches. Through the systemic approach, the interactions among the state, shareholders, the Supervisory Board, the executive body, external auditors, compliance functions, and other stakeholders were examined as a unified governance system. The institutional approach made it possible to assess the relationships among the state's ownership function, corporate governance bodies, and external oversight institutions.

Through comparative analysis, official data on the state of "Uzbekistan Railways" JSC before and after the transformation were compared. SWOT analysis was used to identify the company's strengths and weaknesses, opportunities, and external threats, thereby establishing strategic priorities. The statistical analysis relied on official data from the National Statistics Committee and relevant government authorities.

[5] Ministry of Transport of the Republic of Uzbekistan. Report on Activities Implemented in the Transport and Road Infrastructure Sectors During 2024. 2025.

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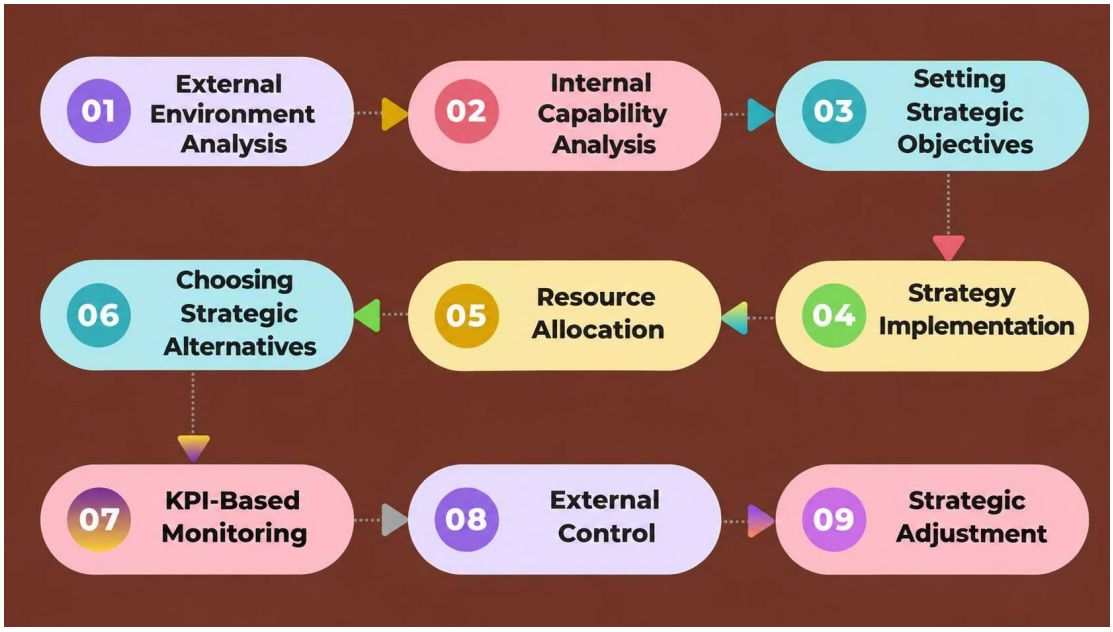


Figure 1: General Model for Corporate Strategy Development.[6]

An important aspect of this model is that strategy is viewed not as a final document, but as a continuous management cycle that is subject to regular review. In the public sector, this cycle should also incorporate state ownership objectives and public interests. According to OECD recommendations, the state, acting as an owner, should establish clear objectives and expectations for the enterprise and monitor indicators related to financial objectives, capital structure, risk levels, and sustainability.[7]

Table 1. Stages of Developing Corporate Strategy in the Public Sector[8]

Stage	Description	Key Outcome
Defining state ownership objectives	Determining the reasons for the state's ownership of the enterprise	Ownership policy
Analysis of the external environment	Assessing political, economic, technological, and competitive factors	External environment profile

[6] Author's own work.

[7] OECD. OECD Guidelines on Corporate Governance of State-Owned Enterprises 2024. Paris: OECD Publishing, 2024-yil.

[8] Developed by the author based on the works of A. Chandler and M. Porter, as well as OECD recommendations on the corporate governance of state-owned enterprises.

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Assessment of internal capabilities	Evaluating financial, technical, human, and managerial resources	Internal capability profile
Defining strategic objectives	Formulating long-term objectives	Strategic objectives system
Selection of strategic alternatives	Comparing different development options	Optimal strategic option
Strategy implementation	Defining resources, budget, and KPIs	Strategic programs
Monitoring and control	Evaluating results and conducting external oversight	Reporting and corrective actions

The first stage of corporate strategy in the public sector is to clearly define the state's ownership objectives. This requires determining why the state retains ownership of the enterprise, what economic or social outcomes are expected from it, and which indicators should be used to measure the achievement of these objectives. The OECD emphasizes that state ownership should serve to maximize long-term social value in an effective and sustainable manner.[9] From this perspective, the strategic objective of a state-owned enterprise should not be limited solely to increasing profits but should also correspond to the reasons underlying state ownership. At the next stage, the enterprise's external environment is analyzed. For railway transport, important factors in this process include international transport corridors, the volume of transit freight, competition with road transport, energy resource prices, technological innovations, transport legislation, and foreign trade flows. As of the end of 2024, a total of 73.9 million tons of freight were transported by rail in the country, indicating stable economic demand for railway transport.[10] At the same time, given the relatively low growth in freight volumes, the future strategy should prioritize not only maintaining the existing market but also expanding transit and logistics services.

The analysis of the internal environment examines the enterprise's existing infrastructure, locomotive and rolling stock fleet, financial condition, human capital, digital systems, organizational structure, and service delivery processes. The transformation processes implemented at "Uzbekistan Railways" JSC demonstrate that these reforms have been primarily aimed at improving internal efficiency. According to official data from November 2024, six independent enterprises had been established within the company, 1,200 new freight wagons had been purchased, and freight transportation time on domestic routes had been reduced by half. As

[9] OECD. Rationales for State Ownership: OECD Guidelines on Corporate Governance of State-Owned Enterprises 2024. OECD Publishing, 2024-yil.

[10]National Statistics Committee of the Republic of Uzbekistan. Volume of Freight Transported by Railway Transport. Statistical Data for 2024.

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a result of digitalization, the number of steps required to order a freight wagon was reduced from seven to three, while the order processing time was shortened from 72 hours to 12 hours. The capacity for train movements around Tashkent increased by 30 percent.

These changes also produced measurable financial results. An official presentation held on May 27, 2025, reported that whereas "Uzbekistan Railways" JSC had previously operated at a loss, it ended 2024 with a net profit of UZS 47 billion. It was also reported that following the establishment of "Temiryo'lkargo," the efficiency of freight wagon utilization doubled.[11] These indicators demonstrate that the transformation process has had a positive impact on the company's financial and operational efficiency.

Table 2. Selected Results of the Transformation of "Uzbekistan Railways" JSC.[12]

Indicator	Transformation Result
Independent enterprises established	6
New freight wagons purchased	1,200
Freight transportation time on domestic routes	Reduced by half
Steps required to order a freight wagon	Reduced from 7 to 3
Freight wagon order processing time	Reduced from 72 hours to 12 hours
Train movement capacity around Tashkent	Increased by 30%
Net profit in 2024	UZS 47 billion
Efficiency of freight wagon utilization following the establishment of "Temiryo'lkargo"	Doubled

When evaluating these results from a strategic management perspective, three main areas of transformation can be identified. The first is the optimization of the organizational structure, whereby redundant management layers have been reduced through the separation of core and support functions. The second is the digitalization of operational processes, as clearly demonstrated by the reduction in the number of steps involved in freight wagon ordering. The third is the improvement of asset utilization efficiency, with the doubling of freight wagon

[11] President of the Republic of Uzbekistan. "Tasks in the Railway Sector Outlined." May 28, 2025. Government Portal of the Republic of Uzbekistan.

[12] Official presentations and government information from the President of the Republic of Uzbekistan.

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utilization efficiency following the establishment of "Temiryo'lkargo" serving as a practical outcome of this strategic direction.[13]

Conducting a SWOT analysis is appropriate for identifying the company's future strategic development opportunities.

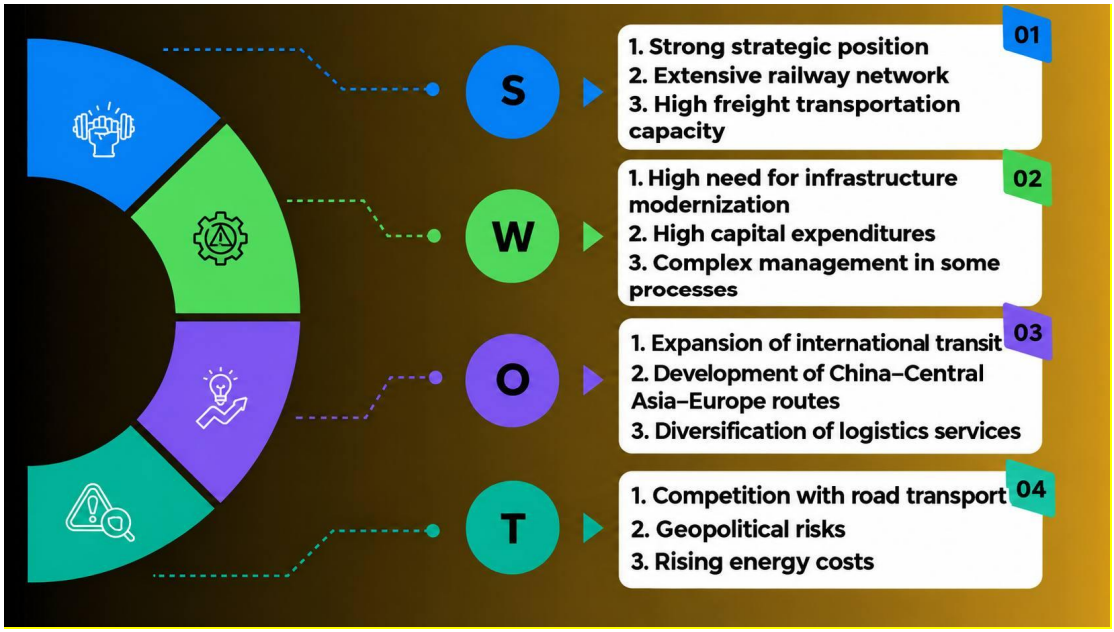


Figure 2. SWOT Analysis of "Uzbekistan Railways" JSC.[14]

According to the results of the SWOT analysis, the greatest strategic opportunity for "Uzbekistan Railways" JSC lies in the development of international transit and logistics services. An official presentation in May 2025 noted that the potential for transit freight transportation was not being fully utilized and that increasing transit freight volumes by 40 percent in the coming years could create an opportunity to double revenue. It was also reported that freight train services had been launched along the China–Türkiye route..[15] This situation demonstrates the need for "Uzbekistan Railways" JSC to pay particular attention to international logistics services alongside the domestic market in its strategic development. The company's strengths also include its geographical position along international transport corridors and strategic support from the government. This means that, owing to Uzbekistan's geographical location, the country has the potential to become an important transit hub for freight transportation routes connecting regions

[13] President of the Republic of Uzbekistan. "Transformation Processes in the Transport Sector Presented." November 27, 2024.

[14] Author's analysis based on official statistical data, government materials, and OECD recommendations on state-owned enterprises.

[15] President of the Republic of Uzbekistan. "Tasks in the Railway Sector Outlined." May 28, 2025. Government Portal of the Republic of Uzbekistan.

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such as China, Central Asia, Russia, the Caucasus, and Europe. For example, freight transported from China to Europe can be routed through Central Asia by rail. This creates opportunities for Uzbekistan Railways to increase freight volumes and generate revenue from transit services. In simple terms, Uzbekistan's geographical location could make it an important "bridge" for transporting international freight from one country to another.

Strategic government support means that railway transport is regarded as a strategically important sector for the state and may therefore receive financial, organizational, legal, and infrastructure-related assistance for its development. Examples include modernizing railway infrastructure, purchasing new locomotives and freight wagons, constructing new railway lines, supporting international transport projects, and implementing investment and public-private partnership projects. In other words, railway transport receives government support because it is not merely a commercial enterprise but also a strategically important sector for the national economy and transport security. Uzbekistan can be viewed as a major logistics hub situated at the intersection of international transport routes. Its location along international corridors creates the potential for greater volumes of international freight to pass through the country. In turn, government support can contribute to the development of the transport routes and infrastructure required to realize this potential.

At the same time, the need to renew some of the company's technical assets and maintain a balance between its commercial and social responsibilities represents another weakness. Regarding additional opportunities, the company has the potential to develop digital platforms and attract private capital through public-private partnership (PPP) mechanisms. PPP stands for "Public-Private Partnership". In simple terms, it is a mechanism through which the public and private sectors cooperate to implement major projects. In the railway sector, for example, the government may provide land and infrastructure, offer legal and organizational support, and, in some cases, provide financial guarantees or incentives. The private investor contributes capital, introduces modern technologies, constructs or modernizes facilities, and undertakes their management and service delivery. For instance, a new logistics terminal could be developed jointly by the government and a private investor. The private company would invest in the terminal and operate it for a specified period, while the government would provide the necessary infrastructure and legal framework. The primary objective is to make use of private-sector capital and expertise without requiring the government to bear all project costs itself. The SWOT analysis presented above also identifies two major threats: fluctuations in foreign trade flows and currency and investment risks. In enterprises with state participation, external governance mechanisms are shaped through the state's role as an owner, the Supervisory Board, external audits, government oversight, competition authorities, compliance systems, information transparency, and relations with stakeholders. The purpose of external governance should not be to manage the company's day-to-day operations through administrative intervention, but rather to monitor its progress toward established strategic objectives, mitigate conflicts of interest and other risks, and ensure the efficient use of state assets. According to OECD recommendations, the state, acting as an owner, should establish clear expectations for the enterprise without directly interfering in its operational activities. The state's strategic priorities should be communicated to the company's management through the state ownership entity, while the Board of Directors should carry out its responsibilities independently..[16] This principle requires a clear

[16] OECD. OECD Guidelines on Corporate Governance of State-Owned Enterprises 2024. Paris: OECD Publishing, 2024-yil.

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separation of powers and responsibilities among the "owner, Supervisory Board, and executive body" in state-owned enterprises. Official corporate governance information published by "Uzbekistan Railways" JSC defines the Board's powers, including setting strategic priorities, approving the annual business plan, establishing the internal audit service, monitoring the achievement of business plan objectives, and overseeing compliance with the Corporate Governance Code.[17] This demonstrates that the Supervisory Board's strategic oversight function plays an important role in the governance system of state-owned enterprises. External auditing is also an important mechanism for assessing the effectiveness of corporate strategy. The OECD recommends that state-owned enterprises undergo annual audits conducted by independent and qualified external auditors, while their internal audit functions should maintain an adequate level of independence and professionalism. In this context, auditing should not be limited to examining financial statements; rather, it should serve as a mechanism for providing governing bodies with information on the effectiveness of risk management and internal control systems.

Information transparency is another essential element of external governance. The OECD requires state-owned enterprises to regularly disclose relevant information regarding their financial and operational performance, governance and ownership structures, significant risks, and directors and senior management..[18] This requirement helps improve the quality of management decisions while strengthening accountability to the public and shareholders in state-owned enterprises.

Based on the research findings, several strategic directions can be proposed for "Uzbekistan Railways" JSC. The first is the development of transit logistics. By leveraging its existing geographical position, the company should establish integrated logistics services for transit freight along the China–Central Asia–Europe routes. This would make it possible to increase not only freight transportation volumes but also revenue from freight forwarding, terminal operations, warehousing, and other value-added services. Official data indicate that the company's transit freight transportation potential is not being fully utilized..[19]

The second strategic direction is the development of a digital logistics platform. The reduction in the freight wagon ordering process from seven steps to three demonstrates the effectiveness of digitalization.[20] At the next stage, it would be advisable to integrate the processes involving customers, freight forwarders, railway stations, customs authorities, and logistics operators into a single digital platform.

The third strategic direction is to strengthen the KPI-based management system. Under this approach, management performance should be evaluated not solely on the basis of net profit

[17] "Uzbekistan Railways" JSC. Corporate Governance: Powers of the Company's Board. Official Corporate Information.

[18] OECD. Disclosure, Transparency and Accountability: OECD Guidelines on Corporate Governance of State-Owned Enterprises 2024. OECD Publishing, 2024-yil.

[19] President of the Republic of Uzbekistan. "Tasks in the Railway Sector Outlined." May 28, 2025. Government Portal of the Republic of Uzbekistan.

[20] President of the Republic of Uzbekistan. "Transformation Processes in the Transport Sector Presented." November 27, 2024.

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but also according to freight transportation speed, wagon turnover ratio, infrastructure utilization rate, customer satisfaction, investment efficiency, and the level of digitalization.

The fourth strategic direction is to expand the use of private capital and public-private partnership mechanisms. The capital-intensive nature of railway infrastructure necessitates attracting private investment to reduce the burden on the state budget. While retaining control over strategic infrastructure, the government can promote the development of commercial services, logistics centers, terminals, and service facilities in partnership with private investors. The fifth strategic direction is to strengthen strategic external oversight. Integrating information from the Supervisory Board, external audit, internal audit, compliance, and risk management mechanisms into a unified strategic monitoring system would enable the company to identify risks proactively.

Table 4. Proposed Strategic KPI System for "Uzbekistan Railways" JSC.[21]

Area	KPI	Strategic Objective
Finance	Net profit	Improving financial stability
Finance	Operating expenses	Optimizing costs
Freight Transportation	Freight turnover	Increasing transportation volumes
Rolling Stock	Wagon turnover rate	Improving asset utilization efficiency
Transit	Transit freight volume	Increasing the share of international logistics
Digitalization	Share of electronic orders	Simplifying operational processes
Customers	Customer satisfaction level	Improving service quality
Investment	Return on investment (ROI)	Improving the efficiency of capital investments
Governance	Rate of remediation of risks identified through audit and compliance	Reducing corporate risks

[21] Developed by the author based on OECD corporate governance principles and the practical performance indicators of "Uzbekistan Railways" JSC.

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The main advantage of the proposed KPI system is that it does not limit the assessment of the company's performance solely to financial results. Given the multifaceted strategic responsibilities of state-owned enterprises, financial, operational, customer-related, and corporate governance indicators should be evaluated collectively.

The research findings indicate that the effectiveness of corporate strategy in the public sector depends on three key factors: the clarity of strategic objectives, the allocation of powers and responsibilities among governing bodies, and the effectiveness of external oversight. The transformation of "Uzbekistan Railways" JSC demonstrates that optimizing the organizational structure and implementing digitalization have contributed to improvements in operational and financial performance in the short term. The net profit of UZS 47 billion recorded in 2024 represents an important indicator of the financial outcomes of this transformation..[22] However, profit alone is insufficient to assess this outcome as a long-term strategic success. The sustainability of a state-owned enterprise should also be evaluated in terms of asset utilization efficiency, indebtedness, return on investment, service quality, infrastructure productivity, and the extent to which its international transit potential is utilized. Therefore, it would be advisable for "Uzbekistan Railways" JSC to introduce a unified strategic monitoring system that integrates financial results with operational and strategic KPIs.

Another important finding of the study is the need to clearly define the boundaries between the state's ownership role and operational management. The OECD approach recommends distinguishing between the state's role as an owner, responsible for setting objectives and monitoring performance, and the right of the enterprise's management to make operational decisions independently.[23] This principle can also be regarded as an important prerequisite for improving the effectiveness of strategic management in Uzbekistan's state-owned enterprises. At the same time, excessive administrative intervention through external governance mechanisms may limit an enterprise's ability to make timely decisions under market conditions. Therefore, the proposed model recommends implementing state oversight not through interference in the company's day-to-day operations, but through clearly defined strategic objectives, KPIs, reporting, auditing, and risk monitoring.

CONCLUSION

The research findings demonstrate that developing corporate strategy in the public sector is more complex than strategic planning in private-sector enterprises. The main reason is that, in addition to commercial interests, state-owned enterprises are also responsible for fulfilling social and strategic objectives. Therefore, corporate strategy in joint-stock companies with state participation should be developed as an integrated system that incorporates the state's ownership objectives, the external environment, internal resources, financial performance, and public interests. The analysis of "Uzbekistan Railways" JSC indicates that significant changes have

[22] President of the Republic of Uzbekistan. "Tasks in the Railway Sector Outlined." May 28, 2025. Government Portal of the Republic of Uzbekistan.

[23] OECD. OECD Guidelines on Corporate Governance of State-Owned Enterprises 2024. Paris: OECD Publishing, 2024yil.

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occurred in the company's organizational structure and operational activities within the framework of reforms initiated in 2023. In particular, the establishment of six independent enterprises, the purchase of 1,200 new freight wagons, the reduction of freight transportation time by half, the decrease in the number of steps required to process freight wagon orders from seven to three, and the reduction in order processing time from 72 hours to 12 hours demonstrate the practical outcomes of the transformation.[24] Furthermore, the company's achievement of a net profit of UZS 47 billion in 2024 can also be regarded as a financial outcome of the transformation..[25] One of the key findings of the study is that improving strategic management in state-owned enterprises should not be limited to changes in their internal management systems. The state's role as an owner, the Supervisory Board, external and internal audits, compliance, risk management, and information transparency should operate in an integrated and coordinated manner. The OECD recommendations also identify the state's role as an active and professional owner, the operational independence of enterprises, and a high level of transparency as fundamental principles of corporate governance in state-owned enterprises.

On this basis, the study proposes several strategic priorities for "Uzbekistan Railways" JSC, including the development of transit logistics, the expansion of digital logistics platforms, the strengthening of KPI-based management, the use of private capital and public-private partnership (PPP) mechanisms, and the integration of external audit and compliance findings into strategic management. In particular, making full use of the company's transit freight transportation potential is strategically important, as an official presentation in 2025 highlighted the possibility of doubling revenue by increasing transit freight volumes by 40%. Overall, the key condition for effective corporate strategy in the public sector is to establish an appropriate balance between state oversight and an enterprise's operational independence. Rather than directly managing the enterprise's day-to-day activities, the state should act as an owner that sets clear strategic objectives, evaluates performance, and ensures professional corporate governance. At the same time, granting enterprise management sufficient operational independence within a clearly defined framework of KPIs and strategic objectives, while assessing performance through independent audits, the Supervisory Board, compliance mechanisms, and publicly accessible reports, is an important factor in improving the economic efficiency of the public sector.

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