

УДК 338.48:338.486.1

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DOI: 10.32702/2306-6792.2024.6.30

# **THEORETICAL PLATFORMS OF DIVERSIFICATION STRATEGY IMPLEMENTATION FOR THE ECONOMY OF MOUNTAINOUS TERRITORIES WITHIN THE CLUSTER APPROACH**

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## **ТЕОРЕТИЧНІ ПЛАТФОРМИ РЕАЛІЗАЦІЇ СТРАТЕГІЇ ДИВЕРСИФІКАЦІЇ ЕКОНОМІКИ ГІРСЬКИХ ТЕРИТОРІЙ У МЕЖАХ КЛАСТЕРНОГО ПІДХОДУ**

Since the idea of network organization management was transformed into an economic science in the late 19th century, it has become an effective platform for implementing various diversification strategies in local economies, given their typical diversity. The network and network organization provide the opportunity for effective collaboration and close cooperation among entities operating in different sectors of the economy. By the stated provisions, the purpose of the article is to investigate the theoretical framework for implementing the strategy of economic diversification in mountainous territories within the framework of a cluster approach. Based on the research results, it has been demonstrated that a cluster can be considered an adaptive theoretical platform that facilitates the expansion and diversification of economic activities based on structures such as voluntary, territorially constrained associations involving a wide range of participants (business entities, regional and local authorities, local self-government bodies, education, and science institutions, institutions for stimulating regional (local) development, etc.). The pursuit of diversification in economic activities is driven by the need to enhance the competitiveness of locally produced goods collectively generated by business entities, contributing to the competitiveness of the territories. In conclusion, it is inferred that opportunities for diversifying the economic activities of entities operating within mountainous territories are increasing, as dense structural connectivity is formed among them. This connectivity provides participants with an advantage over competitors who operate in isolation. The elements of the cluster are interconnected within a unified system of close structural interactions. It has been demonstrated that opportunities for diversifying economic activities in businesses operating in mountainous territories are

increasing due to the inherent nature of the following factors: cluster elements are interconnected within a unified system of close structural interactions; interactions among entities vary depending on the systematic nature of cluster networks, leading to their modification, interdependence, and the generation of one network object by another. The prospects for further research lie in examining additional aspects of interaction among business entities and other participants within the cluster formed within mountainous territories. This exploration aims to understand their impact on local competitiveness.

З часу, як ідея мережної організації управління була трансформована в економічну науку, вона стала ефективною платформою для реалізації різноманітних (за типовим різноманіттям) стратегій диверсифікації локальних економік. Саме мережа та мережна організація надають можливість для ефективного об'єднання та щільної співпраці суб'єктів, що діють у межах різних галузей економіки. Згідно з наведеними положеннями, метою статті є дослідження теоретичних платформ реалізації стратегії диверсифікації економіки гірських територій у межах кластерного підходу. Згідно з наведеними положеннями, метою статті є дослідження теоретичних платформ реалізації стратегії диверсифікації економіки гірських територій у межах кластерного підходу. За результатами дослідження доведено, що кластер можна розглядати як адаптивну теоретичну платформу, яка забезпечує розширення та урізноманітнення економічної діяльності на основі таких структур, як добровільні, обмежені територіальними рамками об'єднання широкого кола учасників (суб'єктів бізнесу, органів регіональної та місцевої влади, органів місцевого самоврядування, освіти та науки, інституцій стимулювання регіонального (місцевого) розвитку тощо) з метою підвищення конкурентоздатності місцевого продукту, що спільно виробляється суб'єктами бізнесу, конкурентоспроможності територій тощо. Зроблено висновок, що можливості для урізноманітнення економічної діяльності суб'єктів, які діють у гірських територіях, зростають, оскільки між ними формується щільна структурна взаємодія, що надає перевагу над конкурентами. Констатовано, що елементи кластера пов'язані між собою єдиною системою тісних структурних взаємодій. Доведено, що можливості для урізноманітнення економічної діяльності суб'єктів, які діють у гірських територіях, зростають, оскільки закономірним є те, що: елементи кластера пов'язані між собою єдиною системою тісних структурних взаємодій; процеси взаємодії суб'єктів різняться залежно від систематики кластерних мереж, що призводить до їх зміни, взаємної обумовленості та породження одним мережним об'єктом інших. Перспективи подальших досліджень полягають у розгляді додаткових аспектів взаємодії між суб'єктами бізнесу та іншими учасниками кластера, створеного у межах гірських територій, для розуміння їх впливу на локальну конкурентоспроможність.

*Key words: mountainous territories, network organization, diversification, economic cluster.*

*Ключові слова: гірські території; мережна організація; диверсифікація; економічний кластер.*

### TARGET SETTING

Since the idea of network organization management was transformed into economic science in the late 19th century, it has become an effective platform for implementing various diversification strategies in local economies, given their typical diversity. In particular, in the 1890s, a derivative of the network concept emerged as the cluster approach, which began to be actively applied in regional management by various networks of territories. The development of economic clusters is currently an integral component of the diversification of mountainous settlements (or towns and cities located in areas that encompass mountainous landscapes and natural conditions). The clustering of such territories stimulates innovative entrepreneurship, technological development, and the creation of new products and services. Given the unique and specialized economic systems of these territories, within a cluster approach, they can foster developments in energy, tourism, traditional crafts (thereby

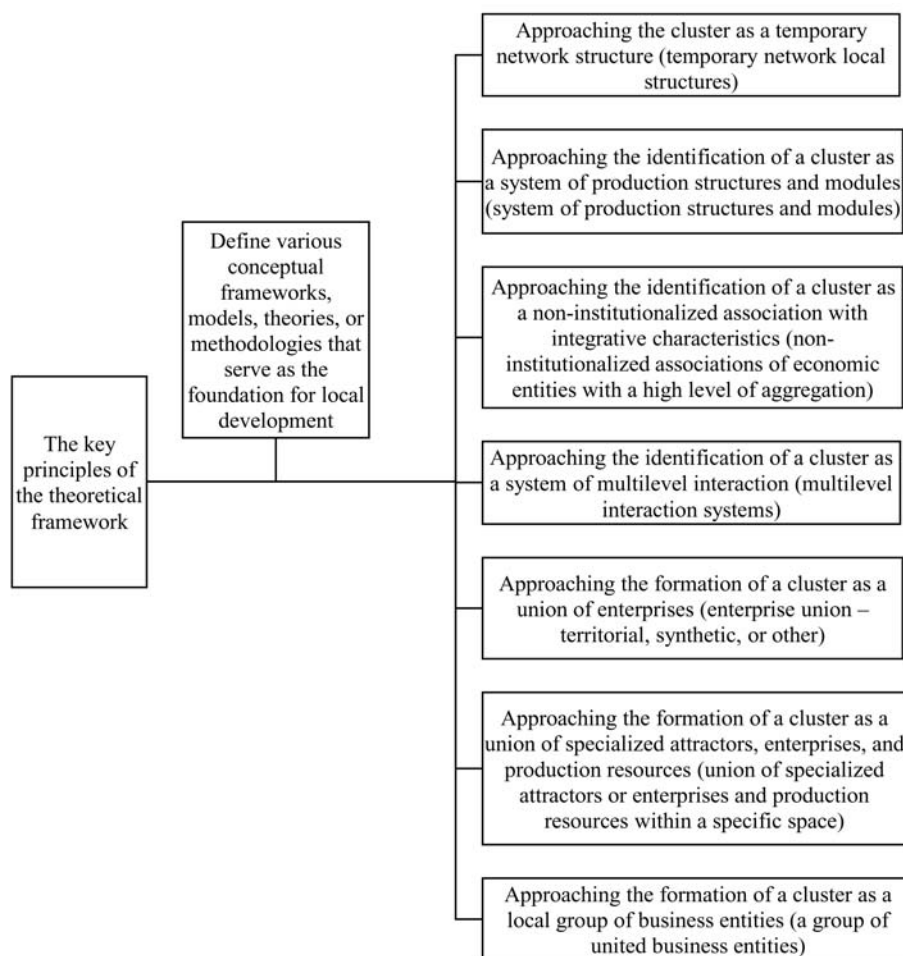
reducing dependence on traditional sectors such as agriculture, forestry, wood processing, and tourism).

### ANALYSIS OF RESEARCH AND PUBLICATIONS

Among the studies aimed at addressing specific issues related to the identification of features in the formation of clusters and the development of local territories in the context of implementing diversification measures in their economies, notable scientific works include those of Kuznetsov A. Y., Zhrebilo I. V., Klipkova O. I., and Kozmuk N. I. The authors draw to these works in their current research, particularly in defining the components of the cluster approach as a theoretical platform for implementing the strategy of diversifying the economy of mountainous territories.

### THE WORDING OF THE PURPOSES OF ARTICLE (PROBLEM)

The purpose of the article is to investigate the theoretical framework for implementing the strategy of diversifying the economy of moun-



**Figure 1. Clusters as a theoretical platform for implementing the strategy of economic diversification in mountainous territories**

Source: formed based on [1; 4–5; 7].

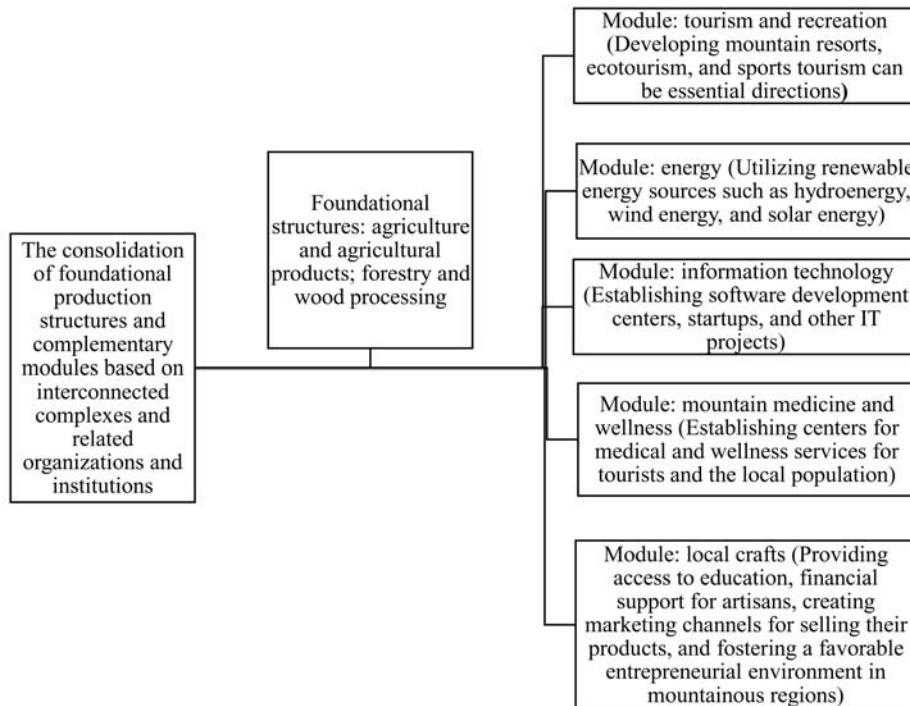
tainous territories within the framework of a cluster approach.

**THE PAPER’S MAIN BODY WITH FULL REASONING OF ACADEMIC RESULTS**

The development of network organization ideas in regional economic science is associated with the "Cluster Concept," which was formulated and developed in several fundamental scientific works by M. Porter. Initially, the researcher emphasized the possibilities of forming specific flexible and adaptive network structures, which were positioned as clusters in regions. From a general perspective, M. Porter defined the cluster category as "a combination of closely located and geographically connected entities of a certain type of business that operate together and complement each other" [6]. For a more in-depth interpretation, the scholar characterized a cluster as "a system of suppliers, producers, consumers, elements of industrial infrastructure, research institutions that interact in the process of creating additional

value (or value created by workers beyond the value of labor) [5]. It should be noted that the ideas of M. Porter have now become a theoretical platform ideal for implementing the diversifying economy strategy of mountainous territories within the framework of a cluster approach. This assertion is justified by the fact that economists not only examine the processes of cluster formation in mountainous territories but also apply them as a fundamental element in approaches to the strategy of economic diversification.

Moreover, the theoretical diversity and multi- aspect views on cluster formation (Figure 1) make them ideal for defining conceptual frameworks, models, theories, or methodologies that serve as the foundation for local development and the study of the scientific field related to the implementation of the strategy of economic diversification in mountainous territories. Indeed, in our previous research [5–6], we have demonstrated that within a cluster, dense structural connectivity always forms, providing its participants with an advantage



**Figure 2. Approach to forming the cluster of mountainous territories as a system of production structures and modules**

Source: formed based on [5; 6—7].

over competitors who operate in isolation. Therefore, clusters, as a theoretical platform, establish the fundamental principles, approaches, and ideas used for the analysis, understanding, and resolution of issues aimed at expanding and achieving maximum diversity in the economic activities of business entities operating within mountainous territories.

Let's consider the essence of approaches to the cluster category and the applicability of this category in terms of implementing the strategy of economic diversification in mountainous territories:

1. Approach to forming a cluster in the economy as a temporary network structure. This approach characterizes the essence of clusters as a collection of economic entities that temporarily interact based on partnership relations to reduce costs or concentrate on the creation and implementation of a local value chain, enabling the production of unique products that contribute to the development of a specific territory. Under this approach, clusters are associated with temporary network local structures formed by hubs of interconnected companies and related institutions. According to this approach, a cluster can be seen as a form of temporary concentration of inter-firm organizations, where the network principle is applied to the entire complex of relationships within and beyond firm partnerships, and their

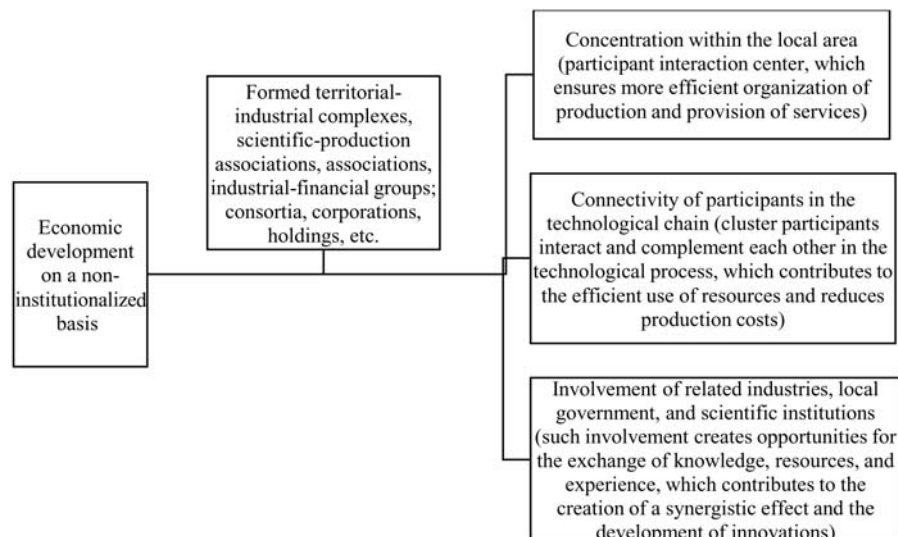
external environment [3]. Temporary network structures have several properties that make them applicable for implementing the strategy of economic diversification in mountainous territories, including [5]:

1) temporary "networked" nature (manifested in the widespread delegation of specific business functions and even parts of business processes by local economic entities to third parties or organizations, allowing for the rapid entry of specialized firms into other industries);

2) the absence of long-term contractual relationships in network formations (enabling economic entities to easily adapt to changes in market conditions or technological environments without the need for long-term commitments).

It allows for a quick response to new opportunities and challenges, promoting the development of various economic sectors.

Approaching the cluster as a temporary network structure can be a key element in implementing an economic diversification strategy in mountainous territories. It provides flexibility and adaptability in the diversification process, facilitates the rapid formation of innovative ecosystems in local economies, fosters close integration of industries and individual enterprises (based on resource utilization and interaction development), and contributes to the development of local economies.



**Figure 3. Approach to the formation of a cluster of mountainous areas as a non-institutionalized association with integration characteristics**

Source: formed based on [4–5; 6].

2. The approach to forming a cluster as a system of production structures and modules characterizes the essence of clusters as an "association created through the modernization of existing production structures and modules" [7]. Under this approach, clusters associated with the artificial consolidation of foundational production structures for a specific territory and complementary innovative modules based on interconnected complexes and related organizations and institutions (including energy, local crafts, tourism, and others where local government authorities are interested [5]).

These formations operate in specific territories, characterized by common interests, and mutually complement each other according to the specifics outlined in Figure 2.

Thus, the outlined approach above can be a key element in implementing the diversifying strategy of the economy of mountainous territories. It provides an environment where cluster participants can collaborate rather than compete, serving specific segments of the local economy (within the framework of its modernization tasks or the realization of common interests). At the same time, a fundamental condition for the effectiveness of this approach is to ensure a balance between economic development and the preservation of the unique environment of mountainous territories.

3. The approach to forming a cluster in the economy as a non-institutionalized association with integrative characteristics characterizes the cluster as a voluntary non-institutionalized association of research institutions, and local economic entities with a high level of aggregation. Maznyev H.

defines such an association by the following integrative characteristics [4]:

- concentration within the local territory;
- competition within clusters, in the struggle for the consumer, for its retention;
- competitiveness in the market through high labor productivity, which is determined by the specialization and complementarity of participants;
- interconnection of participants in the technological chain within a unified logistic system of relationships, synthesizing a synergistic effect and creating added value;
- involvement of related industries and local governmental and scientific institutions to achieve a synergistic effect.

It should be noted that the outlined approach to cluster formation can be a key element in implementing the strategy of diversifying the economy of mountainous territories since non-institutionalized foundations can give rise to territorial-production complexes, scientific-production associations, associations, industrial-financial groups; consortia, corporations, holdings, and so on.

At the same time, the specificity of applying the approach (highlighted in Figure 3) contributes to the diversity of economic development in mountainous territories through the centers of interaction among participants, the formation of interdependence among cluster participants along the technological chain, and the involvement of related industries and local governmental and scientific institutions.

The basic condition for the effectiveness of the approach is a focus on the development of new

industries that will contribute to the creation of joint competitive products and services.

4. The approach to cluster formation as a multi-level interaction system takes into account various aspects and levels of interaction within the cluster. According to this approach, the cluster can be viewed from three main perspectives [5]:

1) regionally limited forms of economic activity (within the framework of related sectors of the local economy, gravitating to certain scientific institutions);

2) vertical production chains (namely highly specialized sectors where there are adjacent stages of the production process);

3) industrial sectors at the highest aggregation level (namely, the unification of industry at the local and other different levels of the hierarchy of the economic system).

This approach allows considering the complexity and interactivity of clusters as a system and implementing them. It should be noted that the outlined approach to cluster formation can be a key element in implementing the strategy of diversifying the economy of mountainous territories by synthesizing a range of necessary integration characteristics, including competitive enterprises and competitive advantages; participants located in geographical proximity to each other and having the opportunity for active interaction; bringing together companies producing end products and services, suppliers of components for products, equipment, specialized services, professional educational institutions.

5. The approach to forming a cluster as a union of enterprises [1] considers cluster formation a voluntary association of independent legal entities that retain their autonomous legal status but collaborate for competitive product production and mutual economic benefit. In this regard, the outlined approach to cluster formation can be a key element in implementing the economic diversification strategy, as the latter is associated with its geographical coverage. Key aspects of this approach include collaborative efforts among local economic entities for competitiveness and economic benefits for local participants, which may involve various scale economies, joint marketing positioning, and other forms of cooperation.

6. Approach to forming a cluster as an association of specialized attractors, enterprises, and production facilities. According to this approach, the cluster includes a synthetic combination of specialized attractors, enterprises, and production facilities with the innovative sector of the economy, several related spheres, and regulatory authorities [5]. The approach

is focused on creating a specific space within which there is complex but regulated nondeterministic behavior of a significant number of elements that, interacting with each other, create a pattern of ordered behavior. It should be noted that the outlined approach to cluster formation can be a key element in implementing the strategy of diversifying the economy of mountainous territories due to the integration of a fairly wide range of economic entities, including independent enterprises (including specialized manufacturers, in our case, tourist products); research institutions (universities, research institutes); establishments (brokers, consultants); financial structures, and consumers, all linked in a production and sales chain. The inclusion of an innovative element allows new product creation within mountainous territories, improving service quality, and remaining competitive in the market.

7. The approach to cluster formation as a local group of business entities (T.I. Marchenko [5]) envisions that clusters are formed by groups of localized interdependent business entities that complement and reinforce each other's competitive advantages. Regarding the formation processes, the spatial boundaries of business entity groups are emphasized. Note that the outlined approach to cluster formation can be a key element in implementing the strategy of diversifying the economy of mountainous territories due to its artificial nature and, according to practical experience, focusing on the processes of diversifying types of activities based on three characteristics: geographical affiliation (operating in a specific territory); technological feature (utilizing a common technological base) and vertical integration. Within this approach, attention is drawn to the presence of a synergistic effect from the implementation of cluster models of economic development, which "...leads to the efficient functioning, not of an individual enterprise, but to ensuring cooperation between large and medium-sized enterprises to achieve the most rational use of resources, promote and implement innovative production, and provide qualified personnel" [5].

Therefore, a cluster can be considered as an adaptive theoretical platform that enhances the efficiency of implementing the strategy of economic diversification in mountainous territories within the framework of a cluster approach.

#### **CONCLUSIONS FROM THIS STUDY AND PROSPECTS FOR FURTHER EXPLORATION IN THIS AREA**

Based on the research results, it has been demonstrated that a cluster can be regarded as an adaptive theoretical platform. This platform

facilitates the expansion and diversification of economic activities based on structures such as voluntary, territorially limited associations of a wide range of participants (business entities, regional and local authorities, local self-government bodies, education and science institutions, institutions for stimulating regional (local) development, etc.). The main goal is to enhance the competitiveness of locally produced products collaboratively by business entities, the competitiveness of territories, and so on. The findings lead to the following conclusions:

1. Opportunities for diversification of economic activities of economic entities operating within mountainous territories increase because a dense structural connectivity is formed among them, providing its participants with an advantage over competitors who operate in isolation. Elements of the cluster are interconnected as a unified system of close structural interactions.

2. Opportunities for diversification of economic activities of economic entities operating within mountainous territories increase because it is consistent that: elements of the cluster are interconnected as a unified system of close structural interactions; the processes of interaction between entities vary depending on the systematic nature of cluster networks, leading to their alteration, mutual dependence, and the generation of one network object by others.

The prospects for further research lie in examining additional aspects of interaction between business entities and other participants within the cluster created within mountainous territories to understand their impact on local competitiveness.

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*Стаття надійшла до редакції 26.02.2024 р.*