ABSTRACT

This study aims to analyze the effect of related and unrelated diversification on profitability and firm growth in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) for the period 2019–2023. The research is motivated by inconsistencies in prior findings and limitations in measuring diversification and profitability that do not account for capital costs. Therefore, this study applies the Entropy Index (EI) to measure diversification types, Economic Value Added (EVA) as a profitability indicator, and Sales Growth (SG) to assess firm growth.

This quantitative research uses a causal-comparative approach. The sample consists of 24 for EVA and 32 for SG consumer goods companies selected using purposive sampling. Data were obtained from annual reports, financial statements, and publications from the Indonesia Stock Exchange. The data were analyzed using multiple linear regression with SPSS version 25. Statistical tests include classical assumption testing and significance testing both simultaneously and partially.

The results of this study indicate that related diversification has no significant effect on either profitability or company growth. Meanwhile, unrelated diversification has a significantly negative effect on profitability, but no significant effect on company growth. These findings suggest that diversification strategies do not always generate economic value or sustainable growth, especially when not supported by effective managerial execution and strategic alignment. This study contributes to the theoretical discourse in management accounting and offers practical implications for managers in designing more selective and efficient diversification strategies.

Keywords: Related Diversification, Unrelated Diversification, EVA, Firm Growth, Entropy Index