ABSTRACT

In recent years, globalization, revolution and rapid economic growth trigger industry sector increasingly competitive. Diversification is the one of availability alternative strategic for sustainable enterprise growth and increase profitable business with economies of scope advantages. This research examines the industry diversification rate of the sixty five Indonesia manufactures and four control variable affect the firm performance in 2008-2011. The result show diversification has significant value loss because many manufacturers use unrelated diversification strategy, therefore firms can not raise “economies of scale” and “economies of scope”. Furthermore, a wide range of diversified firms can loss their opportunity to allocate their asset for investment that give a high return. In sum, a new segment in a company needs time to produce positive cash cycle.

Keyword: Diversification, Firm Performance, ROA, Tobins’q, Economies of scale, Economies of scope, Investment