

ABSTRACT

The purposes of this research are (1) to examine the influences of operational diversification on capital structure of a firm, (2) to examine the influences of government ownership based on the relation between operational diversification and capital structure. Diversification level is measured by Jacquemin – Berry entropy index, while capital structure is measured by book leverage, market leverage and long – term market leverage. Government ownership as moderate variable is measured with dummy variable. As control variable, this research used return on Assets, non - current asset ratio, non-debt tax shield, Tobin's Q, biggest stock ratio, board ratio, size and age of firm

Population of this research consists of all listed non – financial firms in Indonesia Stock Exchange in year 2010 – 2012. The sampling method used in this research is purposive sampling. After doing sampling and processing data, 147 firms randomly selected. This research uses panel data regression to examine the hypothesis.

The empirical evidence shows that related diversification has a significant positive influence on capital structure and unrelated diversification has a significant negative influence on capital structure. The result of moderate variable shows that the relationship between government ownership and capital structure is negative for related diversification and positive for unrelated diversification. Meanwhile, the relationship between government ownership and capital structure is positive for unrelated diversification.

Keywords: Operational diversification, related diversification, unrelated diversification, capital structure, government ownership.