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Relationship between Insider Ownership and Sales Growth with Dividend Policy and Leverage (Study on Manufacturing Company in Indonesia Stock Exchange)

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ABSTRACT *: This study aims to: (1) examine effect of insider ownership on leverage, (2) examine effect of sales growth on leverage, (3) test effect of insider ownership on leverage mediated by dividend policy; (4) test effect of sales growth to leverage mediated by dividend policy. This research was conducted at manufacturing companies listed in Indonesia Stock Exchange with observation period 2007-2011. Based on population criteria, companies number that meet the criteria are 22 companies. Method of data analysis is Path Analysis.Study findings are: (1) insider ownership has significant effect on leverage, (2) sales growth has insignificant effect on leverage, (3) insider ownership has significant effect on leverage mediated by dividend policy, strengthening agency theory and pecking order theory in Indonesia manufacturing companies, (4) sales growth has a significant effect on leverage mediated by dividend policy, strengthening pecking order theory for informasi manufacturing companies. Originality this study is to fill previous research gap using dividend policy as a mediating variable in relationship between insider ownership with leverage and sales growth relationships with leverage*
Keywords: *Dividend policy, Leverage, Insider Ownership, sales growth*

I. INTRODUCTION

Funding decisions from debt sources become interesting thing for company to recapitalize or restructure capital and business operation development as well as his own capital. In financial management context, debt will beneficial because it provides hope of larger profits additional for shareholders namely to increase earnings per share, and with steady load. However, too large debt will increase financial risk and can lead to cost of financial distress. To make right decisions, company's management need to consider cost and benefits of funds sources selected. Leverage conditions in some European and Asian countries, including Indonesia, with all sectors of research object including manufacturing companies, is quite high [14]. Indonesia has highest corporate leverage compared to other countries. Leverage of Indonesia Company is 35.32%. Whereas in other countries the companies leverage relatively low (Malaysia: 24.55%; Philippine: 23.64%; Singapore: 22.52%; Britain: 17.57%, Italy: 22.82%, and French: 22.23%). Tendency in Indonesian public companies to obtain additional funding source is dominated by banking of 63.8% and capital markets of 36.3% [44], whereas in other countries dominated capital market role.

Debt funds usage is not optimal. Indonesia companies performance are still has lower financial performance than other countries, measured by Tobin's Q is equal to 1.40%. Financial performances of other countries are higher than financial performance of Indonesia manufacturing companies. For example, Malaysia (2.91%); Philippine (1.73%), Singapore (1.77%), the UK (2.22%), France (1.61), with the exception of Italy (1.19%). Furthermore, average leverage development of manufacturing companies in Indonesia fluctuated, period of 2007 (44.31%), 2008 (43.09%), 2009 (40.00%), 2010 (40.32%), 2011 (42.54%).

Research the relationship between insider ownership structure with corporate leverage has been done by [1,15,30]. They find that insider ownership significantly associated to leverage. Adversely, the findings of [22,43,48,18,13] showed evidence that insider ownership is not significantly associated with company leverage. Studies [19,26,34,38], shows that sales growth significantly associated with leverage. Meanwhile, research [20,36,30,5] showed evidence that sales growth does not associate significantly with leverage. Research relationship between insider ownership with dividend policy is diverges. [41,9,2] shows that insider ownership significantly associated with dividend policy.

Significant relationship between sales growth with dividend policy has been reported [12,23,11].. Dividend policy has significant effect on leverage [7,27,42,37,45]. This was consistent with the pecking order theory. Some descriptions above shows the inconsistency of research results about leverage determinants. New things known from this study and research gap from previous studies about leverage is, among other things; inconsistencies in findings relationship between variables. Differences results because of object characteristic and different measurement. Studies that examine effect of insider ownership on leverage mediated by dividend policy, and effect leverage on sales growth mediated by company's dividend policy are still limited in manufacturing. Therefore, the idea of this research is to fill a gap research in conjunction with dividend policy as a mediating variable.

II. LITERATURE REVIEW

2.1. Modigliani Miller (MM) Theory

Capital structure theory development begins with proposition of [29]. They state that funding decisions are not relevant in determining company value when company operates in an efficient market, where all information can be obtained by anyone without significant costs, and there are no taxes and transaction costs.

2.2. Pecking Order Theory

Pecking order theory was first declared by Donalson in 1961, and later modified by [32]. This theory states that companies prefer internal rather than external sources of funding, except in cases where external funding can not be avoided. This theory also states that main problem to determine leverage is because of information asymmetry between manager and owners and investors. In addition to information problems, shares issuance may decrease validity of this theory.

2.3. Trade-off/balancing theory

Trade-off/balancing theory or static theory popularized by [31]. This theory states that companies tend to pursue optimal long-term leverage targets. At steady state, company will adjust its leverage to long run. Optimal point happened due to tax as a factor to encourage companies to increase leverage and cost of financial distress push companies to limit leverage [31]. If benefits outweigh the costs, debt increased and leverage becomes great. This theory is often considered a contender for pecking order theory in determining company's capital structure.

2.4. Agency Theory

Agency theory popularized by [21]. According to this theory, a conflict of interest between shareholders and managers can result of not meeting maximum utility between them and different risk preferences. Different risk preferences will make management wishes to maximize personal welfare. Of course, this will decrease shareholder wealth so management needs to be supervised and agency problems arise [21].

2.5. Dividend Irrelevance Hypothesis

Irrelevance proposition of [29] shows that, assuming company's investment policy does not change, cash dividends payment can not affect company value in efficient market. Argument [29] states that in a perfect market, where there are no taxes, no transaction costs or no disparity information, dividend policy of a company should not have any effect on company market value. Important assumption of this statement say company investment policy has no relation with dividend policy.

2.6. Bird-in-the-Hand Theory

This theory was popularized by [16]. Investors love dividends rather than capital gains (capital gains is profits earned as a result of stock price changes), and because company can raise or do not support company value through its stock price by choosing an attractive dividend policy. This theory states dividend preferred than capital gains because capital gain is not a material element for future dividend. This means no returns on shares held. Individuals who support theory of certainty (bird in the hand theory) argue that future dividends stream will be discounted at a lower rate than capital gains [16].

2.5. Tax Preference Theory

Entering 1970s era, issues comes to surface of empirical world (research) is effect of dividends tax on stock prices. According to this theory, known as tax preference theory, the higher tax rate imposed on dividends relative to capital gains and possibility to defer taxes on capital gains, it will have a negative effect on companies that pay high dividends.

III. CONCEPTUAL FRAMEWORK FOR RESEARCH

3.1. Effect of insider ownership on leverage

Agency theory view of [21] suggests the importance of debt financing for productive investment in addition to supervise deviate activities in management. Debt financing has potential to reduce agency conflicts, because management has obligation to pay principal and interest loan. Studies [1,15] showed a positive and

significant effect of insider ownership on leverage. The higher insider ownership, the more careful leverage usage because of investment activities. It supports agency theory.
H1: The higher the insider ownership, the higher company leverage .

3.2. Effect of sales growth on leverage

Pecking order theory states the higher sales growth of company, the lower leverage level. Researches of [4,6,8] showed evidence a negative and significant relationship between sales growth and leverage. This study supports pecking order theory.
H2: The higher company's sales growth rate, the lower company leverage .

3.3. Dividend policy plays to mediate effect of insider ownership on leverage

Agency conflicts caused by low manager ownership, low dividend payments, debt used for unproductive investments that making leverage to grow, free cash flow of managers is quite large, high information asymmetry, so that agency problem is quite high [21]. Studies were conducted in manufacturing sector [9,2]. They find that insider ownership positively and significantly associated with dividend policy. Meanwhile, [27,42,37] found that dividends payment has significant and positive effect on leverage.
H3: dividend policy plays to mediate effect of insider ownership on leverage.

3.4. Dividend policy plays to mediate effect of sales growth on leverage

Study [38] showed that significant sales growth associated with leverage. Furthermore, study [37] states that dividend policy has significant effect on leverage. High sales growth made company obtain a high profitability to pay big dividend. As a result, leverage increases due to lower internal funding. Pecking order theory states that the higher leverage, the greater dividend payments.
H4: Dividend Policy plays to mediate sales growth effect on leverage

IV. RESEARCH METHODS

Study population was all public manufacturing company listed on Indonesia Stock Exchange (IDX). Manufacturing companies listed on the Stock Exchange in 2011 are 163 companies. Based on these criteria, companies that meet criteria to become samples are 22 companies. Therefore, this study used a sample saturated (census). Observations duration is five years, number of observations in study was 110. Data type that used in research is secondary data. Data source used are: (1) Indonesian Capital Marker Directory (ICMD), published in 2007-2011, and (2) annual report for all samples companies, for 2007-2011.

This study uses path analysis. Path analysis is used to determine and analyzing effect of exogenous variables on endogenous variables. This research test four mediating variable follows. (1) Examining direct effect of exogenous variables on the endogenous variables in model with mediating variables. (2) Examining effect of exogenous variables on the endogenous variables in model without mediating variables. (3) Examining effect of exogenous variables on mediating variables. (4) Examining effect of mediating variables on endogenous variables, [38].

V. RESULTS AND DISCUSSION

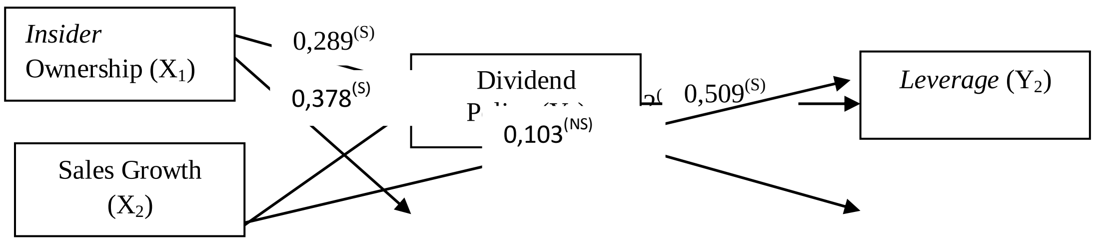
Linearity assumption test be done with Curve Fit method, calculated with SPSS software. Based on test results, entire relationship between variables is linear, so it meets linearity assumption. Structural Goodness of Fit for path analysis using Total Determination Coefficient has R_M^2 = 0,542. It means 54.2% of data variability can be explained by model. This model is quite good because data could explain more than 50% variance and it is feasible to provide explanations and hypothesis testing.

Table 4.1 follows show the hypotheses test results:
Table 4.1: Hypothesis Model Testing Results

Relationships between Variables		Path Coefficient (Standardized)	p-value	Description
Insider Ownership (X1)	**Dividend Policy (Y1)**	**0,289**	**0,001**	**Significant**
Sales Growth (X2)	**Dividend Policy (Y1)**	**0,378**	**0,000**	**Significant**
Dividend policy (Y1)	**Leverage (Y2)**	**0,509**	**0,000**	**Significant**
Insider Ownership (X1)	**Leverage (Y2)**	**0,178**	**0,028**	**Significant**
Sales Growth (X2)	**Leverage (Y2)**	**0,103**	**0,216**	**Insignificant**
Mediation Models Test without Dividend Policy variable:				
***Insider* Ownership (X1)**	***Leverage* (Y2)**	**0,342**	**0,000**	**Significant**

Hypothesis test result for direct effect of path analysis can also be seen in diagram as follows:

Figure 4.1. Hypothesis Testing Results of Path Diagram



Description:
(S) = significant path, the numbers behind is path coefficient without mediation variable of dividend policy (Y1)
(NS) = not significant paths.

These tests show when dividend policy become a mediation variable, standardized coefficient value the effect of insider ownership on leverage is 0.178. When does not involve dividend policy as a mediating variable, standardized coefficient value the effect of insider ownership on leverage increased to 0.342. In accordance with examination rules of mediating variables, it can be concluded that dividend policy variables (Y1) is partial mediation variable for the effect of insider ownership (X_1) on leverage (Y_2). Dividend policy (Y_1) mediates the relationship between sales growths (X_2) on leverage (Y_2). Effect of sales growth (X_2) on dividend policy (Y_1) is significant, and effect of dividend policy variables (Y_1) on leverage (Y_2) is significant. Furthermore, direct effect of sales growth (X_2) on leverage (Y_2) involving dividend policy (Y_1) is insignificant. Therefore, dividend policy variables (Y_1) is complete mediation the effect of sales growth (X_2) on leverage (Y_2) .

5.1. Effect of Insider Ownership on Leverage

Hypothesis test show that path coefficient value (standardized) of insider ownership on leverage is positive and significant at 0.342. It means the higher insider ownership the higher leverage of manufacturing companies sector. When insider ownership is high, managers will tend to be careful and more productive to utilize company's assets, particularly for additional leverage that investment activity is possible. Conversely, if insider ownership is low, managers will tend to be cautious and not take advantage of company productive assets. They tend to exhibit opportunistic behavior that incompatible with shareholders expectations, and consequently can widen agency conflict. Empirical facts show that insider ownership of manufacturing companies in Indonesia Stock Exchange during observation year is an average 2.27%. They able to manage assets with increasing leverage by average 41.35% per year. That is, an insider ownership encourages managers utilize debt in positive NPV investments that increasing company leverage.

If insider ownership increases, managers tend to use debt on productive investment activities and decisions to add debt remains is continued if do not create an agency problem. This will be reflected in efforts to improve manager company profitability. High profitability performance reflects the success of company's management from well managed company. That is, company had higher earnings per unit than cost per unit. Managers seem to have a high motivation and careful in decisions making related to company operation and strategy in hoping their decisions will maximize company value . Manager expects to always make decisions that increasing company value through higher insider ownership. Therefore, managers have great confidence to company's performance. Manager beliefs became basis because company within a safe condition to use debt, risk is small, making it possible to increase debt to finance company's investment activities. These conditions do not lead to agency conflicts.

This study reinforces the findings of [15] that the higher leverage, the higher insider ownership. Study [15] performed on manufacturing sector. Insider ownership can be improved with hope manager increase effectiveness through improved asset management company to reduce debt and agency conflict between shareholders and management. This study has same object with [15], namely manufacturing company in Indonesia, but there are differences in measuring leverage variable. This study uses debt to total assets ratio. It is defined by funds source used to finance investment activities and operations of manufacturing companies over period 2007-2011, which is sourced from short-term debt and long term debt. Meanwhile, study [15] uses long-term debt to total assets. That is, investment activities of manufacturing companies are financed by long term debt. The findings of this study with study [15] showed same result namely very strong relationship.

This study is in line with [1] which states that the higher insider ownership, the higher manager's performance . That is, assets utilization through debt is more geared to profitable investment or productive investment. Therefore, market will respond positively to manager's performance. It is a portrait that company has been well managed and high quality, so opportunity to obtain additional external funding is possible.

Therefore, it can be said this study reinforces agency theory in Indonesian manufacturing sector. This study is different or does not support the findings of [18] who showed evidence that management stock ownership does not have a significant relationship on company leverage. Insider ownership size becomes a mechanism to reduce agency problem but it can not replace funding decisions role as a mechanism to reduce agency problem. This difference relates to research object characteristics and assets characteristics.

5.2. Sales Growth Effect on Leverage

Hypothesis test results show that path coefficient value (standardized) of sales growth variable does not affect significantly on leverage. An higher leverage is not followed by higher company's sales growth for Indonesia manufacturing sector. Empirical fact shows that average sales growth of manufacturing sector companies on Indonesia Stock Exchange during observation year was 15.27% and average leverage of 41.35% per year. It shows only 41.35% financed with debt and the remainder financed from internal funds of 58.65%. Debt used to finance company's operations. This indicates that manufacturing companies in Indonesia have strong internal financing or sufficient funds, they does not need debt. A company with high sales growth tends does not need debt, because company has a profit or profitability from investment activity. It proved that during observation period, Indonesian manufacturing companies have strong internal financing from earnings with an average growth of 39.09% per year and free cash flow above average of 41.00%.

There are strong indications that high sales growth is supported by company's assets to increase company sales activities and more important is selection of integration strategy. Emphasis on the integration strategy is based expectation that company will be able to generate higher profitability above average as an impact of value creation. Results of this study reinforce the findings of [36] who showed evidence that sales growth was not significantly associated with leverage. Leverage increase is not supported by sales growth due to internal fund ability. This study has similarities with research object of research [36], namely manufacturing company. Ideally, leverage increase should not be followed by a sales growth increase, but more important is how company's investment opportunities sustain the company leverage. In fact, some companies experiencing high growth. This means company has investment opportunities, so that company owes to add leverage. Therefore, the results confirm suggests that some companies with high sales growth has implications for company growth opportunities and tend to debt. It can be stated these conditions do not support the pecking order theory.

Pecking order theory states company with high growth ideally does not need external funding. When company has high sales growth, this shows company ability to finance investments internally so that external funds are not needed. For manufacturing companies, asset support is needed to support company sales activities. Therefore, the stronger asset structure, the greater chance to get external funding. Assets can be used as collateral to obtain loans. This study is different or does not support the results of study [26.34] which showed that sales growth significantly associated with leverage. This indicates that when a company has an investment opportunity or companies more eager to invest, then company needs additional funds from external. Therefore, the higher growth rate due to investment activity, the higher leverage. Companies with sales growth have high investment opportunities and tend to have a tangible asset that can be used as collateral to obtain additional external funding.

Based on deeper search, research object [26] is financial and real estate sector that based on trade off theory. Trade off theory view states that the higher sales growth then the higher leverage, on a condition the company has investment opportunities. Furthermore, research of Manrique and Ojah conducted in utilities sector with basic theory is capital structure theory. Meanwhile, this research was conducted in Indonesia manufacturing sector with the basic theory is pecking order theory.

5.3. Dividend Policy mediate the effect of Insider Ownership on Leverage

Hypothesis test result shows path coefficient value (standardized) of dividend policy variable mediates the effect of insider ownership on leverage with path coefficient (standardized) value significantly positive at 0.178. These results meant that higher insider ownership encourages managers to utilize leverage in a positive NPV investment through dividend policy. Higher effectiveness of asset management company through leverage significantly decrease agency conflict between shareholders and management and dividends paid to be great. Mediation test results show that company's dividend policy is partial mediation in nature. This means that insider ownership may affect leverage directly and also through dividends policy. Direction of relationship is positive coefficient. This means that higher dividend payments encourage leverage usage for productive investment (positive NPV), if incentives improved through insider ownership.

This study able to provide empirical evidence that a company's dividend policy is an intervening variable that partially mediates relationship of insider ownership on leverage. Therefore, dividend policy is a positive signal that reflects management alignments to owner to manage company assets rightly and qualified in Indonesia manufacturing sector. High insider ownership encourages managers to more cautious to use debt for productive investment and has a strong belief that company's performance will become good. Precautionary motivation and beliefs become basis of manager's decision to make debt or adding debt means higher leverage, assuming company safe to use debt, a small risk. Managers and owner have interest to maximize value through higher stock price. Managers will get bonus shares as a consequence of higher manager earnings performance. The higher bonus shares, the more prosperous manager and the higher stock price, owners become more affluent.

Company prosperity depends on how high market appreciation. Market will appreciate if the performance is good. Good corporate performance can be seen from better risk management and dividend policy.. Therefore, the direct relationship with insider ownership with leverage will higher when compared to indirect relationship of insider ownership on leverage mediated by dividend policy [3]. This means that dividend policy seems to reduce insider ownership relationship with leverage. During observation period, only 7 or 31.62% companies that consistently pay dividend and remaining 68.38% never paid dividends. Companies that consistently pay dividends will be appreciated by market. Companies that do not pay dividends consistently put great hopes to stock price. However, market takes time to address company's policy. Therefore, inconsistent dividend payment policies make market can not directly justify that performance is good [39]. Even dividends actually become a concern or doubt for investors, thereby reducing relationship direction of insider ownership on leverage.

Companies that reduce or even remove (do not pay) dividends will receive a significant penalty from market. Market will be disappointed if company decides to remove or suspend dividends. The negative response more related to concerns that company's future performance will worse, so it is not able to guarantee that shareholders will receive dividend. Companies that do not pay dividends or stopping dividends payment indicates that earnings are fully or partially recorded as retained earnings. This means that company strategic decisions is strengthening its internal funding with lessening external funds for investment purposes. If dividend payment increases, funds for internal financing investment will reduced. As a result, if additional capital is required, companies must change the composition of its debt or issue new shares. Manager's decision to increase retained earnings is an effort to reduce dependence on debt to finance investments. Therefore, dividend becomes deduction the relationship between insider ownership on corporate leverage.

Changes in dividend amount also become reflection of company's ability to earn profits in future. Market will cleverly addressing any changes occurred. Dividend increase often means that management has no hope of profit growth in coming years, while lower company's dividend implies a decrease. The results support research conducted by [30] which shows that insider ownership significantly associated with leverage, and determined by dividend policy role. If manager ownership is high, then agency conflicts will decrease, because manager's interests will closer with shareholders (owners) interests. All actions taken by management inline with shareholders interests, it makes company will pay higher dividends to shareholders and leverage is used on productive investment activities [9,2]. Conversely, if insider ownership is low, there manager tend to allocates profit to retained earnings rather than paying dividends. The reason is internal funds source more efficient than other external funding sources.

This study based on agency theory and pecking order theory, while study [30] uses agency theory and trade off theory. Trade-off theory assumptions is based on benefit and cost principle. If benefits greater than cost of funds, company tends to increase debt, and has been related to assets characteristics owned by financial sector company. This study findings support research of [27]. It found dividend policy significantly effect leverage. Corporate earnings used for dividend payments, while company investment is financed by debt. Company earning is used to increase dividend and debt company payment. Object study of [27] performed on financial and insurance companies. Leverage measurement of finance sector companies tend to use debt to total equity ratio. This suggests that assets characteristics owned by company comes from third party funds or government funds.

Third-party funds are short term and long term in nature. Short-term fund is allocated for short-term investments and long-term fund is allocated for short-term and long-term investments. Therefore, leverage measurement is debt to total equity ratio. It means that company's total equity financed from short term and long term debt. This research has same measurements with dividend policy research by [27], using dividend payout ratio. This ratio is a success portrait in managing companies with good management and high quality. In addition, this ratio is used in a various situations. For example, the ratio used to estimate amount of dividends in coming years, because most analyzes use growth rather than dividend income. Study [25] based on agency theory. This theory usage is based on debt usage by manager on productive investment activities that transfer profits to shareholders in form of dividends to lower agency problem.

Confirmation results indicate this study supports research from [30, 27]. Study object of [30] conducted on financial companies and study object of [27] performed on financial and insurance companies. While this object study is manufacturing company. Therefore, this study can strengthen agency theory and pecking order theory validity. However, assets characteristics of financial and insurance companies generally determined by government regulations, which different from assets characteristics of manufacturing enterprises as determined by tangible assets. This study is different from findings of [45] which shows that insider ownership does not significantly relate to dividend policy. This means that stock ownership by management does not have a significant relationship with company leverage , although mediated by dividend policy. Insider ownership size as a mechanism to reduce agency problem can not replace funding decisions (leverage) and dividend policy role. Study finding differences is related to object and assets and measurement variables characteristics.

Study [18] found evidence that dividend policy has no significant effect on leverage. Last dividend payment size does not relate to leverage of current period. Study findings differences is related to object and its assets and variables measurement characteristics. Studies [45, 18] performed on financial sector, while this study performed on manufacturing sector. Study [45] conducted in Ghana where the capital markets condition within advanced category or perfect and the research objects are banking companies, so assets characteristics differ from manufacturing company. Meanwhile, this research conducted at Indonesia manufacturing companies [47].

5.4. Dividend Policy Mediates Sales Growth Effect on Leverage

Hypothesis testing result show path coefficient value (standardized) of dividend policy variable mediates the effect of sales growth on leverage with path coefficient (standardized) value significantly positive. These results meant that an increase in sales growth is able to increase debt at a positive NPV investment through dividend policy. Test results showed sales growth directly does not have significant effect on leverage, but through dividend policy mediation, sales growth able to affect significantly company's leverage. Therefore, sales growth effect on leverage that mediated by dividend policy is significant.. Therefore, dividend policy is complete mediation between sales growth and leverage. Positive coefficient suggests that dividend policy role in mediating sales growth can increase leverage of Indonesia manufacturing sector .

High sales growth does not have a direct effect on corporate leverage. When sales growth is high, company does not have to debt because having internal financing ability. When sales growth is high, company paid dividends high so there is a tendency to use debt. Dividend policy become a company that that company performance is good. Therefore, high sales growth shows company good prospects. Company with a high certainty and low risk tend to result ability to cover debt so company makes debt. High sales growth, good cash flow from good sale allows company to pay large dividends. As a consequence company increase debt because of internal funding is reduced. This is in line with [17] that at this stage company's profit increase is in line with sales increase. Furthermore, [10] stated when sales growth is high, company has been able to enjoy benefits of debt financing sources. That is, debt has been able to provide benefits to company.

Dividend policy has mediation role the relationship between sales growth on higher corporate leverage. When sales growth is high, company has high profitability and profit transfer allows company to pay large quantities dividends and company was forced to incur debt to finance investment and leverage becomes higher. Ideally, when company experienced high growth, dividend payout is low and leverage is low with assumption no investment activity. This is in line with [10] that when a company has high growth, company adheres to investment principle, low dividend payout and leverage low. This study result support research of [38] which showed that sales growth significantly associated with leverage, and determined by dividend policy role. This study in line with findings of [24] that sales growth has a significant effect on dividend policy. The higher sales growth, the higher dividend payment because company has a high profit. Companies pay large dividends when company has high growth with assuming fixed investment. Portion of retained earnings is reduced to adds debt in current period due to dividends payment to finance investments in large numbers.

Study [37] states that dividend policy has a significant effect on leverage. Retained earning for company's investment is not enough then company was forced to increase debt, so leverage is high. Positive effect of dividend payments on leverage will more significant when company's sales growth rate is high. This proves that dividends payment mediate the positive effect of sales growth on leverage. The test result makes logical consequences to accept this hypothesis in favor of pecking order theory that retained earnings to finance investment is not enough. Adversely, high dividend payment will make high cash demand from company's profit. When profit company availability is not adequate for investment, company make debt and leverage is high. Based on exploration results, this study has similarities with study of [38, 24.37] that researching manufacturing company. There are differences between the measurements leverage this research and research [38]. This study uses debt to total asset ratio, while study [38] uses long-term debt to total assets ratio. This study has similarities with dividend policy measurement studies of [24.37] that using dividend payout ratio. Furthermore, theoretical basis is same namely use pecking order theory. Therefore, research result is same and very strong.

One assumption of pecking order theory is dividend policy is adjusted with investment opportunities. If there is investment opportunities, company tend to pay lower dividends. Conversely, investment opportunities is small in the current period and company has sufficient internal funds from profit and free cash flow, it enable company to pay large dividends and forced to incur debt to finance company's operations, so leverage is high.

Therefore, the results confirm validity of this study to reinforce pecking order theory. Pecking order theory more emphasizes on internal funding. When a company has a profit they tend does not add debt. Conversely, company with lower profits tends to incur debt because of insufficient internal funds to finance investment.
Pecking order theory has same view with [35] which states that relationship of profitability with leverage is predicted with quadratic form. That is, companies with low earnings will use high debt and high leverage. When corporate earnings increase, leverage levels gradually decreased to a point, company's profitability increase will be accompanied by leverage increase. Companies with low profitability level will use more internal fund because external funds is expensive [35]. When profitability low, company will use high debt and leverage also higher. Therefore, with higher profitability, companies use retained earnings to fund further expansion and prefer to use debt when retained earnings are not sufficient. In this case, pecking order theory is suitable for companies with low profitability but is not relevant to companies with high profitability.
This study is different from study of [45] which showed that sales growth was not significantly associated with dividend policy. Then, study [25] found evidence that dividend policy does not has significant effect on leverage. Sales growth does not have significant relationship with company leverage although mediated by dividend policy. High leverage does not have relation to sales growth and dividend policy. This difference is related to study object characteristics, asset characteristics, variables measurement and theoretical basis used.

5.5. Research Implications

This research provides theoretical implications for financial management development that can be described as follows: (1) The results of this study reinforce agency theory. Main problem in leverage decisions is information asymmetry between manager and owners and investors. This theory emphasizes agency conflicts in funding decisions. (2) This study finding show that company with high sales growth does not require debt, because company has sufficient internal fund from cash inflows of sale. However, if sales growth is high and investment opportunities is high, company makes debt and leverage become high. Therefore, these conditions do not support pecking order theory. (3) This study finding show dividend policy can mediate effect of insider ownership on leverage and strengthening agency theory and pecking order theory. If insider ownership is high, managers have a responsibility to improve company profitability. Therefore, dividends payment is large and leverage higher. (4) This study findings show the dividend policy mediate the effect of sales growth on corporate leverage and strengthening pecking order theory. The higher company's sales growth, the higher profitability and the higher dividend payments that would imply higher leverage level of Indonesia manufacturing companies in Stock Exchange.
This study makes several findings that can be used for practical purposes: (1) This study results provide a deep understanding for management that companies managers showed enough evidence that they do not behave opportunistically. This condition is indicated by manager’s ability to manage company assets for owner’s interests and debt is used in productive investments. (2) The findings provide information about the important relationship of sales growth on dividend policy when management must make good leverage decisions. Dividend policy is a success portrait that management has been well managed and high quality.

VI. CONCLUSION

Based on hypothesis test result and discussion in previous section, conclusions of this study can be formulated as follows: (1) High insider ownership can increase debt usage for productive investment and leverage become higher at manufacturing sector in IDX. Insider ownership can be improved with a hope manager can increase the companies asset management effectiveness and managers performance become better through higher debt and can decrease agency conflict between shareholders and management. Therefore, the findings in this study reinforce the agency theory enactment. (2) High sales growth does not require additional debt fund because company is able to obtain sales profit sufficiently. However, if company has a high sales growth and a great investment opportunity, company will add a substantial debt and higher leverage. In this condition does not support the pecking order theory. (3) Dividend policy plays an important role to mediate the effect of insider ownership on leverage. Therefore, insider ownership can create high profitability and high dividend payouts. Companies incur debt for productive activities and then leverage will higher for manufacturing company in IDX. It strengthens agency theory and pecking order theory. (4) High sales growth can increase profitability, higher dividend payments and forcing company to make big debt for productive investment activities and leverage will higher for manufacturing company sector in IDX. It strengthens the pecking order theory.
For future research, opportunistic behavior measurement can uses assets utilization and more concern to free cash flow in manager hand. Furthermore, future research can more explore end year financial report to get better financial information explanation.

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