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# CAPITAL STRUCTURE OPTIMALITY AND PERFORMANCE METRICS OF SELECTED MULTINATIONALS IN NIGERIA

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**ABSTRACT:** *This study explored the impact of capital structure optimality on performance metrics of ten (10) multinationals from 2010 to 2019. The study made use of Total debt to Equity Ratio (TDER), Total debt to Total Asset Ratio (TDAR), Short-term Debt to Asset Ratio (SDAR), and Long term debt to Total Asset ratio (LDAR) as components of capital structure and while return on equity (ROE) was used to proxy the performance of the sampled companies. Data for the study was derived from the annual reports of the sampled multinationals over the studied period. Using the panel data methodology, the study supports the fixed effect model as suggested by the Hausman test. Result emanating from the fixed effect model established that TDER exerts negative yet significant impact on the ROE of multi-nationals in Nigeria. Meanwhile, both TDAR and SDAR exert positive yet insignificant impact on the ROE of multi-nationals in Nigeria. However, LDAR ratio exerts negative yet insignificant impact on the ROE of multi-nationals in Nigeria. Hence, we conclude that the judicious mix of TDAR and TDER can achieve optimal performance of firms in multinationals in Nigeria. In light of this, the study recommends that the management of multinationals should ensure their capital structure is optimum with a view to avoid being cash strapped and debt ridden.*

**KEYWORDS**; capital structure optimality, performance metrics, multinationals

## INTRODUCTION

The nexus between capital structure optimality and performance metrics remains endless discussion since the famous proposition of Modigliani and Miller (1958) that, in a perfect capital market condition, capital structure choice is irrelevant to firm value. Again, there exist various controversial issues with respect to the determination of the amount of both equity and debt that are needed to yield optimum return with low or no risk involvement (Akintoye, 2016; Dada & Ghazali, 2016; Gambo, Ahmad, & Musa, 2016). As such, firms must strike a balance between her risk involvement and expected returns (Akinyomi & Olagunju, 2013; Ihenetu, Iwo, & Ebiware, 2016). At such point, the firm is said to have attained capital structure optimality. Hence, capital

structure optimality is a financial metric that corporate entities use to determine the best debt and equity mix needed for operation and expansion.

Critical appraisal of public listed firms in Nigeria reveal that these firms in course of attaining their main objective of high returns and low cost, they incur high cost which in turn inhibit their performance. A case in point is Multinationals. To further reinforce this statement, Nyor and Yunusa (2016) submitted that Multinationals in Nigeria are prone to financial and business risk in course of financing their business they engage in series of unrelated business activities. This suggest that no firm can achieve if profitability objective if her cost of financing tend to be expensive (Akintoye, 2016; Lambe, 2014; Owolabi & Obida, 2012).

Furthermore, thorough enquiry into extant empirical studies revealed that studies conducted on the subject matter in the Nigerian context are few compared to the countless studies conducted elsewhere. This therefore make the construct compelling as one cannot confidently conclude that theoretical and empirical research carried out in developed economies are also applicable in the Nigerian context. More so, some of these works mainly focused on the manufacturing, banking, and oil and gas industries leaving the multinationals untouched which served as a gap in knowledge which the present study aimed to address.

In light of the above perceived gaps, it is essential to comprehend how capital structure optimality impacts on the performance metrics of Multinationals in Nigeria. Therefore, the crucial theme of this research is to evaluate the effect of capital structure optimality on performance metrics of quoted Multinationals in Nigeria. Specifically, this study examined the impact of TDER, TDAR, SDAR, and LDAR on the ROE of Multinationals in Nigeria. More so, this study only examined ten (10) Multinationals from 2010-2018 (10 years). Hence, the study is therefore unique in that it focused on all the listed multinationals in Nigeria. More so, the study created room for future studies and would help investors to differentiate between overleveraged and underleveraged firms. Again, policy makers/regulatory authorities of the various Multinationals could also borrow leaf from the findings which emanates from this study.
The remaining parts of this paper cover literature reviews, analytical methodology, results and discussions, and conclusions and recommendations.

## LITERATURE REVIEW

This section considered the conceptual clarification/ linkages, theoretical underpinning, and empirical reviews/Perceived Gaps.

### Conceptual clarification/linkages

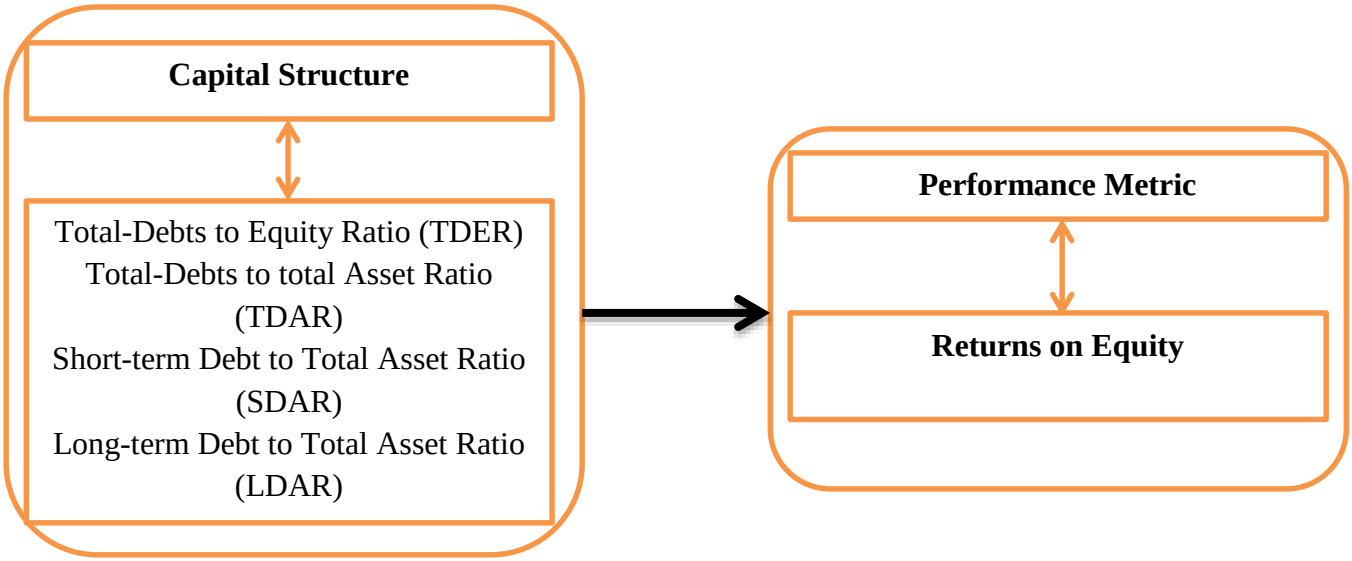
Scholars have presented many definitions of capital structure yet these definitions are explicit and have similar meaning. Various definitions advanced by scholars include:
Capital structure being a part of a firm's financial structure is concerned with quantity of the various sources of funding. Eriki & Osagie (2017) explained that capital structure is essentially concerned with how firm(s) decide to divide its cash flows into two fixed components (i.e. debt

capital) and residual component (i.e. shareholders' equity). Also, Lambe (2014), Akinyomi & Olagunju (2013), Nirajini & Priya (2013) added that capital structure is the mixture of different securities (short-term, long-term, debt, equity, convertible, and non-convertible) which are used by a firm in financing its worthwhile ventures.

Saxena (2014) defined capital Structure optimality as the mix of debt (issuing bonds) and equity (issuing stocks), or hybrid securities a firm uses to finance its capital expenditures and day to day operations. In simple terms, it is defined as the leverage ratio. In the same vein, Saidu (2014) viewed firms capital structure is described as the mix or combination of its financial resources available for carrying on the business and is a major factor which affect businesses. According him capital is an indefinite but acute resource for all firms as a result; suppliers of the finance are to exert control over firms.

From foregoing, we can say that capital structure optimality is a situation whereby a firm does not have excessive debts and equity. Usually, such impact on the firm performance (ROE) positively. The following conceptual model was formulated to answer the research question:

**Figure 1: Capital Structure and Performance Metric Model**




**Source: Researcher's Conceptual Model, 2020**

**Linkage of Variables**

**Total-Debts to Equity Ratio (TDER)**: The TDER is used to evaluate a company's financial leverage. It measures how a company finances its operations via equity and debt(s). More specifically, it shows the ability of equity holders to cover all outstanding debt obligations in the event of illiquidity (Investopedia, 2020). It is mathematically expressed as:

$$TDER = \frac{Total\ debt}{Shareholders'Equity}$$

These two variables (total debt and shareholders' equity) emanates from the financial statement of the said company. Moreover, higher gearing ratio tends to signpost a company is at high risk of default. However, the TDER is difficult to use this parameter to compare different industries. As such, most a time investors often adjust the TDER to focus on long-term debt only because the risk associated with long-term liabilities differs from short-term debt and payables (Investopedia, 2020). Hence, this study suggests that TDER influenced or affected positively ROE of multinationals in Nigeria.

**Total-Debts to total Asset Ratio (TDAR):** This measures the amount of total assets which are financed by creditors in relation to that which are financed by investors. Basically, it illustrates how company has grown and acquired its assets over time.

Firms can generate investors' interest to obtain capital, produce profits to acquire its own assets, or take debt. Obviously, the first two are preferably in most cases. More so, this ratio is an important measurement because it shows how leveraged the company is by looking out how much the company's resources are owned by the shareholders in the form of equity and creditors in the form of debt. Both investors and creditors use this to make decision about the company. Meanwhile, investors ensure that the company is solvent, has enough cash to meet its current obligations, and successful enough to pay a return on their investment. Again, creditors want to see how much debt the company already has because they are concerned with collateral and the ability to be repaid.

If the company has already leveraged all of its assets and can barely meet its monthly payments as it is, the lender probably would not extend any additional credit. Usually a low TDAR is better since a high TDAR denote that the company may likely pay greater proportion of its profit in principal and interest payment (Investopedia, 2020). Hence, this study submitted that TDAR influenced or affected positively ROE of multinationals in Nigeria.

**Short-term Debt to Total Asset Ratio (SDAR):** SDAR shows how much of the enterprise's total assets are financed using loans and financial debts lasting for a year or less. In his seminal paper Meyers (1977) argues that enterprises that employ short-term debts are likely to have more growth options in their investment opportunities. The signaling hypothesis views the issuance of short-term debts as a positive signal of the enterprise's low credit risk. Diamond (1991) asserts that the enterprises with the highest credit ranking prefer to issue short-term debts because of small refinancing risks. He also shows that low-rated enterprises are restricted to short-term debts as lenders shy away from long-term investments. Short-term debts increases availability of external finance and stimulate better financial performance of enterprises. Schiantarelli and Srivastava (1996) argues that short-term debt reduce greater productivity while long-term debts improve productivity. Hence, SDAR is positively related to ROE since it is less expensive hence leading to increased level of profits (Abor, 2005). This study submitted that SDAR influenced or affected positively ROE of multinationals in Nigeria.

**Long-term Debt to Total Asset Ratio (LDAR):** LDAR accounts for the ability of a firm to meet maturing obligations as at when due. In other words, it shows the proportion of a firm's long term debt to the firm's total assets. More, this ratio is calculated annually while a decrease in the ratio signpost that the firm is performing well, and that the firm does not dependent much on debt to finance its needs and vice versa (Investopedia, 2020). Hence, this study submitted that LDAR influenced or affected positively ROE of multinationals in Nigeria.

**Theoretical Expositions,**

The theoretical philosophy of this study is built on the tradeoff theory. The tradeoff theory is further categorized into the static and dynamic trade off theory. The static trade-off theory (STOT) is premised on firms choosing an appropriate financial policy that hinges upon comparing the costs and benefits of debt (Rasiah and Kim, 2011). In essence, the STOT determines a capital structure optimal by adding various imperfections including agency cost, costs of financial distress, tax advantage of debt, and free cash flow but still retain information asymmetry and market efficiency assumptions (Baker and Wurgler, 2002). This viewpoint was further reinforced by Carpentier (2006). He contends that maintains that firms select an optimal capital structure by comparing the cost of using debt over the cost of using equity. However, the major limitation of this theory is that it does not consider that firm's motivation to borrow declines with an increase in non-debt tax shields (Myers, 2001). Hence, the dynamic trade-off theory (DTOT) replaced the STOT.

The DTOT developed as a corollary to the STOT. Its proponents aver that the capital structure decision is a continuous one and that different firms allow the real (actual) gearing ratio to differ from the expected gearing ratio (Fischer, Heinkel & Zechner, 1989). On the overall, the major predictions of the trade-off theories can be enumerated as follows:

1. Where there is no adjustment costs, the DTOT predict that firms re-adjust their capital structure continuously will always attain high leverage ratio (Leary & Roberts, 2005).
2. The STOT predicts firm leverage is directly related to its profit level (Leary & Roberts, 2005; Myers, 2001; Rasiah & Kim, 2011) while the DTOT predicts an indirect relationship instead (Frank & Goyal, 2009; Hovakimian et al., 2004; Rajan & Zingales, 1995; Shyam-Sunder & Myers, 1999).
3. The STOT predicts leverage and the effective tax rate are directly related. As such, firms with a higher taxable income should borrow more debt so as to take advantage interest tax shield (Rasiah & Kim, 2011). This prediction is corroborated by Fischer et al. (1989) & Graham (1996).
4. The static trade-off theory predicts a positive association between leverage and firm size.

**Empirical Review/ Perceived Gaps**

The nexus between capital structure optimality and the corporate performance has long been investigated. However, all prior studies presented mixed findings. The one of the possible factor that may have differentiated studies conducted in Nigeria, Ghana, and South Africa (developing economies) from studies found in United States of America, United Kingdom and the like (developed economies) could be due to the relatively high cost of borrowing (interest rate) in developing countries compared to westernized countries. Even studies conducted in the Nigerian context are more centralized on the banking industry, manufacturing industry, and the oil and gas

sector. However, the present study focused on Multinationals and also widens its time scope to 2019. The summarized webmetrics are presented below:

Using the panel data methodology, Ahmed, and Amina (2019) investigated the impact of capital structure decisions on firm performance from 2003-2016 and discovered that TDAR, SDAR, and LDAR have negative significant impact on ROA. Meanwhile, only STD affected ROE negatively and significantly.

Similarly methodology, Ajibola, Wisdom & Qudus (2018) analysed the impact of capital structure on the performance of the Nigerian manufacturing firms from 2005-2014. The result affirmed a positive statistically significant relationship exists between LDER, LDAR and ROE while a positive insignificant relationship between ROE and SDAR. There was also a negative insignificant relationship among all the capital structure Proxies (LDER, LDAR and SDAR). Hence, the researchers concluded that ROA is a better performance measure than ROE. Therefore, it recommends that for Nigerian firms to earn huge profit and carry on their business successfully, they must opt for capital structure optimality.

Using a similar methodology, Sivalingam & Kengatharan (2018) and discovered that TDAR was significantly yet negatively correlated with ROA while LDAR and SDAR were not related to ROA. Meanwhile, TDER was significantly yet negatively correlated with ROE while LDAR and SDAR were not related to ROE.

Oyedokun, Olatunji & Sanyaolu (2018) explored the effect of capital structure optimality on the performance metrics of Nigerian manufacturing sector. The study adopted the multivariate regression technique. The study affirmed that debt/equity ratio (capital structure) did not affect ROA, ROE, and ROCE.

Using the panel data methodology, Salim & Yadav (2012) explored the association amid capital structure and performance metrics from 1995-2011 and discovered that SDAR, LDAR, and TDAR are significantly positively related to Tobin's Q.Using multivariate analysis, Mboi, Muturi, & Wanjare (2018) and established that SDAR had a significant negative effect on ROA and ROE of selected Kenyan Small and Medium firms from 2010 to 2016. To experience improved performance, Kenyan firms must have decrease the usage of short-term debts.

In a panel data study, Akingunola, Olawale, & Olaniyan (2017) investigated the effect of capital structure decisions on firm performance using a sample of 22 listed Non-financial firms from 2011– 2015. The study examined the impact of SDTAR, LDAR, and TDER (being the regressors) on ROA and ROE, which represents the regressed while controlling for firm size, tangibility, and Growth. The study affirmed that SDAR and LDAR negatively yet significantly affected ROA but had positive statistical significant impact on ROE. However, TDER was positively yet significantly related to both ROA and ROE over the studied period.

Using similar methodology, Eriki & Osagie (2017) discovered that that there is negative and insignificant effect between debt to capital employed (CEMP) and long term debt to common

equity LDER on the ROA and ROE of the 12 selected oil and gas firms in Nigeria from 2011 – 2015. However, CEMP and LDER were positively and significantly impacted on ROA and ROE over the studied periods. Hence, the researchers advised Nigerian firms to apply caution in using the right mix of equity and debt.

Using the multivariate analysis, Nassar (2016) examined the effect of capital structure on the performance of 136 selected industrial firms in Turkey from 2005-2012 and discovered that capital structure (measured by TDER) negatively yet significantly affected ROA, ROE, and Earning per Share (EPS) of selected industrial firms over the targeted periods.

Prempeh, Nsiah, & Sekyere (2016) did a panel study on the effect of debt policies on manufacturing firms' performance in the Ghana from 2005 to 2015 and found that debt policies vis-à-vis SDAR, LDAR and TDER exerted negative significant effect on ROA, ROE, and EPS. Similar results found by Saputra, Achsani, & Anggraeni (2015) when they discovered that LDAR and TDER exerted negative significant effect on ROA of 55 listed Indonesian firms from 2009-2013.

Based on the foregoing, we hypothesize:
**$H0_1$:** TDER does not impact on the performance metric (ROE) of Multinationals in Nigeria significantly.
**$H0_2$:** TDAR does not impact on the performance metric (ROE) of Multinationals in Nigeria significantly.
**$H0_3$:** SDAR does not impact on the performance metric (ROE) of Multinationals in Nigeria significantly.
**$H0_4$:** LDAR does not impact on the performance metric (ROE) of Multinationals in Nigeria significantly.

## RESEARCH METHODOLOGY

### Research Design, Target, and Accessible Population

The study espoused the Ex-Post Facto research design. In this type of research design, the effect and the alleged cause have already occurred but both conditions are studied in retrospect. Accordingly, the study sourced data from annual reports and accounts of total of ten (10) Multinationals in the Nigeria. These include John Holt Plc, SCOA Nig. Plc, Transactional Corp. Nig. Plc, UACN Plc, Coca-Cola, MTN Plc, Unilever, Nestle Nigeria Plc, Total Oil & Gas, and Friesland Food.

### Analysis Techniques and Model Specification

The study applied the panel data methodology. This methodology was very relevant in investigating the predictable power of the regressor on the regressed (Ahmed & Amina, 2019). This was done by using the E-views software. Accordingly, our study modeled after the works of Ahmed and Amina (2019) and Okere, Isiaka & Ogunlowore (2018). The model is as follows:
ROE = f (TDER, TDAR, SDAR, LDAR) ---------- 1
Econoetrically, the model was modified as follows

$ROEit = \beta_0 + \beta_1 TDERit + \beta_2 TDAR + \beta_3 SDAR + \beta_4 SDAR + \varepsilon it$ ----------2

Where:

| | | |
|---|---|---|
| $ROE_{it}$ | = | Returns on Equity for Firm i in Year t |
| $TDER_{it}$ | = | Total-debts to Equity Ratio for Firm i in Year t |
| TDAR | = | Total-Debts to total Asset Ratio for Firm i in Year t |
| SDAR | = | Short-Term Debt to total asset Ratio for Firm i in Year t |
| LDAR | = | Long-term debt to total asset Ratio for Firm i in Year t |
| $\beta_0$ | = | Intercept |
| $\beta_{1-}\ \beta_4$ | = | Co-efficient of Independent variables |
| Ɛit | = | Error Term |

**Apriori Expectation**

We expect that capital structure optimality should impacts on performance metric of listed Multinationals positively i.e. β1-β4>0.

**Variable Operationalization**

The variables under investigation are categorized into two namely indepdent and dependent variable. They are explicitly explained below:

**1. Regressed**: The regressed is financial performance measured by Return on Equity. ROE is mathematically expressed as:

$ROE = \frac{Net\ Income}{Sahreholders'Equity}\ x\ \frac{100}{1}$ as applied by Ahmed and Amina (2019) and Okere, Isiaka and Ogunlowore (2018)

**2. Regressor**: The regressor (X) in the study is capital structure is denoted by:

**X1:** TDAR: This is expressed as the proportion of total debt to total asset. It is mathematically expressed as:

$TDAR = \frac{Total\ Debt}{Total\ Asset}$ as applied by Okere, Isiaka and Ogunlowore (2018)

**X2:** TDER: This is expressed as the proportion of total debt to shareholders' equity. It is mathematically expressed as:

$TDAR = \frac{Total\ Debt}{Shareholders'Equity}$ as applied by Ahmed and Amina (2019) and Okere, Isiaka and Ogunlowore (2018)

**X3**: LDAR: This is expressed as the ratio of long-term debt to total asset. It is mathematically expressed as:

$TDAR = \frac{Long-term\ Debt}{Total\ Assets}$ as applied by Ahmed & Amina (2019)

**X4**: SDAR: This is expressed as the ratio of short-term debt to total asset. It is mathematically expressed as:

$SDAR = \frac{Short-term\ Debt}{Total\ Assets}$ as applied by Ahmed & Amina (2019)

**Regression Results, Discussions, and Policy Implications**

The results from diagnostic test carried out are as shown below in table 1 below:

**Table 1: Summary of Diagnostic Test and Regression Results**

| **Study Variables** | **Pooled OLS Result** | **Random Effect Model Result** | **Robust Fixed Effect Model Result** |
|---|---|---|---|
| Constant (C) | 0.376466<br>(3.945871)<br>{0.0002} | 0.376466<br>(4.142160)<br>{0.0001} | 0.498839<br>(4.355877)<br>{0.0000} |
| Total Debt to Equity Ratio (TDER) | -0.072300<br>(-12.70680)<br>{0.0000} | -0.072300<br>(-13.33890)<br>{0.0000} | -0.080201<br>(-13.67770)<br>{0.0000} |
| Total Debt to Total Asset Ratio (TDAR) | 0.406705<br>(1.268347)<br>{0.2078} | 0.406705<br>(1.331442)<br>{0.1862} | 0.133377<br>(0.397005)<br>{0.6923} |
| Short-term Debt to Total Asset Ratio (SDAR) | -0.068801<br>(-0.207754)<br>{0.8359} | -0.068801<br>(-0.218089)<br>{0.8278} | 0.079940<br>(0.240512)<br>{0.8105} |
| Long-term Debt to Total Asset Ratio (LDAR) | -0.389457<br>(-1.205425)<br>{0.2310} | -0.389457<br>(-1.265389)<br>{0.2088} | -0.236581<br>(-0.712773)<br>{0.4779} |
| R-squared | 0.633270 | 0.633270 | 0.698732 |
| Adjusted R-squared | 0.617829 | 0.617829 | 0.653191 |
| F-statistic | 41.01156 | 41.01156 | 15.34307 |
| Prob.(F-statistic) | 0.000000 | 0.000000 | 0.000000 |
| Durbin-Watson (DW) stat | 1.578143 | 1.578143 | 1.644055 |
| **Test Cross-Section Random Effects** | | | |
| **Test Summary** | **Chi-Sq. Statistic** | **Chi-Sq. d.f.** | **Prob.** |
| **Cross-section Random** | 15.828191 | 4 | **0.0033** |

**Source: Econometric Views Version 9.0. (2020)**

In selecting the best model to use for this study, the Hausman cross-sectional test was conducted. The Hausman cross-sectional test reported that the p-value for REM was less than 0.05 and as such the FEM was used in favour of the REM. Hence, the FEM is used to for this study.

The R-squared of the FEM is 69.87%. This when adjusted for degree of freedom based on the adjusted R-squared shows that 65.32% of the total variation in ROE of multinationals are jointly caused by all the capital mix components while the remaining 34.68% are explained by the error term. This implies that for any variation in capital mix of listed multinationals, their ROE will be positively affected accordingly. The F. statistic of 15.34307 is statistically significant at a level of 0.000000 means that capital mix components and ROE are fit and there is a 99.9% probability that the relationship among the variables is not due to mere chance.

Again, the D.W Statistics value estimated at 1.644055 indicate that the model is not serially correlated. Accordingly, the individual results are discussed below

**Total-Debts to Equity Ratio (TDER) and Return on Equity (ROE)**

The empirical evidence obtained from Table 1 shows negative relationship between TDER and ROE. This result is in line with the apriori expectation of this study. This implies that for every one percent (1%) increase in TDER will make ROE to rise by 8.02%. Further, it is observed that the t- value for TDER is 13.67770 with significant value that is less than 5%. This signifies that TDTA of Multinationals is positive and significant in influencing ROE that is ability of the Multinationals to utilise their equity to earn outstanding profits. This was reaffirmed by traditional theories of capital structure. This theory believes debt is less costly than equity. As such, a particular firm to achieve high profits, the must have to mix their equity with debt and that equity holders must reason in this direction. More so, management who are in the helm of affairs in an organisation could have the motivation to use debt advantages to acquire noncurrent assets and judiciously utilized them toward maximizing revenue for the growth and development of the business they managed. Therefore, Multinationals should employ more of long term debts (Loans that mature in three or more years). This finding is consistent with Ahmed and Amina (2019) and in contrast with the findings of Ajibola, et'al (2018); Oyedokun et'al (2018); Sivalingam, & Kengatharan (2018); Terzungwe & Abdulateef (2016).

**Total-Debts to Total Asset Ratio (TDAR) and Return on Equity (ROE)**

The co-efficient of TDAR has a positive slope and it is statistically insignificant at 5% level of significance. This means there is a positive insignificant relationship between TDAR and ROE, and that a percentage increase in TDAR will result to 0.133377 increases in ROE. The positive result is in line with the apriori expectation of this study. Again, the study supports the findings of Terzungwe and Abdulateef (2016) but conflicts with the studies of Ahmed and Amina (2019); Ajibola, et'al (2018); Sivalingam, & Kengatharan (2018); Nassar (2016); Prempeh, et'al (2016).

**Short-term Debt to Total Asset Ratio (SDAR) and Return on Equity (ROE)**

The co-efficient of SDAR has a positive slope and it is statistically insignificant at 5% level of significance. This also implies that a percentage increase in SDAR will result to 0.079940 increases in ROE. This is not far-fetched in that since it is less expensive for firms to be financed by short term debt, it is possible for such form of funding to increase the level of firm profits minimally. This result supports the studies of Akingunola, et'al (2017) but conflicts with the studies of Ahmed and Amina (2019); Ajibola, et'al (2018); Sivalingam, & Kengatharan (2018); Eriki & Osagie (2017); Mboi, et'al (2018)

**Long-term Debt to Total Asset Ratio (LDAR) and Return on Equity (ROE)**

The empirical evidence obtained from Table 1 shows a negative and insignificant relationship between LDAR and ROE at 5% significant level. That is, LDAR has negative and insignificant impact on ROE of Multinationals. This further connotes that any one percent (1%) increase in gearing level of the Multinationals will decrease their ROE by .23.66%. This could be as a result of high interest charge by debt provider commiserating to utilization on non-current assets for revenue generation. Also, their long term financing decision tends to carry a less deal of weight than the short term as compared to their total assets. Therefore, multi-nationals should employ more of long term debts (Loans that mature in three or more years). The finding is in line with the study of Ajibola, et'al (2018); Sivalingam, and Kengatharan (2018); Akingunola, et'al (2017) and

is contrary to those of Amina (2019); Ajibola, et'al (2018); Eriki and Osagie (2017); Saputra, et'al (2015)

**Policy Implications**

The results above clearly revealed that the capital structure of selected Multinationals is more of debt than equity financing. One major disadvantage of this is that debt financing could discourage investors who are risk averse from not investing in such firm considering the high probability of insolvency associated with debt financing. More so, should the firm liquidate, they are usually receive the residual sum available (if there be any). Thus making risk averse shareholders to look for firms with less debt. Again, excessive equity holding is not a good policy as well in that it could reduce growth potentials of Multinationals. This justify the argument that debt financing is less costly than equity financing and that when creditors are satisfied with the firm's gearing level, they would ensure that all shareholders financial needs are met. As part of steps toward tax planning, managers usually consider debt finance more than equity finance for specific transactions to add value to the firms' operations. More so, a low debt/equity ratio provides less risk to the lenders as the firm would appear to have a reasonable ability to repay debt.

The above explanation bring to the fore the need for capital structure optimality being a situation where a firm has moderate debt and equity.

## CONCLUSION AND RECOMMENDATIONS

Unarguably, firms' operations are financed by either internal or external capital. Hence, it is highly imperative on the particular firm's management to decide which means best suits the firm at a particular point in time. In making this decision, certain factors must be taken into cognizance. More so, given that a defective capital mix will results in liquidity and solvency problems, managers must apply caution by all means in ensuring that a right debt-equity mix are used to foster the benefits accruable from such combination.

Based on the above exposition, this paper established that capital structure optimality has impact on the ROE of Multinationals in different ways. Specifically, the study found that TDER exerts negative significant impact on ROE of Multinationals. Meanwhile, both TDAR and SDAR exert positive yet statistical insignificant impact on ROE of Multinationals. However, LDAR exerted negative statistical insignificant impact on ROE of Multinationals. Hence, we conclude that Multinationals located in Nigeria can achieve optimal performance if they utilize both their TDAR and TDER maximally. Hence, the study recommends that:

1. Management of multinationals should opt for capital structure optimality by increasing their equity level and reducing dependence on debts so as to avoid being cash strapped and debt ridden.
2. Multinationals should adequately plan to safeguard the interest of the equity holders since TDER exerted negative significant impact on ROE Multinationals.
3. Multinationals should invest more on long term debts as it gives them more time before payback.

4. Recognizing faults of investment might be paramount to develop the business's performance, since it specifies the loopholes which corrective decision can be applied.
5. Multinationals should depend less on short term debt, which made the main portion of their Leverage and emphasis on developing internal schemes to improve on their performance.

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