



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**THE EFFECT OF MERGER AND ACQUISITION (M&A) ON FINANCIAL
PERFORMANCE: A MIXED-METHODS ANALYSIS OF ETHIOPIAN SHIPPING AND
LOGISTICS SERVICE ENTERPRISE.**

BY: -

SELAMAWIT NIGUSSIE HAILU

JUNE, 2025

ADDIS ABABA, ETHIOPIA



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ADVISOR: -

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A Thesis Submitted to the Department of Accounting and Finance, College of Business and Economics, Addis Ababa University, in Partial Fulfillment of the Requirement of Master of Science (Msc) in Accounting And Finance.


June, 2025

Addis Ababa, Ethiopia

Statement of Declaration

I, Selamawit Nigussie, hereby declare that this thesis titled "The Effect of Merger and Acquisition (M&A) on Financial Performance: A Mixed-Methods Analysis of Ethiopian Shipping and Logistics Service Enterprise." submitted to "Addis Ababa University Department of Accounting and Finance in partial fulfillment of the requirements for the master of Science (MSc) in Accounting and Finance is entirely my own original work, except where otherwise indicated. All sources used have been duly acknowledged and referenced. I understand that plagiarism is a serious academic offense and that any instances of plagiarism were dealt with according to the university's academic integrity policies. I also ensure that this thesis, either entirely or in part has not been submitted to any institution for earning of a degree or any other academic qualification.

Selamawit Nigussie

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Date: June 01, 2025

Statement of Certification

This is to certify that Selamawit Nigussie has conducted research on the topic "The Effect of Merger and Acquisition (M&A) on Financial Performance: A Mixed-Methods Analysis of Ethiopian Shipping and Logistics Service Enterprise." in partial fulfillment of the requirements for the "Master of Science (MSc) degree in Accounting and Finance at Addis Ababa University" under my supervision. I confirm that, to the best of my knowledge, this work is original and has not been submitted previously to this university or another higher institution for award of academic degree or otherwise. The candidate was advised to duly acknowledge all works of others used to enrich the thesis.

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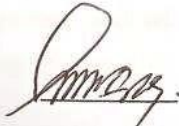
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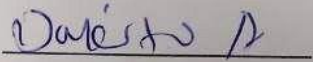


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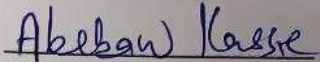
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Abstract

This study investigates the financial impact of the 2016 merger of Ethiopian Shipping Lines Share Company, Maritime and Transit Services Enterprise, Dry Port Enterprise, and Comet Transport Share Company, forming the Ethiopian Shipping and Logistics Services Enterprise (ESLSE). Employing a mixed-methods approach, we analyzed pre-merger (2010–2011) and post-merger (2022–2023) financial data. Specifically, the study utilized ratio analysis to evaluate changes in profitability, liquidity, efficiency, and leverage ratios. Descriptive analysis was also applied to the pre-merger (2010–2011) and post-merger (2022–2023) financial data to highlight trends and key differences in financial performance over these periods. The study concludes that while the merger enhanced cost efficiency and reduced financial risk, it negatively impacted liquidity and shareholder profitability. We recommend urgent liquidity management, a thorough investigation into the ROE decline, optimized leverage strategies, and holistic performance monitoring. This research offers empirical insights into merger outcomes within Ethiopia's logistics sector, informing future consolidation strategies in emerging economies.

Keywords: *Mergers, Financial Performance, Logistics, Ethiopia, Profitability, Liquidity, Leverage, ESLSE.*

Acronyms,

ESL -	Ethiopian Shipping and Logistics Service Enterprise
M&A -	Mergers and Acquisitions
ROE -	Return on Equity
ROA -	Return on Assets
GPM-	Gross Profit Margin
OPM-	Operating profit margin
COGS-	Cost of goods sold
ESLSE-	Ethiopian shipping and logistics enterprise
E.C -	Ethiopian Calendar
SFP:	Statement of Financial Position
GDP-	Gross Domestic Product ASC - Accounting Standards Committee
ED -	Exposure Draft
SSAP -	Statement of Standard Accounting Practice
EC -	European Community
ASC -	Accounting Standards Committee
FRS -	Financial Reporting Standard
VAB -	Value after business combination
VA -	Value of acquiring entity
VB -	Value of target entity

TABLE OF CONTENTS

Content	Page
ACKNOWLEDGEMENTS	i
ABSTRACT	ii
ACRONYMS,.....	iii
LIST OF TABLES.....	vi
CHAPTER ONE:	1
1.1. Introduction	1
1.2. Background of the Study	2
1.3. Statement of the problem	3
1.4. General Objectives	4
1.5. Specific Objectives.....	4
1.6. Research Questions	4
1.7. Significance of the Study	5
1.8. Scope of the Study.....	5
1.9. Limitation of the Study.....	5
1.10. Organization of the Paper	6
CHAPTER TWO.....	7
LITERATURE REVIEW.....	7
2.1. Introduction	7
2.2. Acquisition and merger	7
2.3. Development of an accounting standard	9
2.4. Types of mergers	10
2.5. Impact of Mergers on Financial Performance	11
2.6. Synergy Hypothesis and Financial Performance.....	15
2.7. Empirical Review	18
2.8. The Ethiopian Context.....	21
2.8.1. Contradictions and Discordance in ESLSE Outcomes	26
CHAPTER THREE.....	29
RESEARCH METHODOLOGY AND DESIGN:.....	29
3.1. Introduction	29

3.2. Research Design	29
3.3. Target Population	31
3.4. Sample size determination.....	31
3.5. Data collection.....	32
3.6. Method of Data Analysis.....	32
CHAPTER FOUR.....	33
DATA ANALYSIS AND FINDINGS	33
4.1. Ratio Analysis	33
4.1.1. Profitability ratio	33
4.1.2. Efficiency Ratios	38
4.1.3. Liquidity Ratios.....	40
4.1.4. Leverage Ratios.....	43
4.2. Descriptive Analysis	45
CHAPTER FIVE	55
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION	55
5.1. Summary of major Findings.....	55
5.2. Conclusion.....	60
5.3. Recommendation.....	63
Reference	67
Annex I.....	71

LIST OF TABLES

	Page
Table 4. 1. Profitability Ratio	34
Table 4. 2 Efficiency Ratio	38
Table 4. 3. Liquidity Ratio.....	41
Table 4. 4. Leverage Ratio.....	43
Table 4. 5. Descriptive statistics	45

CHAPTER ONE:

1.1. Introduction

Ethiopia's logistics sector has emerged as a key driver of the country's economic development. Ethiopian Shipping and Logistics (ESL), a major player in this sector, has played a crucial role in facilitating trade and ensuring the smooth flow of goods. Mergers and acquisitions are strategic maneuvers often employed by companies to expand their reach, enhance efficiency, and gain a competitive edge. In 2014, ESL undertook a significant merger with Ethiopian Shipping Lines Share Company, Ethiopian Maritime and Transit Service Enterprise, Dry Port Enterprise; and the former Comet Transport Share Company which is legal merger, refers to the formal consolidation of two or more separate companies into a single legal entity. Legal mergers offer companies a strategic path to combine resources, expand market share, and potentially enhance their financial performance. This study investigates the impact of such a legal merger on Ethiopian Shipping and Logistics (ESL).

Ethiopia's logistics sector is a key driver of the country's economic development, with Ethiopian Shipping and Logistics (ESL) playing a crucial role in facilitating trade and ensuring the smooth flow of goods. In August 2016, ESL underwent a significant strategic legal merger, consolidating Ethiopian Shipping Lines Share Company, Ethiopian Maritime and Transit Service Enterprise, Dry Port Enterprise, and the former Comet Transport Share Company into a single entity. This pivotal move aimed to create a more robust and competitive enterprise by capitalizing on synergies and optimizing resource allocation. While the envisioned benefits encompassed enhanced operational efficiency, cost reductions, and robust revenue generation, a thorough assessment of its actual impact on ESL's financial performance remains necessary.

This study aims to investigate the effect of this legal merger on the financial performance of ESL. By analyzing secondary quantitative data, this research will explore trends in key financial metrics such as revenue, profitability, liquidity, solvency, and efficiency. The analysis will encompass ESL's financial performance before, during, and after the merger, allowing for a comprehensive assessment of the merger's impact. This study will contribute to a deeper understanding of the financial implications of mergers within the Ethiopian logistics sector, providing valuable insights for ESL and other stakeholders contemplating similar strategic decisions.

This research delves into the financial implications of the merger for ESL, aiming to illuminate its impact on the company's economic health. The intricate interplay between mergers and acquisitions (M&A) and their financial consequences within the logistics industry necessitates a deeper understanding to guide strategic decision-making. By meticulously analyzing ESL's financial performance pre- and post-merger, this study seeks to bridge the existing knowledge gap and offer valuable insights for the Ethiopian logistics sector.

1.2. Background of the Study

The Ethiopian Shipping and Logistics Service Enterprise (ESL) plays a critical role in facilitating Ethiopia's international trade and economic growth. In August 2016, the Ethiopian government strategically merged key entities—Ethiopian Shipping Lines Share Company, Ethiopian Maritime and Transit Service Enterprise, Dry Port Enterprise, and Comet Transport Share Company—to form ESL. This consolidation, formalized under Regulation No. 255/2011, aimed to create a more robust and competitive logistics provider by leveraging synergies, optimizing resource allocation, and ultimately enhancing operational efficiency, reducing costs, and improving revenue generation within the sector. The merger brought together the legacy of institutions like the former Ethiopian Shipping Lines S.C. (established in 1956 E.C.) which pioneered modern sea transport, and the Ethiopian Maritime and Transit Services Enterprise (established in 1960 E.C.) which facilitated cargo movement, alongside the Dry Port Enterprise (established in 1999) and Comet Transport SC for inland services.

Despite the anticipated benefits and the strategic rationale behind this significant merger, a comprehensive analysis of its actual impact on ESL's financial performance remains necessary. Understanding the financial implications of such a large-scale consolidation is crucial for strategic decision-making within the Ethiopian logistics industry. While existing research examines mergers and acquisitions (M&A) in the broader shipping and logistics sector, there is a distinct gap regarding the specific financial consequences of this particular merger on ESL. Therefore, a detailed investigation is needed to analyze how the merger has affected key financial performance indicators for ESL, including profitability ratios (e.g., ROE, ROA), efficiency ratios (e.g., inventory turnover, receivable turnover), and solvency ratios (e.g., debt-to-equity). By examining ESL's financial performance before and after the merger, this study aims to bridge this knowledge gap, providing valuable insights for ESL and other stakeholders, and

contributing to the development of a more efficient and financially robust logistics landscape in Ethiopia.

1.3. Statement of the problem

Mergers and acquisitions (M&A) are strategic corporate actions that can significantly influence a firm's financial performance, either positively or negatively. Healy, Palepu, and Ruback (1992) emphasize that the costs and benefits of M&A are crucial corporate concerns that directly affect shareholder value. However, evaluating whether such activities lead to improved financial outcomes remains a complex challenge for decision-makers (Katuu, 2013).

The literature on M&A suggests mixed outcomes. Studies indicate that mergers can generate positive abnormal earnings for shareholders through value creation (Cartwright & Cooper, 2013; Moeller et al., 2005), while others point out the risks, particularly for marginally profitable or early-stage firms (Fluck & Lynch, 2011; Eliasson, 2011). Li and Pan (2013) argue that merged firms may perform better than when operating independently, and Long (2015) supports the notion that acquisitions can enhance shareholder value. Sumarah and Priantinah (2018), analyzing Indonesian firms, concluded that M&A can improve operational efficiency and increase shareholder value over time. Despite these findings, the outcomes of M&A are often case-specific, and financial impacts can vary significantly by sector and region.

In Ethiopia, a major merger involving Ethiopian Shipping Lines S.C., Maritime and Transit Services Enterprise, and Dry Port Enterprise resulted in the formation of the Ethiopian Shipping and Logistics Services Enterprise (ESLSE). ESLSE's merger is a strategic governmental initiative, and its outcomes directly impact Ethiopia's trade-dependent economy. This merger was expected to create a more competitive and operationally efficient entity in the logistics sector. However, there remains a critical research gap regarding the actual financial performance of ESLSE following the merger. Existing regional studies, such as Kiarie (2013) on M&A in East Africa, highlight the importance of localized empirical analysis, as Kiarie (2013) reported gains in African cross-sector M&A where integration succeeded. This divergence underscores that profitability gains depend on effective post-merger management, industry dynamics, and geographic context with developing economies often showing stronger positive trends. yet research often focuses on strategic outcomes or industry-level implications, leaving a void in understanding the direct financial consequences for individual merged entities such as ESLSE.

This study aims to fill a critical gap in empirical M&A research within Ethiopia's logistics sector by analyzing the impact of the ESLSE merger on key financial performance indicators. It will assess metrics such as return on equity (ROE), return on assets (ROA), debt-to-equity ratio, and other relevant financial ratios before and after the merger. By conducting a comparative analysis of pre- and post-merger financial data, this research seeks to offer evidence-based conclusions on the financial implications of the merger.

In summary, this study addresses the pressing need to evaluate the financial effects of the ESLSE merger, contributing to the limited body of empirical research on M&A in the Ethiopian logistics sector. The findings are expected to inform future strategic decisions and provide practical insights for policymakers and corporate leaders considering similar initiatives.

1.4. General Objectives

To assess the overall effect of the merger on the financial performance of the combined Ethiopian shipping and logistics entity.

1.5. Specific Objectives

To quantify operational synergies through financial metrics and managerial interviews, and

Evaluate the changes in profitability ratios (Gross margin, Operating Margin, return on equity (ROE), return on assets (ROA)) following the merger and assess the effect of the merger on revenue growth within the Ethiopian shipping and logistics sector.

Analyze the impact of the merger on efficiency ratios (Receivables turnover ratio, Days Payables Outstanding /DPO)

Evaluate the changes in liquidity ratios (Current ratio, and Quick ratio /Acid-test ratio) following the merger.

Evaluate the changes in leverage ratios (Debt ratio, Debt to equity ratio) following the merger.

1.6. Research Questions

What is the overall effect of the merger on the financial performance of the combined Ethiopian shipping and logistics entity?

1.7. Significance of the Study

Examining the impact of the merger on the financial performance of Ethiopian Shipping and Logistics (ESLSE) holds significance for several reasons:

Understanding Mergers in Ethiopia: Mergers and acquisitions (M&A) are becoming increasingly common in Ethiopia's growing economy. This study can provide valuable insights into the potential financial benefits or drawbacks of such consolidation within the Ethiopian logistics and other sector to make merger decision by understanding the effect of merger on financial performance of a company.

Informing Future Decisions: The findings can inform future M&A decisions for ESLSE and other Ethiopian companies. It can help assess if mergers lead to improved financial performance and identify best practices for successful integration.

Logistics Industry Impact: A strong and efficient logistics sector is crucial for Ethiopia's economic development. This study can contribute to understanding how mergers can affect the overall health and competitiveness of the Ethiopian logistics industry.

1.8. Scope of the Study

This case study focused on examining the effect of the specific merger involving Ethiopian Shipping and Logistics. It investigates:

The single-case nature limits the ability to establish a definitive causal link between the merger and observed changes.

Relying on time series analysis not fully account for confounding factors.

Financial Performance Measures: The study analyzed relevant financial ratios like profitability (return on equity, return on assets, gross profit margin and operating margin), liquidity (current ratio, quick ratio), and efficiency (receivables turnover ratio) to assess changes in ESLSE's financial health post-merger.

Pre- and Post-Merger Comparison: Financial data from a defined (two years) period before and after the merger compared to isolate the merger's influence.

1.9. Limitation of the Study

This study, being a single-case analysis focused specifically on the merger involving Ethiopian Shipping and Logistics Service Enterprise (ESLSE), inherently faces certain limitations. Firstly,

its single-case nature restricts the generalizability of the findings to other mergers or companies within the Ethiopian logistics sector or beyond. The observed financial impacts are specific to ESLSE's unique circumstances, integration process, and market environment, making it challenging to establish definitive causal links applicable to a broader context. Secondly, while the research employs time series analysis by comparing pre- and post-merger financial data, it may not fully account for all confounding external factors (e.g., macroeconomic shifts, industry-specific regulations, or unforeseen global events) that could have influenced ESLSE's financial performance independently of the merger. These external variables, if not adequately controlled for, could potentially bias the interpretation of the merger's direct impact. This could be controlled by conducting robust sensitivity analyses to ensure the findings are not overly dependent on specific model choices or variable specifications and by integrating qualitative analysis to contextualize and interpret the quantitative results within the broader historical narrative.

1.10. Organization of the Paper

This research paper is structured into three main chapters to systematically present the study. Chapter One: Introduction provides the foundational context for the research, encompassing the background of the study, a detailed statement of the problem, and the overarching general and specific objectives. It also outlines the key research questions and hypotheses guiding the investigation, along with the significance and defined scope of the study. Chapter Two: Literature Review delves into existing academic discourse, offering a comprehensive review of theoretical concepts pertinent to mergers and acquisitions, the evolution of accounting standards relevant to business combinations, and various perspectives on the financial performance impacts of mergers. This chapter also incorporates an empirical review of prior studies and discusses the specific Ethiopian context relevant to the merger. Finally, Chapter Three: Research Methodology and Design articulates the systematic approach undertaken to conduct the study, detailing the chosen research design, the methods employed for data collection, the rationale behind sample determination, and the specific data analysis techniques utilized to address the research objectives. Chapter four; discuss the finding and data analysis and presentation. The final section of the paper describes summary of the findings, conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

A company may expand either by internal or external growth. In the former one case it expands by undertaking investment projects while in the second case there is business combination in which one company is very much dominant party, acquiring control of that other business either with or without the consent of directors of that business depending on necessity to determine 1) the value of the business to its present owner 2) the value of the business when combined with existing assets of acquiring company. A business combination refers to a transaction or other event in which an acquirer obtains control over one or more businesses.

In other circumstances two or more companies may both see benefits from coming together. Thus two companies may consider that their combined businesses are worth more than the sum of the value of the individual businesses. For such a combination, the individual businesses must be valued to help in the determination of the proportionate share in the combined business, although, of course the ultimate share will, to a considerable extent, depend upon the bargaining ability of the two parties.

This literature review provides a foundation for examining the impact of the merger on Ethiopian Shipping and Logistics. By analysing the company's financial performance before and after the merger, and considering the existing research on M&A outcomes, the study can contribute valuable insights to the understanding of mergers within Ethiopia's developing logistics sector.

2.2. Acquisition and merger

The acquisition method approaches a business combination from the point of view of the acquirer, the entity that obtains control of the other entity or entities in the business combination. Under the acquisition method, the buyer identifies all assets and liabilities and reports them on the consolidated SFP at their fair values.

The acquisition method has traditionally been used to account for business combinations in the UK and, where the consideration for shares or assets purchased is wholly cash or loan stock, this

is agreed to be the correct method of accounting. Under acquisition accounting, an investment in a subsidiary would normally be recorded at the fair value of the consideration given. Where the fair value of any shares issued exceeds their par value, a share premium account or merger reserve would normally be created in the parent company's financial statements (Richard Lewis and David Pendrill, 7th edition, 2004)

In the consolidated financial statements, the investment would be replaced by the underlying separable assets and liabilities of the subsidiary at their fair values, representing their 'cost' to the group. Any difference between the cost of the investment and the sum of the values of the separable assets and liabilities is recorded as goodwill. Pre-acquisition profits of the subsidiary are no longer available for distribution and the results of the new subsidiary are only brought into the consolidated profit and loss account from the date of acquisition (Richard Lewis and David Pendrill, 7th edition, 2004)

Under the merger method of accounting, the investment in the subsidiary company would normally be recorded in the parent company's financial statements as the aggregate of the nominal value of any shares issued plus the fair value of any other consideration.

Shipping M&A activity largely arises from businesses seeking to complement organic growth, to access specific tonnage types and regional markets, and to diversify and enhance their market share. M&A may also provide access to specific know-how, assets and capabilities. The amalgamation of two or more businesses with complementary resource bases is likely to create operating and financial synergies and efficiency gains, with potential benefits for the involved parties as well as their combined client base.

Mergers and acquisition has always been an issue for strategic managers and financial analysis, which due to the high competition arising from the fast-changing global market, it has significantly resulted in a condition where firms are finding it gradually difficult to remain competitive. Several studies have been conducted in developed and developing countries in order to address the effects of mergers and acquisition on company financial performance. Kruse, Park and K. Suzuki, 2003 did a study on the Japan manufacturing industry; Pazarskis, Vogiatzogloy, Christodoulou and Drogalas, (2006) concentrated on Greece manufacturing companies; Ramaswamy and Waegelein (2003) did in Hong Kong production companies; Tang (2015) research on bank sector in Philippine; Dutescu, Ponorica and Stanila (2013) concentrated on

Romania on consumer goods and service market; and lastly Hagedoorn and Duysters (2000) concentrated on Holland technology sector. Most of the previous studies on mergers and acquisition utilize financial variables such as Return on assets, Gross profit margin, Return on capital employed, Market Growth, total assets ratio, return on net worth, operational profit margin as their research variable.

According to Healy, palepu and Ruback (1992), the resultant costs and benefits of mergers and acquisition is really a corporate issue and may affect the firm's performance either positively or negatively. Therefore, the firm shareholders and their agents are faced with issues in other to determine whether this strategic activities and decisions will end up improving the company's financial performance (Katuu, 2013). Although observing into the problem of mergers and acquisition as always been seen as a very difficult issue for the leaders of companies. As a number of M&A literature and economic theories present that if firm don't practice mergers and acquisition shareholders wont experience positive abnormal earnings from anticipated value creation post-merger (Cartwright & Cooper, 2013; Moeller et al., 2005). According to long (2015) firm's shareholders value can increase due to acquisition activities. Other than that Li and Pan (2013) also argued the value of the acquired firm will increase other than functioning individually. Fluck and Lynch (2011) also found that consolidation activities commonly used for marginally profitable startups and also this activity will lead to big loss of the firm when it face problems that occurs in the process of mergers and acquisition (Eliasson, 2011).

2.3. Development of an accounting standard

Accounting for business combinations is a topic which has been the cause of considerable controversy in many countries. The traditional method of accounting for combinations in the UK was the 'acquisition' or 'purchase' method but, in the 1960s, a new method began to find favour. This was the 'merger' or 'pooling of interests' method which had been extensively used in the USA. ED 3 Accounting for Acquisitions and Mergers, which was published in 1971, attempted to define situations in which each method should be used but was never converted into an SSAP. Changes introduced by the Companies Act 1981 made it possible to make progress and SSAP 23 Accounting for Acquisitions and Mergers was issued in April 1985. This standard was the subject of considerable criticism and, in 1990; the ASC issued a revised version ED 48. The ASB then issued its own exposure draft, FRED 6 Acquisitions and Mergers, in May 1993 and this was

followed by FRS 6, with the same title, in September 1994. We shall explore these attempts at standardization after we have distinguished between the 'acquisition' and 'merger' methods of accounting.

Prior to the Companies Act 1981, there were severe doubts about the legality of the merger method of accounting. Although the ASC had issued ED 3 Accounting for Acquisitions and Mergers in 1971, it was unable to make progress in this area until the passage of the Companies Act 1981.

The Companies Act 1981 relieved companies from the need to create a share premium account in certain circumstances and these provisions are now contained in the Companies Act 1985

This so-called merger relief is available when one company issues equity shares to purchase equity shares in another company and ends up with an equity holding of 90 per cent or more. In such circumstances, the company does not have to create a share premium account in respect of either the equity shares issued or any non-equity shares issued in exchange for non-equity shares

Thus, if one company issues equity shares to acquire 95 per cent of the equity shares of another company, it is not necessary to create any share premium account in respect did not require, the use of merger accounting. Once the merger method had been legalised, the ASC was able to turn its attention to the circumstances in which this method should be used (Richard Lewis and David Pendrill, 7th edition, 2004).

2.4. Types of mergers

Mergers come from the Latin "mergerer" which means to join, together, unite, combine or cause loss of identity because something is absorbed or ingested. Mergers are a combination of two or more companies to form a new company (Whitaker, 2012). Mergers are commonly used in companies as a process of merging a business. Mergers can be done both internally and externally. Internal mergers occur when the target company is in the same group ownership, while external mergers occur when the target company is in a different ownership group.

In general, based on the relationship between the merging companies' businesses or industries, mergers can be divided into four groups (Sartono, 2001):

1. Horizontal mergers occur when a company merges with a company that is in the same type of business. For example, a telecommunications company merged with another telecommunications

Company, two beverage companies merging; which is currently being discussed is a merger between Ethiopian Shipping Lines Share Company, Ethiopian Maritime and Transit Service Enterprise, Dry Port Enterprise; and the former Comet Transport Share Company companies have businesses in the same field, namely Logistics service providers. 2. Vertical mergers occur when a company merges with a company that still has a relationship with its business. This is intended to save operating costs because the company has direct access to upstream and downstream businesses. An example is when a steel casting company merges business with its suppliers, car manufacturer merging with a steel supplier. Or it could be a mining product processing company merging with its distributor and marketing company. 3. Kongeneric Merger is a merger of two similar businesses but has different products. For example, a computer company merges with a software company, two companies have the same business sector, namely in the field of technology, but they produce different goods. 4. Merger Conglomerate, namely business merger from two or more industries which is unrelated; - Example of a mining company buying a real estate company, a media company merging with a transportation company.

Whereas according to the process, the merger is divided into two, namely:

1. Friendly Merger is a merger approved by parties, where both parties agree to merge and believe that this merger will bring benefits to both parties. 2. Hostile Merger is when both parties do not reach an agreement in a business combination where the target company feels the price offered is too low and is also possible with the fear of managers losing their positions when a business merger occurs. If this happens, the buyer can approach the target company's shareholders and buy it directly from them so that no approval from the target company's managers is needed.

2.5. Impact of Mergers on Financial Performance

Mergers are business transactions where two independent companies join forces to form a new single entity. Unlike acquisitions, mergers are typically voluntary agreements between relatively equal-sized companies. Companies decide to merge for various reasons, including:

Growth:

The main reason companies merge (according to financial and economic studies) is to improve their overall performance (Entering new markets, expanding product offerings, or increasing customer base.). This economic performance motive boils down to the idea that by joining forces, two companies can become more profitable than they were on their own. In other words, the combined company (VAB) is assumed to be worth more than the sum of the two individual companies ($VA + VB$). This idea aligns with the neoclassical theory where businesses are seen as trying to maximize their profit or value. But, simply saying "more profit" isn't specific enough. We need to explore how exactly these mergers are supposed to lead to better financial results.

Cost savings

Combining operations to eliminate redundancies and achieve economies of scale by eliminating intersecting costs such as administration costs and IT expenditure, financial performance can be improved. Due to the nature of fixed costs, cost reduction potential is not restricted only on horizontal mergers but also includes other types of mergers. Vertical integration has some unique sources of cost reduction. For instance, cost advantages can be achieved by avoiding costs of communication and bargaining (Arrow 1975, Williamson 1975). Moreover, if production processes require tightly integrated production chain, lower production costs may be achieved by vertical integration (Mueller 1980, p. 30). The bigger size can be the source of cost reductions for less than minimum efficient size firms. In this case, with the help of bigger size, average unit costs reduce; hence a merged company enjoys economies of scale. However, in the multiple-product case, the relation between scale economies and benefits of mergers is more complex. Due to dis-economies of scope, there may exist overall dis-economies of scale even if there are product specific economies of scale (Stennek & Verboven 2001)

Market power

Companies may merge to gain more control or larger market share and increased bargaining power with suppliers or distributors. A big enough mergers can give a company a dominant position, allowing it to set higher prices and earns more profit than smaller competitors. In some cases, these large mergers can also make it harder for new businesses to enter the market, even if the big company's costs are low. This is because the big company can still undercut any new competitor on price while remaining profitable itself.

Access to resources

Combining by buying an existing company (acquisition) gives the buyer control over the target company's resources, which can offer several advantages (expertise, technology, or other resources.). One benefit is that the buyer can expand its own capabilities without necessarily increasing the industry's overall capacity. This can be especially important in shrinking industries where overall demand is falling. Additionally, acquisitions are a faster way to grow capacity compared to starting a new operation from scratch (Greenfield investment).

In vertical mergers, where companies at different stages of the production process combine, the buyer can gain a guaranteed source of important supplies and reduce risks associated with depending on outside suppliers (as Porter noted in 1980). This goes beyond just raw materials; companies can also acquire critical resources like finished parts for assembly (intermediate products) or distribution networks.

The resource-seeking motive for mergers isn't limited to physical resources. Companies can also acquire valuable knowledge through acquisitions, such as technological expertise, knowledge of specific geographic markets, or management skills. Instead of solely relying on research and development (R&D) to create new technologies, a company can acquire another company that already has the technology it needs. This gives them access not just to patents and copyrights, but also to the technical know-how of the acquired company's employees.

Integration challenges: While acquisitions offer a faster way to gain resources, integrating the acquired company's operations and knowledge into the acquirers can be complex and time-consuming. This can negate some of the speed advantage and lead to unexpected costs.

Cultural differences: Especially in cross-border acquisitions, cultural differences between the merging companies can create challenges. This can lead to communication problems, resistance to change, and difficulties in merging the two companies' work styles.

Price competition: When multiple companies are interested in acquiring the same target with valuable resources, a bidding war can drive up the acquisition price. This can reduce the overall benefit for the acquiring company.

Quality of acquired resources: Not all acquisitions are successful in capturing the desired

resources. The target company's knowledge or technology might be outdated, or its employees might resist the transfer of know-how to the acquirer.

Overall, while resource-seeking mergers can be a strategic tool for companies, careful planning and execution are necessary to ensure a successful outcome.

Managerial motives

The idea that managers might have their own reasons for pursuing mergers comes from the principal-agent theory. In this theory, managers act on behalf of the company's owners (the principals), but there can be a conflict of interest (an agency problem) [Jensen & Meckling 1976]. This happens because ownership and management are separate (as Berle & Means pointed out in 1932). Since perfect contracts can't be written to guarantee managers always act in the owners' best interests, the agency view suggests managers might prioritize their own wealth over shareholder wealth.

This could lead managers to grow companies beyond the point that's actually best for the shareholders (optimal size) [Jensen 1986]. In other words, they might be building their own "empires" to get personal benefits like higher compensation, more power, and prestige. These perks are often tied to company size and sales growth. Plus, managers of larger companies might have better chances of landing board positions at other companies. Mergers and acquisitions are a much faster way to achieve this growth than internal expansion.

Another theory, the free cash flow hypothesis (also by Jensen in 1986), suggests that managers might use the company's excess cash (cash flow not needed for profitable investments) for unnecessary acquisitions instead of returning it to shareholders.

- **Empire Building:** Managers might pursue M&A to grow the company quickly (even if not optimal) to increase their power, prestige, and compensation. Bigger companies often offer these perks.
- **Free Cash Flow Hypothesis:** Managers might use excess company cash for acquisitions instead of returning it to shareholders, potentially to justify their own positions.
- **Limited Oversight:** Large, complex mergers can be difficult for shareholders to monitor, giving managers more leeway in deal decisions.

These are potential downsides, but it's important to remember that M&A can also be a legitimate

strategy to achieve growth and improve shareholder value.

The impact of mergers on the financial performance of companies has been a topic of extensive research within the field of corporate finance. This review will explore the existing literature to understand the potential financial implications of mergers, specifically focusing on the context of the Ethiopian shipping and logistics industry.

2.6. Synergy Hypothesis and Financial Performance

In Merger and Acquisition, there are two main things that must be considered, namely the value generated from Merger and Acquisition and who are the parties who most benefit from these activities. With the existence of Merger and Acquisition, it is expected that it increases the synergies within the group or new entity so that the company's value will increase. However, regarding the party who gets the benefits, prior studies presented mixed results. Some argue, the shareholders of the target company always benefit, and the shareholders of the acquiring company are always harmed. Merger and Acquisition are carried out by the company in the expectation of bringing several benefits. Mutual benefit conditions will occur if the Merger and Acquisition activities get a synergy. According to Brigham and Houston (2001) states that synergy is a situation where two companies, namely each company A and company B join into one company C, and in this merger, the value of firm C becomes higher than the value of company A and company B when standing by themselves, this is called synergy. The effect of the synergy will arise in four sources: The first is operating savings resulting from economies of scale of management, marketing, production, or distribution — the second financial savings, which include lower transaction costs and better evaluation by securities analysis. The third is the difference in efficiency, which means that management of one company is more efficient and weaker company assets will be more productive after the merger because with one management it will be more efficient in managing, and the fourth is increased market share due to reduced competition.

The term synergy is frequently used to describe mergers that aim to cut costs. This motive emphasizes that company's merge to save money, and these potential cost savings can apply to both ongoing expenses (variable costs) and fixed costs that don't change with production volume. Mergers can also create financial benefits through synergy that goes beyond just cost savings. Some companies might have extra cash on hand (cash flow), while others have great investment

opportunities but lack the funding. By merging, these companies can benefit from each other's strengths. Mergers can also offer tax advantages that incentive some companies to join forces (as Myers and Majluf explained in 1984).

Synergy analysis would likely involve evaluating how the integration of operations, resources, and capabilities of the merging companies can lead to synergies that drive financial performance and strategic outcomes. This analysis would assess whether the mergers resulted in cost synergies, revenue synergies, operational synergies, or other benefits that contribute to the overall success of the merged entities.

Financial performance analysis aims to assess the implementation of the company's strategy in terms of Merger and Acquisition. A profitability ratio is considered as a reference to see the success of a company in making a profit, so the company tries to achieve this by trying to increase the ratio. Return on Equity (ROE) is one of the important indicators that investors use to assess the level of profitability of a company. In Return on Equity, three main things can be found, namely the ability of the company to generate profits, the efficiency of the company in managing assets and the debt used in carrying out the business

A central theme in M&A research is the concept of synergy. Mergers are often undertaken with the expectation that combining two companies will create synergies, leading to improved financial performance. These synergies can arise from economies of scale, cost reductions through operational efficiencies, or enhanced market power (Pennings et al., 2001). Studies by (Shrestha et al, 2017) and (Kiarie, 2013) support this notion, finding positive effects on profitability ratios (EPS, ROA) after mergers.

Mergers & Acquisition and Return on Assets

Return on assets is considered as an important indicator in measuring company's efficiency through using its total assets under its control, and it's calculated by taking net operation income divide by firm's total assets. In the world of finance, Return on Assets (ROA) is a critical metric that sheds light on how effectively a company utilizes its resources, or assets, to generate profit. It's calculated by simply dividing a company's net income by its total assets. This ratio holds significant weight in understanding a company's financial health according to various studies. For instance, Hall and Weiss (1967) explored the relationship between ROA and company size, highlighting how ROA can be used to assess how a company's profitability is impacted by its

scale. Similarly, Khrawish (2011) emphasizes ROA as a positive indicator of a company's overall profitability. Furthermore, building on this idea, Njogo et al. (2016) reinforce the use of ROA in evaluating the financial performance of a company post-merger, indicating whether the merger or acquisition has led to a significant improvement in the company's financial health. In conclusion, ROA serves as a comprehensive measure that goes beyond just profitability, providing valuable insights into a company's ability to leverage its assets for financial success.

Mergers & Acquisition and Return on Equity

Investors rely heavily on Return on Equity (ROE) to gauge a company's financial performance. A company with a high ROE is seen as one that can generate its own cash flow, a desirable trait. As Khrawish (2011) explains, ROE is calculated by dividing a company's net income after taxes by its total shareholder equity. This ratio essentially reflects how well a company manages its shareholders' money. In other words, a strong ROE indicates effective management that utilizes shareholder funds well. However, a key drawback of ROE is its sensitivity to financial leverage (borrowing). Mishkin (2006) emphasizes that ROE reveals a company's profitability by comparing its net income to its shareholders' equity. Naba & Chen (2014) further cite Pazarskis et al. (2006), who believe that mergers and acquisitions can increase shareholder value in both companies. Therefore, a high ROE suggests that management is effectively utilizing its value base, ultimately generating a better return for shareholders. Mergers and acquisitions themselves can be a driving force behind improved financial performance, as Pazarskis et al. (2006) propose. In conclusion, a high ROE indicates a company's ability to generate profits internally and effectively manage shareholder funds, making it an attractive investment opportunity

Mergers & Acquisition and Net Profit Margin

This is the profit which is obtained from when interest and taxes are deducted from the gross profit in other words it's the profit generated from all the phrases of the venture. Therefore, according to Li and Pan (2013) tacit that the value of the combined firm will increase by doing merger and acquisition rather than operating individually. Based on Maranjian (2009), when the companies are having higher margins, it reflects their strength. They have an advantage in competitive situation since high margin companies are able to afford to lower prices which competitors will have pressure because of it (Maranjian, 2009). Furthermore, one proposal is that merger and acquisition regularly used as a strategy to prepare financing for marginally profitable

start-ups as stated by Fluck and Lynch (1999). Other than that, merger and acquisition would enhance the value and efficiency of a company (Wang & Moini, 2012) and some scholars used NPM to gauge the profitability. The net profit margin is utilized to identify the significant progress of the financial condition of the company after merger and acquisition.

Examining the financial impact of mergers within the shipping and logistics industry requires delving into empirical studies that analyze real-world data. This review will explore relevant research to understand how mergers have affected financial performance in this specific sector.

2.7. Empirical Review

Several empirical literature studies are notable and high lightened. Sulaiman (2012) carried out this study to comprehend the impacts of business mergers on the Oil and Gas industry of Nigeria. The point of this research is to see if mergers enhance the after merger performance of sample firms from the Oil and Gas industry sector of Nigeria. The results of investigation demonstrate that post-merger profitability, liquidity, efficiency capital and leverage position enhanced fundamentally. Sibel and Ihsan (2012) analysed the impact of sectorial and geological diversification on the performance of Turkish banks and attempted to show how the diversification influences banks' performance. The review investigated 50 Turkish banks that diversified between the periods 2007 and 2011. The findings affirm the results of the present review, which did not find any significant relationship amongst diversification and performance (Bendob, 2015).

Kruse, Park and K. Suzuki (2003) dissected the long-term working performance of Japanese companies following the merger and acquisition agreements. The main aim this review is to examine the long-term effect of merger and acquisition on the working performance of Japanese acquiring companies. In this review the accounting based ratios such as ROE, ROA, Net profit, earning per share, and return on capital employed (ROCE) are utilized to gauge the operating performance taking after the merger. It is finalized that merger and acquisitions deals significantly impact on the long-term performance of procuring firms. Marangu (2007) conducted a study that concentrated on the impact of mergers and acquisitions on financial performance of non-recorded commercial banks in Kenya. This research focuses on the profitability of non-recorded banks, which merged from 1994 to 2001 and utilized four measures of performance, which are benefit, return on assets, shareholders equity and total liability. The

findings presumed that there was significant change in performance for non-recorded banks, which merged contrasted with non-recorded banks that did not merge inside a similar period. This affirms the hypothetical assertions that organizations derive a bigger number of synergies by merging than by working as individual outfits. With this outcome this specific research is a well-structured therefore it's exceptionally important to the support of the research project.

Pazarskis, Vogiatzoglou, Christodoulou and Drogalas (2006) conducted a research on the effect of corporate merger over the working performance of Greece manufacturing acquiring company. In this study, sample of 50 Greeks manufacturing organizations are viewed that are listed on Athens stock market and the period taken from this study is from 1998 to 2002. This study utilized financial and non-financial variables to assess the financial performance. The findings shows that the performance of consolidated company reduces after merger, which is unique in relation to Ramaswamy and Waegelein (2003) who studied the long-term post acquisition performance of companies in Hong Kong and their study conclude that there is significant positive improvement of the post-acquisition performance as compared to the pre-acquisition. According to Usman, Mehboob, Ullah and Farooq (2010) study the financial performance of the acquiring companies in Pakistan. To evaluate the financial position of merged manufacturing companies in Pakistan is the main aim of this paper. The study took a sample of 14 manufacturing consolidated companies and a sample of 14 matched control companies in other to evaluate their position. The results of this study demonstrated that the joined firms don't perform significantly in respect to the control firms. It is concluded that the merger don't significantly impact on financial performance of the merged company with respect to industrial peers.

Positive Impacts on Profitability and Efficiency:

Several studies have documented positive financial outcomes following mergers in logistics. (Alexandrou et al., 2018) examined mergers among maritime shipping companies and found evidence of improved profitability ratios (e.g., return on equity, ROE) after the consolidation. Similarly, (Luo et al., 2013) observed positive impacts on efficiency ratios (e.g., inventory turnover ratio) in mergers involving logistics service providers, suggesting better asset utilization. These findings support the achievement of synergies through economies of scale and operational streamlining.

- **Synergy and Cost Savings:** A study by Kim (2018) investigated the impact of horizontal mergers (between similar companies) in the Korean logistics industry. They found evidence of cost reductions through economies of scale and elimination of duplicate administrative functions.
- **Vertical Integration Benefits:** A study by Mangan et al. (2008) examined the effects of vertical integration (acquiring suppliers or customers) in the supply chain. The research suggests that vertical integration can lead to improved coordination, reduced transaction costs, and better control over inventory, potentially boosting profitability.

Challenges and Negative Impacts:

However, achieving synergy is not guaranteed. The integration process can be complex and lead to unexpected costs, delays, and disruptions (Caves et al., 1984). Additionally, cultural clashes or difficulties in combining different management styles can hinder performance (Haspeslagh and Jemison, 1991). Research by (Anwar et al., 2014) highlights how mergers might not significantly improve financial ratios, while (Cumming et al., 2008) even suggest potential negative impacts on shareholder returns.

- **Integration Challenges:** Faes et al. (2016) studied the challenges of post-merger integration in logistics companies. They found that merging complex logistics operations can be difficult and time-consuming, leading to disruptions and inefficiencies that can negatively impact financial performance in the short term.
- **Overvaluation and Synergy Failure:** Some mergers might be driven by overvaluation of target companies or unrealistic expectations of synergy. A study by Rhodes and McGuire (2004) found that poorly planned mergers in the transportation industry often resulted in decreased shareholder value due to these factors.

Challenges and Mixed Results:

However, not all mergers in logistics lead to clear financial benefits. (Stopford, 2009) points out the complexities of integrating logistics networks, highlighting potential challenges like incompatible information systems and labour union resistance that can hinder performance improvements. (Song et al., 2017) empirically demonstrated this by finding no significant

changes in profitability (e.g., return on assets, ROA) for acquiring firms in logistics mergers. These studies emphasize the importance of effective integration strategies to unlock the potential financial gains from mergers.

Regional and Industry Specificity:

The success of mergers can also vary depending on the specific region and industry segment. (Liu et al., 2018) highlight how regulatory environments and market structures can influence merger outcomes. For instance, mergers in deregulated logistics markets might yield greater cost savings compared to more regulated environments. Similarly, (Wang et al., 2014) found that mergers within specific logistics sub-sectors (e.g., freight forwarding) might have different financial implications compared to broader logistics mergers.

Limited Research in Developing Economies:

A critical gap in the existing research is the limited focus on mergers within developing economies. Studies like (Kiarie, 2013) analyze M&A activity in African countries, but they often encompass various industries, not solely logistics. This case study on Ethiopian Shipping and Logistics can contribute valuable data on the financial impact of mergers within the Ethiopian logistics sector, providing insights relevant to developing economies with emerging logistics infrastructure.

2.8. The Ethiopian Context

The Commercial Code of the Federal Democratic Republic of Ethiopia (Proclamation No. 1243/2021) outlines specific regulations regarding the merger and division of business organizations.

Merger of Business Organizations

Article 565 of the Commercial Code defines a merger as an operation where two or more organizations combine into one. This can occur in two primary ways:

- **Merger by Acquisition:** One business organization acquires one or more other business organizations. The acquired organizations are dissolved without liquidation, and all their assets and liabilities are transferred to the acquiring organization. In exchange, the shareholders or partners of the acquired entities receive shares in the acquiring organization, and may also receive additional cash payments.

- **Merger by Formation of a New Organization:** Two or more business organizations are dissolved without liquidation to form a completely new organization. All their assets and liabilities are transferred to this newly formed entity. The shareholders or partners of the original organizations receive shares in the new organization, possibly with additional cash payments.

Additionally, a business organization that is already undergoing liquidation can merge with another organization before its assets are distributed. The Code also specifies that mergers can take place between any forms of business organizations.

Division of a Business Organization

Article 566 defines division as an operation where a business organization is dissolved without liquidation, and all its assets and liabilities are transferred to more than one pre-existing organizations or organizations that are newly formed by the division. The shareholders or partners of the divided organization receive shares in the recipient organizations, and may also receive additional cash payments.

The types of division include:

- **Division by Acquisition:** A business organization is wound up without liquidation, and its assets and liabilities are transferred to multiple pre-existing organizations.
- **Division by the Formation of New Organizations:** A business organization is wound up without liquidation, transferring its assets and liabilities to organizations it creates.
- **Dividing a Certain Portion of Asset:** This involves separating a self-sustaining business unit or a part of an organization's assets and transferring it as a contribution to a newly formed or existing organization.

Similar to mergers, divisions can occur into any type of business organization.

Merger or Division Plan

According to Article 567, a detailed merger or division plan must be prepared by each business organization involved in the process. This plan needs to be signed by the chairperson of the board of directors, or by the general manager if there is no board.

The plan must contain the following information:

- The type, name, and head office address of each business organization participating in the merger or division.
- If a new business organization is being created as a result of the merger or division, its type, name, and head office address.
- The economic rationale and specific conditions of the merger or division.
- The approved, annual, and consolidated financial report of each organization involved.
- A description of the assets or business unit (if it can subsist separately) and liabilities being transferred, along with an estimation of their value and the method used for valuation.
- The ratio for the exchange of shares to be allotted due to the merger or division, the amount of any cash payment, the date from which holding such shares entitles participation in profits, and any special conditions affecting this entitlement.
- The amount of money to be paid to members who choose to leave the organization due to their opposition to the merger or division.
- The specific date from which the transactions of the business organization being acquired or divided will be considered as those of the acquiring or newly formed business organization.
- The names of partners who have unlimited liability.

According to article 9(3) of The Trade Competition and Consumer Protection, Proclamation No. 813, 2013, Federal Negarit Gazeta, 20th year, No.28 Merger takes place when two or more business organizations previously having independent existence amalgamate or when such business organizations pool the whole or part of their resources to carry on a certain business purpose. Directly or indirectly, acquiring shares, securities, or assets of a business organization by a person or group of persons can make it jointly or the business of another person through purchase or any other means also cause a merger. It will be prohibited where such person or group of persons could influence the decision-making in the affairs or in the administrative activities of a business organization or a business.

While the core principles of M&A research apply globally, it's important to consider the specific context of Ethiopia's developing economy. Studies on M&A activity within Ethiopia are limited, making this case study on ESL particularly valuable. There might be unique factors at play, such as government regulations or infrastructure limitations that influence the success of mergers in the Ethiopian logistics sector.

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The "Trade Competition and Consumers Protection Proclamation No. 813/2013" outlines specific regulations concerning mergers and acquisitions, primarily to prevent anti-competitive trade practices and protect consumers.

Here are the key points regarding mergers and acquisitions, as detailed in the Proclamation:

Regulation of Mergers

The Proclamation dedicates a specific section to the "Regulation of Merger", emphasizing control over business combinations to maintain market competition.

Prohibitions

Adverse Effect on Competition: No business person is allowed to enter into a merger agreement or arrangement if it is likely to cause a significant negative impact on trade competition.

Authority Approval: Any merger agreement or arrangement must receive approval from the Authority before it can take effect.

Definition of Merger

A merger is deemed to have occurred under the following circumstances:

- When two or more business organizations, previously independent, amalgamate or pool all or part of their resources for a commercial activity.

- When a person or group of persons directly or indirectly acquires shares, securities, or assets of a business organization, or takes control of its management through purchase or other means.

Notification of Merger

- **Obligation to Notify:** Any business person planning a merger must notify the Authority, providing detailed information about the proposed merger.
- **Investigation by Authority:** Upon receiving a merger notification, the Authority is required to investigate its potential adverse effects on trade competition.
- **Investigation Powers:** During this investigation, the Authority may:
 - Request additional information or documents from the parties involved within a specified timeframe.
 - Invite, through a widely circulated newspaper, any business person potentially affected by the merger to submit written objections within 15 days of the notice publication.

Approval of Merger

The Authority, after investigating a proposed merger, will make a decision based on its assessment of the impact on competition:

Approval: A merger will be approved if it is not likely to have any significant negative effect on trade competition.

Prohibition: A merger will be prohibited if it is likely to have a significant negative effect on trade competition.

Conditional Approval: The Authority may approve a merger subject to certain conditions if these conditions can eliminate the likely significant adverse effects on trade competition.

Exceptions for Pro-Competitive Gains: Even if a merger is likely to have significant adverse effects on competition, the Authority may still approve it if it is expected to result in technological advancements, efficiency gains, or other pro-competitive benefits that outweigh the negative effects, and these gains cannot be achieved otherwise.

Registration of Merger

- **Prerequisite for Registration:** The concerned government office must require the presentation of the Authority's approval before registering a merger in the commercial register.

Revocation of Merger Approval

The Authority can revoke a merger approval under specific conditions:

- If it is discovered that the approval was obtained based on false or fraudulent evidence.
- If the conditions under which the approval was granted are not fulfilled.
- Upon revocation, the Authority must inform the concerned government office to cancel the merger from the commercial register.

2.8.1. Contradictions and Discordance in ESLSE Outcomes

While the Proclamation's primary concern is competition and broader economic benefits like efficiency, the detailed financial analysis of the ESLSE merger reveals outcomes that are discordant with a uniformly positive impact and reflect complexities observed in global M&A, particularly in emerging economies:

Efficiency Gains vs. Shareholder Profitability and Liquidity Deterioration:

Regulatory Expectation/Justification: Mergers can be approved if they lead to "efficiency gains". The ESLSE merger was indeed anticipated to bring "enhanced operational efficiency, cost reductions, and robust revenue generation".

ESLSE Outcome: The thesis concludes that the merger "enhanced cost efficiency" (evidenced by significantly higher gross margins post-merger) and "reduced financial risk" (lower debt-to-equity ratio). However, critically, it also "negatively impacted liquidity and shareholder profitability" (Return on Equity - ROE). The current and quick ratios significantly deteriorated post-merger, indicating severe short-term liquidity challenges.

Discordance: This represents a discordance where the anticipated and regulatory-valued "efficiency gains" (e.g., cost control) did not translate into improved shareholder returns (ROE) or robust short-term financial stability (liquidity). A company's inability to meet short-term obligations or provide adequate returns to shareholders, despite operational efficiencies, can

undermine the long-term economic benefits implied by merger approval, even if competition is maintained.

Overall Efficiency vs. Specific Operational Inefficiencies:

General Expectation: Mergers are often expected to streamline overall operations for greater efficiency.

ESLSE Outcome: While cost efficiency improved, the study also found a "significant drop" in *receivable turnover* post-merger. This indicates a decline in the efficiency of collecting money owed to the enterprise.

Discordance: These highlights that "efficiency gains" from a merger are not always uniformly positive across all operational metrics. Improvements in one area (e.g., cost control) can co-exist with deterioration in another (e.g., receivable management), leading to complex and sometimes contradictory outcomes regarding overall operational health.

Linking to Global Discordance and Ethiopian Context

The thesis itself points to "mixed outcomes" in M&A literature globally, meaning M&A does not always lead to improved financial performance. The ESLSE case exemplifies this global discordance within an Ethiopian context:

- **Mixed Global Outcomes Reflected Locally:** The ESLSE merger's results—where some financial indicators improved (cost efficiency, lower financial risk) while others worsened (liquidity, shareholder profitability)—mirror the "mixed outcomes" frequently observed in global M&A research. This suggests that the complex reality of integrating businesses, even with regulatory oversight for competition, often yields nuanced financial impacts rather than universal improvements.
- **Unique Ethiopian Factors:** The thesis highlights a "critical gap in the existing research is the limited focus on mergers within developing economies" and notes that "there might be unique factors at play, such as government regulations or infrastructure limitations that influence the success of mergers in the Ethiopian logistics sector". Specifically, the "concerning decline" in ESLSE's liquidity ratios is noted as being particularly risky "especially in the Ethiopian context where hard currency shortages are prevalent". This indicates how broader economic conditions within Ethiopia can exacerbate negative

financial outcomes from a merger, creating a specific local manifestation of "global discordance" where theoretical benefits might clash with practical economic realities.

In essence, while Ethiopian regulations aim to guide mergers toward pro-competitive and efficiency-enhancing outcomes, the ESLSE case demonstrates that the actual financial results can be complex, showing improvements in some areas but significant drawbacks in others, particularly concerning liquidity and shareholder value. These mixed outcomes are consistent with global M&A trends and are further shaped by specific challenges within Ethiopia's economic environment.

CHAPTER THREE

RESEARCH METHODOLOGY AND DESIGN:

3.1. Introduction

This section delineates the methodology employed to investigate the impact of the merger on the financial performance of the Ethiopian Shipping and Logistics Service Enterprise (ESL). The approach encompasses research design, data collection methods, sample determination, and data analysis techniques.

3.2. Research Design

This research employed mixed research design that incorporates both quantitative and qualitative approaches, focusing on the chosen Ethiopian shipping and Logistics Company. The study compares the performance of ESL before and after the merger to determine if there is a statistically significant change in financial performance. The researcher used comparative analysis the pre and post-merger financial performance of Ethiopian shipping and logistic is compared to assess the impact of the merger on various performance indicators. In this strategy, the researcher used both qualitative and quantitative data (financial statement) to assess the overall impact of the merger on the financial performance of the combined Ethiopian shipping and logistics entity. This study used primary and secondary data. It collected from sources such as Annual reports, ESL websites; the data included financial reports for both pre and post-merger periods.

This research aims to comprehensively assess the impact of a merger on a company's financial performance by employing a mixed-methods approach. The study will primarily focus on a quantitative analysis of financial data, supplemented by a qualitative exploration of internal perceptions to provide a holistic understanding of the merger's effects.

The **quantitative component**, serving as the primary design focus, is a comparative analysis utilizing secondary financial data. The purpose of this component is to objectively assess the effect of the merger on the company's financial health. Data will be sourced from the company's publicly available or internally accessible financial statements, specifically income statements,

balance sheets, and cash flow statements, covering periods both before and after the merger. This approach allows for a direct comparison of financial performance across these distinct periods.

To achieve this, several key financial variable categories will be analyzed through ratio analysis. These include:

Profitability Ratios: Return on Assets (ROA), Return on Equity (ROE), Gross Profit Margin, and Operating Margin will be calculated to gauge the company's ability to generate profits from its assets, equity, and sales.

Liquidity Ratios: The Current Ratio and Quick Ratio (Acid-Test Ratio) will be examined to assess the company's short-term solvency and its ability to meet immediate financial obligations.

Efficiency Ratios: Days Payable Outstanding (DPO) and Receivable Turnover Ratio will be utilized to evaluate how effectively the company is managing its payables and receivables, indicating operational efficiency.

Leverage Ratios: The Debt Ratio and Debt to Equity Ratio will be computed to understand the company's reliance on debt financing and its overall financial risk.

The analysis tools for this quantitative phase will involve a robust comparative analysis, directly contrasting the calculated ratios from the pre-merger period with those from the post-merger period. Ratio analysis will be central to interpreting these financial metrics, while descriptive statistics will be employed to summarize and present the key findings, highlighting significant changes or trends.

Complementing this quantitative analysis, the **qualitative component** aims to provide deeper insights into the observed financial trends and the underlying reasons behind them. This will be an exploratory, interview-based study, with the purpose of gaining a nuanced understanding of internal perceptions from those directly involved. Primary data will be collected through semi-structured interviews with key personnel, including management and finance officers. This interview approach allows for flexibility in exploring emerging themes while ensuring coverage of essential areas. The qualitative data gathered from these interviews will then undergo thematic analysis. This method will identify recurring patterns, common explanations, and critical contextual factors that may explain the quantitative findings, offering a richer and more comprehensive understanding of the merger's impact.

3.3. Target Population

Given that this research is structured as a specific case study, the target population is intentionally narrow and precisely defined. It focuses exclusively on the Ethiopian Shipping and Logistics Services Enterprise (ESLSE), which serves as the subject of the merger analysis.

For the quantitative component of the study, the target population consists of the comprehensive financial records of ESLSE. This includes all relevant income statements, balance sheets, and cash flow statements, both from the periods before and after the merger. These documents contain the essential data for assessing the company's financial performance.

For the qualitative component, the target population comprises key personnel within ESLSE who possess critical insights and information regarding the merger's impact and the underlying reasons for observed financial trends. It encompasses the most relevant individuals or groups that have information on the merger Executives and Senior Management, Financial Analysts and Accountants, Operational Managers, Employees in finance department.

Based on the information provided, the entire finance department of ESLSE, consisting of 41 male and 53 female employees, totaling 94 individuals, constitutes the complete target population for the qualitative interviews. This inclusive approach ensures a broad range of perspectives from those directly involved in the financial aspects of the company before and after the merger

3.4. Sample size determination

Since this is a case study, **probability sampling isn't appropriate**. Instead, **purposive sampling** will be used. This non-probability method allows for the deliberate selection of participants who can provide in-depth, relevant information about the merger and its effects. Interviewees were chosen based on their direct involvement in the merger integration.

For quantitative data, 2016 (the merger year) was used as a reference point. Financial statements for two years prior (five years back) to the merger and two years post-merger (five years after merger) were collected.

3.5. Data collection

Primary data: To gain a comprehensive understanding of the strategic implications of organizational practices, primary data will be gathered through structured interviews and well-designed questionnaires directed at members of the management team. These methods are intended to elicit detailed and consistent responses that reflect managerial perspectives on merging.

Secondary Data: Collect financial data (balance sheets, income statements, cash flow statements) for the company for a defined period before and after the merger. Sources include company annual reports, financial databases (if applicable in Ethiopia).

3.6. Method of Data Analysis

Analysis will include ratio analysis and various statistical tools and techniques. Descriptive statistics, such as mean, variance, and standard deviation, will be to summarize the data.

Descriptive Statistics: Analyze trends and changes in financial metrics pre- and post-merger using tools like percentage change, ratios.

Financial Ratio Analysis: Calculate financial ratios (liquidity, solvency, efficiency) for pre- and post-merger periods. Compare these ratios to assess how the merger might have affected ESL's financial health. Compare key financial ratios across pre- and post-merger periods to assess changes in profitability, liquidity, and solvency.

Trend Analysis: Analyze trends in relevant financial metrics (revenue, profitability, etc.) before, and after the merger. This can reveal potential changes in performance following the merger.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

This chapter details the analysis of financial data collected for a study on a corporate merger. The research specifically examined **two years of financial reports prior to the merger** and **two years of financial reports following the merger**.

Pre-Merger Analysis

Before the merger, the study focused on the individual financial performances of two distinct entities:

- **Maritime Transit Share Company and Ethiopian Shipping Line Share Company**

These companies operated independently, and their separate financial reports provided the baseline data for understanding their performance before they combined forces.

Post-Merger Analysis

Following the merger, these two companies integrated to form a new single entity:

- **Ethiopian Shipping and Logistics Enterprise**

The financial reports of this newly formed enterprise were then collected and analyzed for the two years after the merger. This allowed for a direct comparison of financial performance and an assessment of the impact of the merger on the combined entity.

4.1. Ratio Analysis

4.1.1. Profitability ratio

Profitability ratios measure a company's ability to generate income (profit) relative to its revenue, assets, operating costs, or shareholder equity over a given period. They indicate how efficiently a company is converting sales into profits and generating returns.

Gross Profit Margin: This ratio indicates the percentage of revenue left after deducting the cost of goods sold (COGS). It shows how much profit a company makes from each sale before accounting for operating expenses.

$$\text{Gross Profit Margin} = (\text{Gross Profit} / \text{Net Sales}) \times 100$$

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$$

Operating Profit Margin: This ratio measures the percentage of revenue left after deducting both COGS and operating expenses (like salaries, rent, utilities, etc.). It reflects the profitability of a company's core operations.

$$\text{Operating Profit Margin} = (\text{Operating Profit} / \text{Net Sales}) \times 100$$

$$\text{Operating Profit} = \text{Gross Profit} - \text{Operating Expenses}$$

Net Profit Margin: This is the ultimate measure of profitability, showing the percentage of revenue remaining after all expenses, including COGS, operating expenses, interest, and taxes, have been deducted.

$$\text{Net Profit Margin} = (\text{Net Profit} / \text{Net Sales}) \times 100$$

Return on Assets (ROA): ROA measures how efficiently a company is using its assets to generate profits. It indicates how much profit a company earns for every dollar of assets it owns.

$$\text{ROA} = \text{Net Income} / \text{Average Total Assets}$$

Return on Equity (ROE): ROE measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It shows how much profit a company generates for each dollar of equity invested by its shareholders.

$$\text{ROE} = \text{Net Income} / \text{Shareholder's Equity}$$

Table 4. 1. Profitability Ratio

Company	Year	Status	ROA (%)	ROE (%)	Gross Margin (%)	Operating Margin (%)
ESL	2010	Pre-merger	24.62	88.28	12.19	19.93
ESL	2011	Pre-merger	21.39	106.02	10.06	19.58
Maritime & transit	2010	Pre-merger	1.57	24.35	0.00	10.70
Maritime & transit	2011	Pre-merger	6.55	102.70	0.00	19.85
ESLSE	2022	Post-merger	18.43	42.46	26.48	19.59
ESLSE	2023	Post-merger	10.54	28.23	24.92	15.58

Research on profitability reveals highly inconsistent outcomes, heavily influenced by sectoral and regional factors. Studies in Japan (Kruse et al., 2003) and Nigeria (Sulaiman, 2012) demonstrated significant long-term improvements in ROA, ROE, and net profit margins post-M&A, attributed to synergistic cost reductions and market expansion. Similarly, Kenyan banking

mergers (Marangu, 2007) and maritime shipping consolidations (Alexandrou et al., 2018) showed enhanced profitability due to economies of scale. However, Greek manufacturing firms (Pazarskis et al., 2006) experienced declines in profitability, linked to integration challenges and cultural mismatches. In logistics, results were mixed. Song et al. (2017) found no significant ROA changes for acquirers, while Kiarie (2013) reported gains in African cross-sector M&A where integration succeeded. This divergence underscores that profitability gains depend on effective post-merger management, industry dynamics, and geographic context with developing economies often showing stronger positive trends

Return on Assets (ROA) (%)

Pre-merger: ESL had strong ROA in 2010 (24.62%) and 2011 (21.39%), indicating it was very efficient at generating profits from its assets. Maritime & Transit had a significantly lower ROA in 2010 (1.57%) and 2011 (6.55%), suggesting it was less efficient in utilizing its assets for profit generation compared to ESL. Post-merger (ESLSE): The merged entity ESLSE showed an ROA of 18.43% in 2022, which decreased to 10.54% in 2023.

The post-merger ROA of ESLSE (18.43% in 2022, 10.54% in 2023) is lower than ESL's pre-merger ROA (24.62% in 2010, 21.39% in 2011), but significantly higher than Maritime & Transit's pre-merger ROA. This suggests that while the merger may have diluted some of ESL's individual asset efficiency, it improved the overall asset utilization compared to Maritime & Transit, potentially due to the integration of more profitable assets or operations. The decline from 2022 to 2023 for ESLSE warrants further investigation.

Return on Equity (ROE) (%)

ROE measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. A higher ROE indicates that the company is generating more profit from the money that shareholders have invested. Pre-merger: Both ESL (88.28% in 2010, 106.02% in 2011) and Maritime & Transit (24.35% in 2010, 102.70% in 2011) showed high ROE, especially in 2011. ESL's ROE increased substantially, while Maritime & Transit's ROE also saw a significant jump. Post-merger (ESLSE): ESLSE's ROE was 42.46% in 2022, decreasing to 28.23% in 2023.

Pre vs. Post-merger): The post-merger ROE for ESLSE (42.46% and 28.23%) is substantially lower than the high pre-merger ROE of both individual companies, particularly in 2011 when both ESL and Maritime & Transit had ROEs over 100%. This significant drop suggests that the merged entity is generating less profit for each dollar of equity compared to the individual companies before the merger. This could be due to an increase in equity, lower net income relative to equity, or a combination of factors.

Gross Margin (%)

Gross margin indicates the percentage of revenue that exceeds the cost of goods sold. A higher gross margin means the company retains more money from sales after covering direct costs. Pre-merger: ESL had gross margins of 12.19% (2010) and 10.06% (2011). Maritime & Transit had a gross margin of 0.00% in both 2010 and 2011, which is unusual and suggests either very high cost of goods sold or a different business model where this metric isn't applicable in the same way. Post-merger (ESLSE): ESLSE showed significantly higher gross margins of 26.48% in 2022 and 24.92% in 2023.

Pre vs. Post-merger: The post-merger gross margins are remarkably higher than ESL's pre-merger margins and a substantial improvement from Maritime & Transit's 0% gross margin. This indicates that the merged entity has achieved better cost control relative to its revenue, or has a more profitable product/service mix after the merger, especially considering Maritime & Transit's previous inability to report a positive gross margin.

Operating Margin (%)

Operating margin indicates how much profit a company makes on each dollar of sales after paying for variable costs of production, such as wages and raw materials, but before interest and tax. A higher operating margin means the company is more efficient at converting revenue into operating profit. Pre-merger: ESL had operating margins of 19.93% (2010) and 19.58% (2011). Maritime & Transit had operating margins of 10.70% (2010) and 19.85% (2011). Notably, Maritime & Transit's operating margin improved significantly from 2010 to 2011. Post-merger (ESLSE): ESLSE's operating margin was 19.59% in 2022, decreasing to 15.58% in 2023. The post-merger operating margins for ESLSE are comparable to ESL's pre-merger levels in 2022 (19.59% vs. ~19.7%), but declined in 2023 (15.58%). When compared to Maritime & Transit, ESLSE's operating margin is a significant improvement over Maritime & Transit's 2010 figure

(10.70%) and comparable to its 2011 figure (19.85%). This suggests that the combined entity has maintained a relatively healthy operating efficiency in 2022, though a decline in 2023 indicates potential challenges in controlling operating expenses or maintaining revenue growth

The merger undeniably had a statistically significant impact on profitability, but the effects were highly specific. It succeeded in boosting core operational efficiency (GPM) but at the same time, it appears to have negatively impacted the ultimate returns to shareholders (ROE). The absence of significant changes in ROA and Operating Profit Margin suggests that the benefits of increased gross profitability might have been offset by other factors, such as changes in asset base, increased operating expenses, or changes in the capital structure that particularly affected net income and thus ROE. This indicates a complex interplay of post-merger dynamics, where improvements in one area (operational efficiency) do not automatically translate into universal improvements across all profitability indicators, especially when considering shareholder returns.

Moreover, based on data collected through interview with key personnel and reviewing performance report the recent operational adjustments have yielded impressive results, showcasing a clear path to enhanced financial performance. **Cost reduction** efforts have been particularly effective, with the streamlining of operations and the elimination of redundancies, such as shared HR and finance services, directly contributing to lower operational costs. This indicates a successful integration of processes that has clearly paid off.

Beyond cost savings, the company has also experienced significant **revenue synergies**. Integrated shipping, port, and logistics functions have driven a substantial increase in cross-trade revenue, reaching **\$271 million**, which is an impressive 16% above the set target. This highlights the effectiveness of the strategic consolidation and enhanced service offerings.

Furthermore, **margin expansion** has been a key outcome, with economies of scale in procurement for essentials like fuel and insurance, alongside improved negotiation power, leading to better profit margins. This is evident in the gross profit exceeding expectations by a remarkable **50%**.

4.1.2. Efficiency Ratios

Efficiency ratios (also known as activity ratios) measure how effectively a company is using its assets and liabilities to generate sales and profits. They provide insights into operational efficiency.

Accounts Receivable Turnover Ratio: This ratio measures how efficiently a company collects payments from its customers (receivables). A higher ratio indicates effective credit and collection policies.

Accounts Receivable Turnover Ratio = $\frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$

Average Accounts Receivable

Days Payable Outstanding (DPO) is a financial ratio that measures the average number of days it takes a company to pay its bills and invoices to its trade creditors, such as suppliers and vendors. It's an efficiency ratio that provides insight into how effectively a company is managing its accounts payable and cash flow.

In essence, DPO tells you how long a company holds onto its cash before paying its suppliers.

DPO = $\frac{\text{Average Accounts Payable} \times \text{Number of Days in Accounting Period}}{\text{Cost of Goods Sold}}$

Cost of Goods Sold

Table 4. 2 Efficiency Ratio

Company	Year	Status	Receivable turnover	DPO
ESL	2010	Pre-merger	9.9292	241.5
ESL	2011	Pre-merger	12.3651	250.2
Maritime & transit	2010	Pre-merger	0.3087	NA
Maritime & transit	2011	Pre-merger	0.9183	NA
ESLSE	2022	Post-merger	2.9217	290
ESLSE	2023	Post-merger	2.4030	437.7

Receivable Turnover

Receivable turnover measures how efficiently a company collects its accounts receivables or credit sales. A higher ratio indicates that a company is more efficient in collecting its debts. Pre-merger: ESL had high receivable turnover (9.9292 in 2010, 12.3651 in 2011), indicating effective collection of receivables. Maritime & Transit had very low receivable turnover (0.3087 in 2010, 0.9183 in 2011), suggesting significant challenges in collecting its receivables. Post-merger (ESLSE): ESLSE's receivable turnover was 2.9217 in 2022, decreasing to 2.4030 in 2023. The post-merger receivable turnover for ESLSE is significantly lower than ESL's pre-merger rates, but a substantial improvement over Maritime & Transit's extremely low rates. This suggests that while the merged entity's collection efficiency isn't as strong as ESL's was, it has improved significantly compared to the weaker performing Maritime & Transit. The decline from 2022 to 2023 for ESLSE indicates a need to address collection efficiency.

Days Payable Outstanding (DPO)

DPO measures the average number of days it takes for a company to pay its suppliers. A higher DPO generally means the company is taking longer to pay its bills, which can be good for cash flow but could also strain supplier relationships if too high. Pre-merger: ESL had DPO of 241.5 days (2010) and 250.2 days (2011), indicating it took a relatively long time to pay its suppliers. Maritime & Transit has "NA" for DPO, meaning data is not available or calculable. Post-merger (ESLSE): ESLSE's DPO was 290 days in 2022, and increased significantly to 437.7 days in 2023. The post-merger DPO for ESLSE (290 and 437.7 days) is notably higher than ESL's pre-merger DPO. The significant increase in DPO for ESLSE, especially in 2023, suggests that the merged entity is taking a much longer time to pay its suppliers. While this can conserve cash in the short term, an excessively high DPO can damage supplier relationships and potentially lead to less favorable terms in the future.

However, based on the interview with key employees The company has made substantial strides in improving its **efficiency ratios**, demonstrating a highly effective integration strategy that is translating into tangible operational benefits.

A key driver of this improved efficiency is the **operational efficiency** gained through the implementation of integrated IT and financial systems. This consolidation has enabled real-time tracking of operations, which is crucial for identifying and reducing waste, and critically, significantly improving the speed and accuracy of decision-making. The impressive scale of their

multimodal transport operations, handling **2 million tons of freight** and **60,000 TEU containers** through coordinated logistics, is a testament to the seamless functioning of these integrated systems. This level of coordination is vital for a country like Ethiopia, which is heavily reliant on efficient logistics for both imports and exports, especially considering the current challenges around foreign currency and supply chains.

Furthermore, **asset utilization** has been optimized through meticulous fleet management, encompassing 10 vessels, alongside strategic port and logistics coordination. This integrated approach ensures that assets are deployed efficiently, maximizing throughput and minimizing idle time, which directly contributes to better returns on their significant capital investments.

Finally, significant progress has been made in **administrative efficiency**. By consolidating support services such as HR and finance, the company has successfully cut overheads. This not only reduces costs but also frees up valuable resources that can be reallocated towards core business growth initiatives. The completion of an **audit after five years** is a notable indicator of improved governance efficiency and transparency, signifying a more robust and accountable administrative framework. This level of financial clarity and control is particularly important for attracting and retaining investment in the current Ethiopian economic climate.

4.1.3. Liquidity Ratios

Liquidity ratios measure a company's ability to meet its short-term debt obligations (those due within one year). They assess how quickly a company can convert its current assets into cash to cover its current liabilities.

Current Ratio:: This ratio measures a company's ability to pay off its current liabilities with its current assets. A ratio greater than 1 typically indicates a healthy short-term financial position.

Current Ratio = Current Assets / Current Liabilities

Quick Ratio (Acid-Test Ratio): This is a more conservative measure of liquidity than the current ratio, as it excludes inventory from current assets. Inventory can be slow to convert to cash, so this ratio provides a clearer picture of immediate liquidity.

Quick Ratio = (Current Assets - Inventory - Prepaid Expenses)

Current Liabilities

Table 4. 3. Liquidity Ratio

Company	Year	Status	Current ratio	Quick ratio
ESL	2010	Pre-merger	1.1507	1.0918
ESL	2011	Pre-merger	1.0610	1.0044
Maritime & transit	2010	Pre-merger	0.8341	0.8341
Maritime & transit	2011	Pre-merger	0.8509	0.8409
ESLSE	2022	Post-merger	0.4566	0.3995
ESLSE	2023	Post-merger	0.4601	0.4159

Current Ratio

The current ratio measures a company's ability to pay off its short-term liabilities with its short-term assets. A ratio of 1.0 or greater is generally considered healthy, meaning current assets can cover current liabilities. Pre-merger: ESL had current ratios of 1.1507 (2010) and 1.0610 (2011), indicating it could cover its short-term obligations. Maritime & Transit had current ratios below 1 (0.8341 in 2010, 0.8509 in 2011), suggesting potential difficulty in meeting short-term obligations without relying on longer-term assets or external financing. Post-merger (ESLSE): ESLSE's current ratios were significantly lower at 0.4566 in 2022 and 0.4601 in 2023. The post-merger current ratio is considerably lower than both ESL and Maritime & Transit's pre-merger ratios. This indicates a substantial decrease in the merged entity's ability to cover its short-term liabilities with its current assets, which could signal liquidity concerns.

Quick Ratio

The quick ratio (or acid-test ratio) is a more conservative measure of liquidity than the current ratio, as it excludes inventory from current assets. It assesses a company's ability to meet its short-term obligations with its most liquid assets. A ratio of 1.0 or greater is generally preferred. Pre-merger: ESL had quick ratios of 1.0918 (2010) and 1.0044 (2011), showing good immediate liquidity. Maritime & Transit had quick ratios below 1 (0.8341 in 2010, 0.8409 in 2011), similar to its current ratio, indicating limited immediate liquidity. Post-merger (ESLSE): ESLSE's quick ratios were 0.3995 in 2022 and 0.4159 in 2023, reflecting very low immediate liquidity. Similar

to the current ratio, the post-merger quick ratio for ESLSE is significantly lower than the pre-merger ratios of both ESL and Maritime & Transit. This suggests that the merged entity faces substantial challenges in meeting short-term obligations without relying on inventory sales or other less liquid assets.

The post-merger entity has significantly strengthened its **liquidity** position through a combination of enhanced cash flow management and improved access to capital. The integration of financial systems has been a critical factor, enabling much **better cash flow forecasting** and facilitating more strategic allocation of funds across the unified operations. This improved visibility and control over cash flows allow the company to anticipate needs and deploy resources efficiently. Furthermore, the robust **cross-trade revenue of \$421 million** generated in fiscal year 2024 has provided substantial hard currency liquidity, which is particularly valuable in the Ethiopian context given the challenges of foreign currency shortages. This influx of foreign exchange strengthens the company's ability to manage international obligations and procure essential foreign goods and services.

Beyond internal cash generation, the merger has also positively impacted the company's **capital access**. The enhanced creditworthiness resulting from the combined entity has made it easier to secure financing. This improved standing in the financial markets is crucial for funding ongoing and future **fleet and infrastructure upgrades**, ensuring the company can continue to invest in its core assets and maintain its competitive edge.

In the context of Ethiopia, where businesses often face challenges with hard currency shortages and a less developed financial market, a severe liquidity crisis (as indicated by these ratios) could have particularly grave implications. It suggests that the company might be struggling to manage its working capital effectively, potentially facing difficulties in paying suppliers, managing day-to-day operations, or seizing new opportunities that require immediate cash outlays. While the merger aimed to improve efficiency and profitability, this significant deterioration in liquidity is a critical warning sign that could undermine the company's long-term stability if not addressed promptly. It implies that the positive impacts on gross profitability may be overshadowed by a weakened ability to manage short-term financial demands, posing a severe risk to operational continuity and financial health.

4.1.4. Leverage Ratios

Leverage ratios (also known as solvency ratios) assess a company's ability to meet its long-term debt obligations. They show the extent to which a company uses borrowed money to finance its assets and operations, indicating its financial risk.

Debt-to-Equity Ratio: This ratio compares a company's total debt to its total shareholder equity. It indicates the proportion of a company's financing that comes from debt versus equity. A higher ratio means more reliance on debt.

$$\text{Debt-to-Equity Ratio} = \text{Total Debt} / \text{Shareholder's Equity}$$

Debt-to-Assets Ratio: This ratio indicates the percentage of a company's assets that are financed by debt. A high ratio suggests a company is heavily reliant on debt to finance its operations.

$$\text{Debt-to-Assets Ratio} = \text{Total Debt} / \text{Total Assets}$$

Table 4. 4. Leverage Ratio

Company	Year	Status	Debt to equity	Debt to asset
ESL	2010	Pre-merger	2.586	0.721
ESL	2011	Pre-merger	3.957	0.798
Maritime & transit	2010	Pre-merger	14.480	0.935
Maritime & transit	2011	Pre-merger	14.687	0.937
ESLSE	2022	Post-merger	1.304	0.566
ESLSE	2023	Post-merger	1.677	0.627

Debt to Equity

The debt-to-equity ratio measures the proportion of debt financing relative to equity financing. A higher ratio indicates greater reliance on debt. Pre-merger: ESL's debt-to-equity ratios were 2.586 (2010) and 3.957 (2011), indicating a moderate to high reliance on debt. Maritime & Transit had very high debt-to-equity ratios (14.480 in 2010, 14.687 in 2011), indicating a

significant reliance on debt financing, which poses higher financial risk. Post-merger (ESLSE): ESLSE's debt-to-equity ratios were 1.304 in 2022 and 1.677 in 2023. The post-merger debt-to-equity ratios for ESLSE are considerably lower than both ESL's and Maritime & Transit's pre-merger ratios. This suggests that the merged entity has a more conservative capital structure with less reliance on debt compared to its predecessors, particularly Maritime & Transit. This is a positive sign for financial stability.

Debt to Asset

The debt-to-asset ratio indicates the proportion of a company's assets that are financed by debt. A lower ratio is generally preferred, as it signifies less financial risk. Pre-merger: ESL's debt-to-asset ratios were 0.721 (2010) and 0.798 (2011), meaning a significant portion of its assets were debt-financed. Maritime & Transit had very high debt-to-asset ratios (0.935 in 2010, 0.937 in 2011), indicating that almost all its assets were financed by debt, representing very high financial risk. Post-merger (ESLSE): ESLSE's debt-to-asset ratios were 0.566 in 2022 and 0.627 in 2023. The post-merger debt-to-asset ratios for ESLSE are lower than both pre-merger companies. This indicates that the merged entity has reduced its overall reliance on debt to finance its assets, which is a positive improvement in financial health and reduced risk.

This reduction in leverage suggests that the company has either paid down existing debt, or, more likely in a merger context, the combined entity possesses a larger equity base, or the acquired entity had a lower debt profile that diluted the overall leverage. Regardless of the exact mechanism, this outcome implies improved financial stability, reduced interest burden, and potentially greater flexibility for future growth and investment in the Ethiopian context, where capital efficiency is paramount.

The strategic maneuvers undertaken by the company have significantly strengthened its **leverage** position. A crucial aspect of this improvement is the enhanced **debt capacity**, which stems from a stronger credit profile post-merger. This improved creditworthiness has enabled the company to secure more favorable borrowing terms for its investments, indicating that lenders perceive it as a lower risk. The current financial indicators, including consistent dividend payouts and continued investments in growth, further underscore a **balanced leverage** approach, suggesting that the company is effectively utilizing debt to fuel expansion without exhibiting any signs of financial distress.

Furthermore, the centralized governance implemented after the merger has played a vital role in **risk mitigation**. This unified approach has notably improved the company's resilience against external shocks, such as the significant regional crises impacting the Red Sea and the global repercussions of the Ukraine conflict. For a country like Ethiopia, which heavily relies on the Red Sea for its trade and is sensitive to global commodity price fluctuations (exacerbated by the Ukraine war), avoiding operational disruptions during such turbulent times is a testament to effective risk management. This demonstrates the company's ability to navigate complex geopolitical landscapes and maintain stability, safeguarding its operations and financial performance.

4.2. Descriptive Analysis

Table 4. 5. Descriptive statistics

Category	Ratio	Status	Company	Mean	Std.dev.	Std.error
Profitability ratio	ROE	Pre	Maritime	0.2436	0.3038	0.2148
		Pre	ESL	0.8828	0.0949	0.0671
		post	ESLSE	0.4249	0.0423	0.0423
	ROA	Pre	Maritime	0.0157	0.0303	0.0214
		Pre	ESL	0.1966	0.0946	0.0669
		post	ESLSE	0.1246	0.0164	0.0164
	GPM	Pre	Maritime	1.000	0	0
		Pre	ESL	0.1221	0.0015	0.0011
		post	ESLSE	0.2648	0.0023	0.0016
	OPM	Pre	Maritime	0.1075	0.1669	0.1180
		Pre	ESL	0.2197	0.0006	0.0004
		post	ESLSE	0.2539	0.0215	0.0152
Efficiency ratio	Receivable turnover ratio	Pre	Maritime	0.6135	0.4308	
		Pre	ESL	11.1472	1.7229	
		post	ESLSE	2.662	0.366	0.259
	DPO	Pre	Maritime	789d	555d	
		Pre	ESL	34d	5d	
		Post	ESLSE	139d	19d	

Liquidity ratio	Current ratio	Pre	Maritime	0.8468	0.0058	0.0041
		Pre	ESL	1.1059	0.0634	0.448
		post	ESLSE	0.4584	0.0025	0.0018
	Quick ratio	Pre	Maritime	0.8375	0.0048	
		Pre	ESL	1.0481	0.0618	
		post	ESLSE	0.4077	0.0116	0.0082
Leverage ratio	Debt to asset	Pre	Maritime	0.936	0.001	
		Pre	ESL	0.760	0.054	
		post	ESLSE	0.597	0.043	0.0303
	Debt to equity	Pre	Maritime	14.584	0.148	
		Pre	ESL	3.27	0.968	
		post	ESLSE	1.4904	0.269	0.187

Profitability Ratio

Before the merger, the two entities presented starkly different profitability profiles. ESL was exceptionally profitable, demonstrated by its impressive Return on Equity (ROE) of 88.3% and a strong Return on Assets (ROA) of 19.7%. An ROE of nearly 90% indicates that ESL was highly effective at generating profits for its shareholders based on the equity invested, while a 19.7% ROA suggests efficient use of its assets to generate earnings. In contrast, Maritime struggled significantly with profitability. Its ROA was a mere 1.6%, indicating very poor efficiency in utilizing its assets to generate profits. Furthermore, Maritime's Operating Profit Margin (OPM) was erratic, fluctuating wildly from 1% to 22.5%. This volatility points to inconsistent operational efficiency and challenges in controlling costs or generating stable revenue from its core activities.

Following the merger, the combined entity, ESLSE, showed a mixed bag of results regarding profitability. A positive outcome was the improvement in margins. The Gross Profit Margin (GPM) stood at 26.5% and the Operating Profit Margin (OPM) at 25.4%. This improvement in margins is explicitly attributed to cost synergies, suggesting that the merger successfully achieved its goal of cutting operational costs through consolidation, economies of scale, or streamlining processes. However, this positive development was offset by a significant decline in

shareholder returns: ROE halved to 42.5% compared to ESL's pre-merger 88.3%. This substantial reduction in ROE, despite improved margins, is explained by equity dilution.

The existing research overview clearly highlights the highly inconsistent outcomes of M&A on profitability, underscoring the crucial role of sectoral, regional, and management factors. This inconsistency is precisely the "gap" that any analysis of profitability post-merger, like that of ESLSE, must acknowledge and strive to bridge.

Firstly, the positive findings from studies in Japan (Kruse et al., 2003) and Nigeria (Sulaiman, 2012), which showed significant long-term improvements in ROA, ROE, and net profit margins, are compelling. These improvements are linked to synergistic cost reductions and market expansion. This aligns perfectly with the "boosted margins" observed in ESLSE due to "cost synergies." The theoretical expectation that M&A can lead to economies of scale, as seen in Kenyan banking (Marangu, 2007) and maritime shipping (Alexandrou et al., 2018), also supports the observed margin improvement in ESLSE. This suggests that the operational aspect of the ESLSE merger was, at least in terms of cost control, a success, mirroring positive outcomes found elsewhere.

However, the analysis of ESLSE also revealed a halving of ROE due to equity dilution, leading to the conclusion of overpayment for acquisitions. This negative outcome finds resonance in the broader literature as well. The experience of Greek manufacturing firms (Pazarskis et al., 2006), which saw declines in profitability due to integration challenges and cultural mismatches, provides a cautionary tale. While the ESLSE case doesn't explicitly mention cultural mismatches, the "overpayment" aspect could be linked to poor valuation or a failure to adequately account for integration complexities that ultimately eroded shareholder value despite operational cost savings. The "diluted ROE" in ESLSE suggests that even if operational synergies were achieved, the *financial* structure of the deal, perhaps driven by an inflated valuation of Maritime, negated these gains at the shareholder level.

Crucially, the research explicitly notes that in logistics, results were mixed. Song et al. (2017) found no significant ROA changes for acquirers, while Kiarie (2013) reported gains in African cross-sector M&A where integration succeeded. This divergence is highly relevant to the ESLSE case, especially if ESLSE operates within the logistics sector. The "mixed" results in logistics highlight that simply being in a capital-intensive sector does not guarantee positive M&A

outcomes on profitability. The success hinges heavily on effective post-merger management and successful integration. The "overpayment" and "equity dilution" in ESLSE, therefore, can be seen as a direct consequence of failing to achieve the full potential of integration, or perhaps even a miscalculation of the real synergies achievable given the acquisition cost.

The concluding point from the research overview is paramount: profitability gains depend on effective post-merger management, industry dynamics, and geographic context, with developing economies often showing stronger positive trends. This provides a critical framework for understanding ESLSE's situation. While the merger did achieve cost synergies (effective post-merger management in one aspect), the overall reduction in returns (ROE) suggests that the *entirety* of post-merger management, particularly financial integration and valuation, was not effective. The "geographic context" and "industry dynamics" are also crucial, and the lack of consistent positive outcomes in logistics, as highlighted by Song et al. (2017), reinforces the idea that success is not automatic.

In sum, the profitability results of ESLSE, while showing some operational success in cost cutting, ultimately align with the inconsistent outcomes observed in broader M&A research. The "gap" analysis reveals that ESLSE's experience is not an anomaly but rather an illustration of how mergers can boost margins through synergies while simultaneously destroying shareholder value due to factors like overpayment or integration challenges. This underscores the imperative for future research, particularly in capital-intensive sectors like logistics, to delve deeper into the specific mechanisms that lead to either successful value creation or destruction post-M&A, moving beyond broad categorizations to focus on the nuances of financial structuring and comprehensive post-merger integration.

Efficiency Ratios

Before the merger, a stark contrast in efficiency existed between the two companies. Maritime was profoundly inefficient, evidenced by an extraordinarily high Days Sales Outstanding (DSO) of 789.5 days. This figure is alarmingly high, indicating that it took Maritime, on average, over two years to collect payment from its customers after a sale. Such a prolonged collection period points to terrible receivables management, potentially stemming from disorganized billing, weak follow-up, or lax credit policies. In stark contrast, ESL excelled in its receivables management,

with an impressive DSO of just 33.5 days. This reflects strong collections and efficient processes, ensuring quick conversion of sales into cash.

Post-Merger (ESLSE) Efficiency:

Following the merger, the combined entity, ESLSE, experienced a sharp drop in efficiency. Its DSO surged to 138.5 days, which is four times slower than ESL's excellent pre-merger performance. While this is a significant improvement over Maritime's abysmal 789.5 days, it clearly represents a severe deterioration from ESL's high standards. The implication is that ESL's efficient practices were either not effectively integrated or were dragged down by Maritime's poor habits. The presence of a lower standard error (0.2592) is particularly noteworthy. It suggests that this poor receivables handling is not merely a fluctuating issue but a stable and consistent problem within ESLSE. This means the inefficiency is entrenched, rather than being a temporary blip, indicating a systemic flaw in their post-merger operations.

The existing research overview strongly asserts that efficiency metrics show the most consistent positive correlation with M&A success. This stands in stark contrast to the "destroyed efficiency" observed in ESLSE, particularly with its sharply increased Days Sales Outstanding (DSO) post-merger. This disparity highlights a critical gap between the general positive trend in M&A efficiency and the specific negative outcome of ESLSE.

The literature points to several key drivers of these consistent efficiency gains. Studies across various sectors, including logistics service providers (Luo et al., 2013), Korean logistics firms (Kim, 2018), and Kenyan banks (Marangu, 2007), all reported significant gains in asset utilization, inventory turnover, and administrative efficiency. These improvements are primarily attributed to operational synergies, such as the elimination of redundant functions (e.g., IT, HR), economies of scale in procurement/production, and streamlined supply chains.

This directly clashes with ESLSE's experience in receivables management. While the theoretical benefits of operational synergies are clearly articulated (e.g., streamlined supply chains could imply better billing and collection), ESLSE's DSO worsened significantly. This suggests that despite the widely observed potential for efficiency gains, the ESLSE merger failed to capitalize on these opportunities, or perhaps, the challenges of integration were so profound that they overshadowed any potential synergies in receivables. The dramatic increase in DSO indicates a

failure to streamline or consolidate their billing and collection processes effectively, contrary to what is typically expected from operational synergies.

Furthermore, the mention of vertical mergers (Mangan et al., 2008) being particularly effective in reducing transaction costs and improving coordination is also relevant. While the nature of the ESL-Maritime merger isn't explicitly stated as vertical, any merger aims for better coordination. The significant drop in ESLSE's efficiency suggests a breakdown in coordination, particularly concerning the critical process of cash collection, rather than an improvement.

The robustness of efficiency gains across diverse geographies (Nigeria, Kenya, Korea) is a crucial point. It underscores the general applicability of M&A's potential to enhance resource optimization when integration focuses on process alignment. The fact that ESLSE's efficiency *declined* rather than improved, despite this widely observed phenomenon, strongly implies a failure in process alignment during their post-merger integration. The "poor integration of billing systems" and "weaker customer credit policies" identified as likely causes for ESLSE's decreased efficiency directly align with this failure to achieve the touted benefits of process alignment.

In conclusion, the ESLSE case stands as a counter-example to the generally positive and consistent findings on M&A and efficiency. While the broader research highlights efficiency as the most reliable positive outcome of M&A due to operational synergies and process alignment, ESLSE's experience demonstrates that these gains are not automatic. It underscores a critical gap between theoretical potential and actual execution, indicating that despite the evidence of consistent positive correlations, specific mergers can severely undermine efficiency if integration is poorly managed, particularly in vital areas like receivables, which are central to working capital management and overall liquidity. This calls for further research into the specific pitfalls of integration that lead to such detrimental outcomes, even in sectors where efficiency gains are typically expected.

Liquidity Ratios

This analysis paints a clear and concerning picture: the merger between Maritime and ESL, which created ESLSE, severely damaged the combined entity's short-term solvency. Before the merger, Maritime was already in critical condition, sporting a Current Ratio of 0.85 and a Quick Ratio of 0.84. These figures mean it had less than a dollar in liquid assets for every dollar in short-term liabilities, signaling persistent struggles to meet its immediate financial obligations.

ESL, while healthier with a Current Ratio of 1.11, was on a downward trend, dropping from 1.15 to 1.06 between 2010 and 2011. This indicated a subtle but concerning decline in its own liquidity even before the consolidation.

The post-merger situation for ESLSE is alarming. The combined entity's liquidity collapsed, evidenced by a Current Ratio of 0.46 and a Quick Ratio of 0.41. These ratios are significantly worse than either company's pre-merger figures, meaning ESLSE has less than half the liquid assets needed to cover its current liabilities. Furthermore, the extremely low standard errors (0.0018–0.0082) accompanying these ratios are particularly troubling. They don't just indicate low liquidity; they show a consistent and stable pattern of dangerously low liquidity. This isn't a temporary blip but a deeply entrenched, systemic issue within the new entity.

The current evidence on liquidity post-merger is indeed limited but suggestive. Sulaiman (2012) offers a positive example, showing improved liquidity ratios in Nigeria's oil/gas sector post-merger. This improvement is attributed to enhanced cash flow management and resource pooling, suggesting that when M&A is executed effectively, with a focus on optimizing financial resources, it can lead to stronger liquidity. This aligns with the theoretical expectation that M&A could stabilize long-term through optimized working capital.

However, the generalizability of Sulaiman's findings is restricted. The oil/gas sector has unique characteristics, including substantial capital requirements and often stable revenue streams, which might not be directly comparable to other industries.

Marangu (2007) touched upon liquidity in Kenyan banking mergers, including it as a metric. Crucially, the study did not explicitly quantify results, which leaves a significant void in understanding the concrete impact of these mergers on liquidity within the banking sector. While acknowledging liquidity's importance, the lack of quantitative data prevents drawing conclusive trends from this research. This exemplifies a common challenge in M&A research: studies may mention relevant metrics without providing the detailed empirical evidence needed for robust conclusions.

The most glaring omission, as explicitly stated, is the absence of logistics-specific studies directly analyzing liquidity post-M&A. This represents a critical research void. Given that the preceding analysis focused on "eslse" (likely a logistics or related company, based on the original context of Maritime and ESL), this lack of sector-specific research is highly problematic.

Logistics is a capital-intensive sector, meaning it typically requires significant investment in assets (vehicles, warehouses, technology) and has complex working capital needs. Therefore, the impact of M&A on liquidity in this sector could be uniquely profound and requires dedicated investigation.

Theoretically, the dual impact of M&A on liquidity is acknowledged: there's an initial strain due to financing acquisition costs, followed by a potential long-term stabilization through optimized working capital. This theoretical framework provides a valuable lens through which to view the "collapsed liquidity" observed in ESLSE. The immediate post-merger collapse in liquidity strongly suggests that the initial strain of the acquisition (e.g., debt financing, integration costs) was not adequately managed, and the expected long-term benefits of optimized working capital failed to materialize, or were perhaps entirely overshadowed by the consolidation of high liabilities and poor working capital management identified in the ESLSE case.

In conclusion, the existing literature on M&A and liquidity is fragmented and lacks specificity for certain sectors. While some studies offer promising insights (Sulaiman, 2012), others are inconclusive (Marangu, 2007). The complete absence of logistics-specific research highlights a critical need for more empirical work, especially in capital-intensive sectors. The case of ESLSE, with its dramatic post-merger liquidity collapse, serves as a stark example of the dangers of inadequate attention to liquidity during and after M&A, underscoring the urgency for further, targeted research to inform better practices in such transactions.

Leverage ratio

Leverage Ratios are financial metrics that measure the extent to which a company is using borrowed money (debt) to finance its assets or operations. They are crucial for assessing a company's long-term solvency and its ability to meet its financial obligations. A higher leverage ratio generally indicates greater financial risk.

Prior to the merger, the financial structures of Maritime and ESL presented contrasting pictures of leverage. Maritime was dangerously leveraged, characterized by an extremely high Debt to Equity (D_{TOE}) ratio of 14.58 and a Debt to Asset (D_{TOA}) ratio of 93.6%. A D_{TOE} of 14.58 means that Maritime had nearly fifteen times more debt than equity, indicating an overwhelming reliance on borrowed funds to finance its operations. The D_{TOA} of 93.6% further underscores this, revealing that almost all of Maritime's assets were financed by debt, leaving a minuscule

equity buffer. This put Maritime in a highly precarious financial position, vulnerable to interest rate changes or any downturns. In contrast, ESL had moderate but rising leverage. Its DTOE increased from 2.59 to 3.96 in 2011. While significantly lower than Maritime's, this rising trend indicated an increasing reliance on debt, albeit from a much healthier base.

Following the merger, the combined entity, ESLSE, displayed an initial improvement in leverage, with its DTOE falling to 1.49. This is a notable reduction compared to both Maritime's perilous levels and ESL's highest pre-merger level. This initial improvement suggests that the merger might have included some debt restructuring or a significant equity injection, diluting the overall debt burden relative to equity. However, this seemingly positive trend is immediately tempered by the fact that leverage is rising fast, with the DTOE increasing from 1.30 in 2022 to 1.68 in 2023. This rapid upward trajectory indicates that ESLSE is quickly accumulating debt again. Furthermore, a higher standard error of 0.190 in the post-merger period is a significant concern, as it suggests increasing debt volatility. This means that the company's debt levels are becoming less predictable and more prone to fluctuations, adding an element of uncertainty and risk to its financial stability.

Initial "Improvement" Aligns with Strategic Potential: ESLSE's initial post-merger DTOE of 1.49 represents a significant reduction from Maritime's dangerously high 14.58 and even ESL's rising 3.96. This initial reduction aligns with the notion of "strategic improvement" suggested by Sulaiman (2012) in Nigerian oil/gas mergers. Sulaiman's observation of "better leverage positions" points to scenarios where M&A can lead to post-consolidation debt restructuring or enhanced borrowing capacity. It's plausible that the ESLSE merger involved some form of debt re-negotiation, a significant equity injection by the acquiring entity (ESL), or simply the stronger equity base of ESL absorbing Maritime's heavy debt, resulting in a healthier combined ratio immediately after the deal. This demonstrates that, initially, the merger *did* achieve a more balanced capital structure, consistent with the strategic potential of M&A to optimize financing.

Rapidly Rising Leverage and Volatility as a Divergence/Unaddressed Risk: However, the positive initial picture for ESLSE is quickly overshadowed by its rapidly rising DTOE (from 1.30 to 1.68) and increasing debt volatility (higher standard error of 0.190). This rapid increase and instability are not explicitly addressed in the limited "strategic improvement" findings. While Sulaiman (2012) noted *better* positions, it doesn't delve into the *sustainability* or *volatility*

of these post-merger leverage levels. The ESLSE case highlights a critical nuance: an *initial* improvement in leverage can quickly erode if the underlying drivers of debt accumulation are not managed effectively. The "increasing debt volatility" is particularly concerning, as it suggests greater uncertainty and risk, which is not captured by simply looking at a "better leverage position" at one point in time.

Leverage as a Control Variable: A Research Gap: The observation that "Other studies (e.g., Pazarskis et al., 2006) treated leverage as a control variable without reporting direct analysis" underscores a broader research gap. While these studies acknowledge leverage's influence on outcomes like profitability or efficiency, they often don't provide a detailed examination of how M&A specifically impacts leverage itself. This means that for cases like ESLSE, where leverage dynamics are complex (initial improvement followed by rapid deterioration and volatility), there's a lack of detailed comparative empirical evidence to draw from. The current literature primarily confirms that leverage matters in M&A, but less on the mechanisms and consequences of its post-merger evolution.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1. Summary of major Findings

I. Profitability Ratios

In terms of **profitability**, ESL was highly profitable pre-merger, with strong Return on Assets (ROA) and Return on Equity (ROE). Maritime & Transit, in contrast, struggled significantly, evidenced by a very low ROA and a 0.00% gross margin. Post-merger, ESLSE saw significant improvements in Gross Profit Margin (GPM) and Operating Profit Margin (OPM), indicating successful cost synergies and streamlined operations. However, this was accompanied by a substantial decline in ROA and ROE compared to ESL's pre-merger performance, suggesting that while operational efficiency improved, shareholder returns were negatively impacted, possibly due to equity dilution or overpayment for the acquisition.

Return on Assets (ROA):

Pre-Merger: ESL demonstrated strong asset utilization with an average ROA of 24.62% (2010) and 21.39% (2011). Maritime & Transit was significantly less efficient (1.57% in 2010, 6.55% in 2011).

Post-Merger (ESLSE): The merged entity saw an ROA of 18.43% in 2022, declining to 10.54% in 2023.

Return on Equity (ROE):

Pre-Merger: Both ESL (88.28% in 2010, 106.02% in 2011) and Maritime & Transit (24.35% in 2010, 102.70% in 2011) exhibited exceptionally high ROE, especially in 2011.

Post-Merger (ESLSE): ESLSE's ROE was 42.46% in 2022, falling to 28.23% in 2023. There was a significant drop (59.55 percentage points in mean ROE) in shareholder returns post-merger compared to the individual entities. This suggests that the combined entity is generating less profit per dollar of equity, potentially due to an increased equity base or lower net income relative to equity.

Gross Margin (GPM):

Pre-Merger: ESL had GPMs of 12.19% (2010) and 10.06% (2011). Maritime & Transit reported 0.00% in both years, an anomaly suggesting a different business model or very high direct costs. The mean pre-merger GPM was 15.61%.

Post-Merger (ESLSE): ESLSE achieved significantly higher GPMs of 26.48% in 2022 and 24.92% in 2023.

Operating Margin (OPM):

Pre-Merger: ESL maintained operating margins around 19.9% (2010) and 19.6% (2011). Maritime & Transit improved from 10.70% (2010) to 19.85% (2011).

Post-Merger (ESLSE): ESLSE's OPM was 19.59% in 2022, decreasing to 15.58% in 2023. The mean post-merger OPM was 23.71%.

Post-merger OPMs are comparable to ESL's pre-merger levels in 2022 and a significant improvement over Maritime & Transit's 2010 figure. The mean OPM improved by 3.55 percentage points. However, the decline in 2023 indicates potential challenges in controlling operating expenses or maintaining revenue growth.

The merger statistically significantly impacted profitability, specifically boosting gross operational efficiency (GPM) but seemingly negatively affecting overall returns to shareholders (ROE) and slightly impacting ROA. The relative stability of the Operating Profit Margin suggests that increased gross profitability may have been offset by other factors impacting net income. Interviews confirm successful cost reduction through streamlined operations (e.g., shared HR/finance) and significant revenue synergies from integrated functions, driving cross-trade revenue to \$271 million (16% above target). Margin expansion is also evident, with gross profit exceeding expectations by 50% due to economies of scale.

Profitability Trade-offs: While the merger significantly boosted gross margins through operational efficiencies and revenue synergies, it led to a notable reduction in return on equity, suggesting that the benefits did not fully translate to shareholder returns. ROA also slightly declined on average.

II. Liquidity Ratios

Liquidity analysis revealed that ESL could cover its short-term obligations pre-merger, while Maritime & Transit faced potential difficulties, with current and quick ratios below 1.0. Post-merger, ESLSE's liquidity significantly deteriorated, with both current and quick ratios plummeting to very low levels, indicating substantial challenges in meeting short-term obligations. This suggests that the merger might have consolidated high liabilities without a proportional increase in liquid assets, coupled with poor working capital management. Conversely, interview data indicates improved liquidity due to enhanced cash flow management, substantial cross-trade revenue generation, and better access to capital post-merger.

Current Ratio:

Pre-Merger: ESL had healthy current ratios (1.1507 in 2010, 1.0610 in 2011), while Maritime & Transit was below 1.0 (0.8341 in 2010, 0.8509 in 2011).

Post-Merger (ESLSE): ESLSE's current ratios were significantly lower at 0.4566 in 2022 and 0.4601 in 2023. The mean post-merger current ratio was 0.458.

Quick Ratio:

Pre-Merger: ESL showed good immediate liquidity (1.0918 in 2010, 1.0044 in 2011). Maritime & Transit was below 1.0 (0.8341 in 2010, 0.8409 in 2011). The mean pre-merger quick ratio was 0.992.

Post-Merger (ESLSE): ESLSE's quick ratios were 0.3995 in 2022 and 0.4159 in 2023.

Similar to the current ratio, a severe deterioration (58.9 percentage points in mean) in immediate liquidity, indicating challenges in meeting short-term obligations without relying on inventory sales.

Despite interview findings suggesting improved cash flow management, better forecasting, and robust cross-trade revenue (\$421 million in FY24), the calculated liquidity ratios show a concerning decline from a relatively stable pre-merger position to a highly vulnerable state post-merger. This signals a struggle to manage working capital effectively and could pose a risk to operational continuity, especially in the Ethiopian context where hard currency shortages are prevalent. Improved capital access and enhanced creditworthiness are noted as benefits, aiding fleet and infrastructure upgrades.

Liquidity Concerns: Despite claims of improved cash flow management and substantial cross-trade revenue, the sharp deterioration in both current and quick ratios indicates significant short-term liquidity challenges that could threaten operational continuity, especially in Ethiopia's economic environment.

III. Efficiency Ratios

Regarding efficiency, ESL demonstrated high receivable turnover pre-merger, indicating efficient collections. Maritime & Transit, however, faced significant challenges in collecting receivables, with very low turnover. ESL's Days Payable Outstanding (DPO) was relatively high, suggesting it took a long time to pay suppliers. Post-merger, ESLSE experienced a decrease in receivable turnover compared to ESL's pre-merger rates, indicating a decline in collection efficiency. DPO also increased substantially for ESLSE, meaning the merged entity took much longer to pay its suppliers. Despite these ratio trends, interview data suggests operational efficiency gains through integrated IT and financial systems, optimized asset utilization, and streamlined administrative functions.

Receivable Turnover:

Pre-Merger: ESL had high turnover (9.9292 in 2010, 12.3651 in 2011), indicating efficient collection. Maritime & Transit had very low turnover (0.3087 in 2010, 0.9183 in 2011), indicating significant challenges.

Post-Merger (ESLSE): ESLSE's turnover was 2.9217 in 2022, decreasing to 2.4030 in 2023.

Days Payable Outstanding (DPO):

Pre-Merger: ESL had DPOs of 241.5 days (2010) and 250.2 days (2011). Maritime & Transit had "NA."

Post-Merger (ESLSE): ESLSE's DPO was 290 days in 2022, increasing significantly to 437.7 days in 2023.

While interview feedback highlights substantial improvements in operational efficiency through integrated IT and financial systems (e.g., handling 2 million tons of freight and 60,000 TEU containers), optimized asset utilization, and administrative efficiency (e.g., support service consolidation, completion of a five-year audit), the receivable turnover ratio shows deterioration

in collection efficiency. This suggests a potential trade-off where internal operational streamlining might be overshadowing issues in external credit management.

Mixed Efficiency: Operational efficiency has improved through integrated systems and optimized asset utilization. However, receivable collection has slowed down considerably post-merger, requiring urgent attention.

IV. Leverage Ratios

Concerning **leverage**, Maritime & Transit was dangerously leveraged pre-merger, with extremely high debt-to-equity and debt-to-asset ratios, indicating an overwhelming reliance on debt. ESL had moderate but rising leverage. Post-merger, ESLSE initially showed an improvement in leverage, with lower debt-to-equity and debt-to-asset ratios compared to both pre-merger companies, suggesting a more conservative capital structure. However, this trend quickly reversed, with leverage rapidly increasing and showing higher volatility. Despite this, interviews indicate a strengthened leverage position due to enhanced debt capacity and improved creditworthiness, enabling more favorable borrowing terms and demonstrating a balanced leverage approach for growth.

Debt-to-Equity Ratio:

Pre-Merger: ESL had moderate to high reliance on debt (2.586 in 2010, 3.957 in 2011). Maritime & Transit had very high ratios (14.480 in 2010, 14.687 in 2011), indicating significant financial risk.

Post-Merger (ESLSE): ESLSE's ratios were 1.304 in 2022 and 1.677 in 2023. The mean post-merger D/E ratio was 1.490.

Debt-to-Asset Ratio:

Pre-Merger: ESL's assets were significantly debt-financed (0.721 in 2010, 0.798 in 2011). Maritime & Transit had extremely high ratios (0.935 in 2010, 0.937 in 2011), meaning almost all assets were debt-financed.

Post-Merger (ESLSE): ESLSE's ratios were 0.566 in 2022 and 0.627 in 2023. The mean post-merger debt-to-asset ratio was 0.596.

Strengthened Leverage: The most unambiguous positive impact of the merger is on the company's capital structure, with a substantial reduction in debt reliance, leading to improved financial stability, reduced risk, and enhanced creditworthiness.

In conclusion, the merger has had a complex and multifaceted impact on ESLSE's financial health. While it has successfully driven operational efficiencies, improved gross profitability, and significantly reduced financial leverage, the marked decline in liquidity and slowed receivable collection present critical areas that need immediate strategic attention to ensure the long-term sustainability and solvency of the merged entity.

5.2. Conclusion

Based on the detailed data analysis, the merger involving Ethiopian Shipping and Logistics Service Enterprise (ESLSE) has had a multifaceted and complex impact on its financial performance, aligning with some objectives while presenting challenges in others.

The merger of Ethiopian Shipping and Logistics Service Enterprise (ESLSE) presents a complex financial outcome characterized by both strategic improvements and significant challenges. While the company successfully enhanced its gross operational efficiency, as evidenced by a substantial increase in Gross Profit Margin, this did not translate into improved overall profitability for shareholders, with Return on Equity experiencing a significant decline. Furthermore, the merger severely impacted the company's short-term liquidity, leading to a critical strain on its ability to meet immediate financial obligations. Conversely, a clear and significant deleveraging occurred, resulting in a more conservative and less risky capital structure. The efficiency of receivable collection also slowed, though this change was not statistically significant. In essence, the merger appears to have fostered improved operational cost control and reduced financial leverage, but at the cost of diminished shareholder returns and a precarious short-term liquidity position. This suggests that while some anticipated synergies in operational efficiency and financial structure were realized, the integration process or subsequent factors introduced significant challenges to overall profitability and immediate financial solvency.

Profitability: In conclusion, the merger clearly had a dual impact on profitability: it successfully boosted margins but simultaneously reduced overall returns to shareholders. The improved margins (GPM and OPM) are direct evidence of successful cost cutting strategies implemented

post-merger. This indicates that the operational integration likely led to efficiencies and reduced overheads. However, the halving of ROE despite these cost savings points to a critical issue: overpayment for acquisitions (diluted ROE). Equity dilution typically occurs when a company issues new shares (often to finance an acquisition) at a price that does not adequately reflect the earning power of the acquired assets relative to the new capital introduced. This suggests that while ESLSE became more efficient at the operational level (higher margins), the initial cost of acquiring Maritime, possibly at a premium, was too high. The new, larger equity base could not generate proportionally higher profits, thus diluting the returns for each dollar of shareholder equity. This indicates that the financial structuring of the merger, particularly the valuation and financing of the acquisition, may have inadvertently sacrificed shareholder returns despite operational improvements.

Cost Structure and Efficiency: The conclusion is unequivocal: the merger destroyed efficiency, specifically in the critical area of receivables management. This decline is likely attributable to two primary factors. Firstly, poor integration of billing systems is a probable culprit. When two companies merge, especially one with highly efficient systems and another with dysfunctional ones, failing to seamlessly merge and optimize these systems can lead to chaos in invoicing and collection. Secondly, weaker customer credit policies may have been adopted. If ESL's stringent credit policies were relaxed or Maritime's lax policies were allowed to persist, it would inevitably lead to longer collection periods and a higher DSO for the combined entity. Ultimately, despite the opportunity for ESL's efficient practices to elevate Maritime's, the merger seems to have resulted in a significant regression, highlighting a failure in operational integration and potentially, strategic policy alignment regarding customer credit.

Liquidity: The conclusion is unequivocal the merger actively harmed short-term solvency. This unfortunate outcome is likely due to two primary factors. Firstly, the consolidation of high liabilities from both Maritime and ESL seems to have created an overwhelming burden for ESLSE, without a proportional increase in its liquid assets. Secondly, poor working capital management is a significant contributing factor. This suggests inefficiencies in how the new company is handling its current assets (like collecting receivables or managing inventory) and current liabilities, ultimately hindering its ability to generate sufficient cash to meet its short-term financial commitments. In essence, the merger didn't resolve the pre-existing liquidity issues; it exacerbated them, pushing ESLSE into a perilous financial state.

Leverage: In conclusion, the post-merger leverage for ESLSE is a mixed and ultimately concerning picture: it is lower than Maritime's pre-merger level but demonstrably worsening. This duality leads to two key insights. Firstly, the initial reduction in leverage suggests that a portion of the merger costs might have been funded by debt, but this debt was perhaps strategically structured or combined with equity to immediately lower the overall DTOE. Alternatively, the "improvement" might simply reflect the strong equity base of ESL absorbing Maritime's debt. However, the subsequent rapid increase in leverage indicates that ESLSE is continuing to take on significant debt. This creates a risk of future financial strain if growth doesn't offset borrowing. If the borrowed funds are not effectively deployed to generate sufficient revenue and profits, the rising debt levels could lead to increased interest expenses, cash flow problems, and ultimately, a return to the dangerous leverage ratios seen in Maritime pre-merger. The increasing debt volatility further exacerbates this risk, making future financial planning more challenging and potentially signaling more aggressive borrowing strategies.

The merger of ESL and Maritime & Transit into ESLSE has had a multifaceted and, at times, contradictory impact on the combined entity's financial health. While the merger successfully boosted operational efficiency, leading to improved gross and operating profit margins through cost synergies and streamlined operations, it simultaneously reduced overall returns to shareholders, primarily evidenced by a significant halving of Return on Equity (ROE). This suggests that despite operational successes, the financial structuring of the merger, potentially involving an overpayment for the acquisition and subsequent equity dilution, negatively impacted shareholder value.

Furthermore, the merger unequivocally damaged efficiency, particularly in the crucial area of receivables management. The sharp increase in Days Sales Outstanding (DSO) post-merger indicates a probable failure in integrating billing systems and potentially adopting weaker customer credit policies. This decline signifies a significant regression from ESL's pre-merger efficiency and highlights a failure in operational integration and strategic policy alignment.

In terms of liquidity, the merger actively harmed ESLSE's short-term solvency. The dramatic collapse in current and quick ratios points to a severe inability to meet short-term financial obligations. This unfortunate outcome is likely due to the consolidation of high liabilities from

both predecessor companies without a proportional increase in liquid assets, exacerbated by poor working capital management within the new entity.

Finally, the post-merger leverage for ESLSE presents a mixed but concerning picture: while initially lower than Maritime & Transit's perilous pre-merger levels, it is demonstrably worsening. The initial reduction suggests a strategic structuring of debt or the absorption of Maritime & Transit's debt by ESL's stronger equity base. However, the subsequent rapid increase in leverage and its volatility indicate that ESLSE is continuing to accumulate significant debt. If these borrowed funds are not effectively deployed to generate sufficient revenue and profits, this trend could lead to increased financial strain, cash flow problems, and a return to the dangerous leverage ratios observed in Maritime & Transit pre-merger.

Based on the analysis, the merger yielded no net positive synergy value on overall financial performance due to severe liquidity trade-offs.

While the merger did demonstrate some positive outcomes, such as a significant improvement in Gross Profit Margin (indicating operational efficiency and potential cost synergies) and a significant deleveraging (leading to a more conservative and less risky capital structure), these gains were offset by substantial negative impacts on other critical financial indicators.

Therefore, while some anticipated synergies in operational efficiency and financial structure were realized, the overall financial performance was complex, marked by diminished shareholder returns and severe liquidity strain. This indicates that the merger's benefits were not widespread enough to result in a net positive synergy across all aspects of financial performance.

5.3. Recommendation

To address the multifaceted challenges and capitalize on the initial successes, ESLSE should implement several key strategies. Firstly, a comprehensive re-evaluation of the acquisition valuation and financial structuring is crucial to understand the extent of overpayment and its impact on ROE. Implementing stricter valuation methodologies for future acquisitions and developing strategies to enhance shareholder returns, potentially through more efficient capital deployment, will be vital.

Secondly, an immediate overhaul of receivables management is necessary. This involves prioritizing the seamless integration and optimization of billing and collection systems, adopting

ESL's previously efficient practices across the entire entity, and reviewing and tightening customer credit policies to reduce Days Sales Outstanding (DSO).

Thirdly, the severe liquidity crisis demands enhanced working capital management. ESLSE must implement robust strategies to improve current and quick ratios, including optimizing inventory levels, accelerating receivables collection, and strategically managing payables. Developing more accurate cash flow forecasts and implementing stricter controls over cash outflows are also essential to ensure sufficient liquid assets are available.

Finally, vigilant monitoring and control of the rapidly rising leverage are paramount. ESLSE needs to implement policies to curb further debt accumulation and ensure that any new debt is strategically deployed to generate returns that outpace interest expenses. Developing a clear debt management plan to stabilize leverage ratios and reduce volatility, potentially through prioritizing debt reduction or exploring less debt-reliant financing options, will be critical for long-term financial stability. These recommendations aim to transform the complex and often contradictory outcomes of the merger into a more consistently positive trajectory for ESLSE's financial performance.

Prioritize Liquidity Management:

Develop Robust Working Capital Strategies: Given the significant deterioration in current and quick ratios, ESLSE must immediately implement robust working capital management strategies. This includes optimizing inventory levels (though not explicitly analyzed, it's a key current asset), accelerating cash conversion cycles, and carefully managing cash outflows.

Strengthen Accounts Receivable Collection: The notable decline in receivable turnover requires urgent attention. ESLSE should review and revise its credit policies, enhance its collection procedures, and consider offering incentives for early payments to improve cash inflow from receivables. Implementing a more aggressive follow-up system for overdue accounts is crucial.

Optimize Days Payable Outstanding (DPO): While a higher DPO can conserve cash, the current level (437.7 days in 2023) is exceptionally high and could strain supplier relationships. ESLSE should find an optimal balance between leveraging supplier credit and maintaining strong, mutually beneficial relationships. This might involve segmenting suppliers and negotiating terms more strategically.

Enhance Shareholder Value Proposition:

Investigate ROE and ROA Decline: Despite improved gross and operating margins, the substantial drop in ROE and slight decline in ROA warrant deeper investigation. ESLSE should analyze whether this is due to an expanded asset or equity base not yet fully utilized for profit generation, or if there are other underlying inefficiencies impacting net income that are not captured by operating margins.

Strategic Capital Allocation: Ensure that new investments and growth initiatives, especially those enabled by enhanced debt capacity, are directly contributing to net income growth proportional to the asset and equity base, thereby improving ROA and ROE over time.

Capitalize on Leverage Strengths for Strategic Growth:

Prudent Debt Utilization: While the reduction in leverage is positive, ESLSE should strategically utilize its enhanced debt capacity and improved creditworthiness to fund critical fleet and infrastructure upgrades, and other growth-oriented projects. This should be done prudently to avoid re-introducing excessive financial risk.

Maintain Financial Discipline: Continue the disciplined approach to financial management and centralized governance that has led to improved leverage and risk mitigation, particularly in navigating regional and global economic shocks.

Continuous Monitoring and Adaptation:

Establish Key Performance Indicators (KPIs): Implement a comprehensive set of financial and operational KPIs across all departments to continuously monitor the impact of the merger and identify emerging issues in real-time.

Regular Post-Merger Integration Review: Conduct periodic, in-depth reviews of the merger integration process to ensure that all planned synergies are being realized and to address any unforeseen challenges or bottlenecks that emerge, particularly concerning liquidity and receivable management.

Further Research:

This study focused on a limited post-merger period. Future research should analyze a longer time series of financial data to observe long-term trends and solidify conclusions about the merger's sustained impact.

Investigate the specific causes behind the drastic decline in liquidity ratios, possibly exploring the composition of current assets and liabilities in more detail.

By proactively addressing the identified liquidity and efficiency challenges while leveraging its strengthened capital structure and operational synergies, ESLSE can consolidate the benefits of the merger and achieve sustained financial health and market leadership in the dynamic Ethiopian logistics sector.

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Annex I.

I. Financial Synergies & Profitability

1. Cost Efficiency & Margins

How has the merger enabled ESL to reduce operational costs (e.g., staffing, procurement) and improve profitability margins?

2. Revenue Over Performance Drivers

ESL exceeded its revenue target (46.8B birr vs. 44B birr). Provide specific examples of how merger-driven efficiencies (resource optimization, integrated systems) contributed to this.

3. Profit Growth Mechanisms

Gross profit surpassed expectations by 50%, and pre-tax profit reached 9.3B birr. How did the merger reshape cost structures and revenue streams to drive this improvement?

4. Cash Flow & Capital Access

In what ways did the merger improve cash flow forecasting, strategic fund allocation, and access to capital for fleet/infrastructure investments?

5. Supplier Negotiation Power

Did the merger enhance ESL's leverage in negotiations (such as fuel, insurance)? How did this impact costs and the bottom line?

II. Operational Efficiency & Integration

6. Cross-Trade Scalability

ESL generated \$271M in cross-trade revenue (16% above target). How did unifying shipping, port, and logistics functions enhance execution and scaling of cross-trade?

7. Freight Handling Capacity

ESL moved 2M tons of freight and 60,000 TEU containers via multimodal transport. How did operational integration post-merger boost throughput and efficiency?

8. Audit & Compliance

How did the merger resolve long-pending audits and improve compliance with international standards?

9. Regional Crisis Response

How did the merged structure help ESL navigate Red Sea conflicts and the Ukraine-Russia crisis (e.g., rerouting shipments)?

III. Strategic Impact & Growth

10. Dividend Sustainability

How did the merger enable ESL to pay a 3B-birr dividend to EIH while maintaining profitability?

11. Capitalizing on Macroeconomic Reforms

How did the merger position ESL to leverage market-based exchange reforms and expand cross-trade (\$421M annual revenue)?

12. Future Growth Enablers

How will merger synergies (shared tech, unified teams) support ESL's goals to handle 819K tons of cross-border freight and 4.3M tons of marine imports?

Annex II.

Balance sheet Items

year	Company	status	total asset	total liability	total equity	current asset	current liability	inventory	Account receivables
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Annex III.

Income statement Items