

ABSTRACT

Economic reports reveal that Western Kenya has 16% poverty depth due to unemployment; sectoral reports reveal that 71% of employment opportunities are created in the informal sector and a long distribution system. Distribution networks in the soft drink industry require substantive investment in assets for their optimal performance. Past studies on distribution systems concentrated on customer value management and profitability with no concern on assets for optimal performance and creation of employment opportunities. The assets of this industry have uncertain imitability and are valuable for competitive advantage. Investment appraisal techniques rank investments according to their optimality of returns but drawbacks are observed in the mean - variance paradigm of these investments indicating a problem in diversification, the mismatch of cash flows, discount rates and inflation leading to rejection of worthwhile investments and as portfolios increase in size their variance increase rather than decreasing, this contradicts portfolio theory as profit to total assets will be dismal indicating that no known information on investment appraisal, diversification and portfolio selection in the industry soft drink industry in western Kenya. The purpose of the study was to assess influence of investment appraisal and diversification on portfolio selection in the soft drink industry. The objectives were: to establish influence of investment appraisal techniques on portfolio selection, to establish influence of diversification alternatives on portfolio selection, and establish the relationship between investment appraisal, diversification and portfolio selection. Portfolio theory, investment appraisal and diversification theories guided this study. Cross sectional research design was used and target population was 302 respondents selected by saturated sampling technique. Primary data was collected using questionnaire administered through oral interview. Reliability of the instrument, the computed Cronbach's Alpha was 0.970 suggesting strong internal consistency; content validity was achieved through expert advice. Data was analysed using regression analysis techniques. Study results show strong and significant relationship between investment appraisal techniques and portfolio selection ($R = 0.917^a$, $F = 259.641$, $R^2 = 0.842$, $p < 0.000 < 0.05$), where NPV effect size ($\beta = 0.463$) on EPS was 0.463% and PBP effect size ($\beta = 0.773$) on EPS was .773% as indicated by the standardized beta coefficients; part analysis results for NPV and PBP the model becomes better ($F = 622.286$; $R = 0.913^a$; $R^2 = 0.834$; NPV $\beta = 0.386$; PBP $\beta = 0.550$; $p < 0.05$) their joint significance increased with F values. Considering only PBP the model give best contribution to portfolio selection ($R = 0.898^a$; $F = 1037.205$; $R^2 = 0.807$; $p < 0.05$). This result reveals that investment appraisal techniques significantly influence portfolio selection in the industry. Strong and significant relationship exist between diversification alternatives and portfolio selection ($R = 0.911^a$; $F = 398.020$; $R^2 = 0.829$; $p < 0.05$), where WDA has insignificant effect size on EPS as its $\beta = 0.000$, ADA ($\beta = 0.248$) and BDA ($\beta = 0.733$) had significant effect size on EPS. When only ADA and BDA were considered only F value increased ($R = 0.911^a$; $F = 599.457$; $R^2 = 0.829$; $p < 0.05$); the model achieved better results for BDA and EPS ($R = 0.890^a$; $F = 947.112$; $R^2 = 0.792$; $p < 0.05$) and the magnitude of unstandardized beta (0.934) and standardized beta ($\beta = 0.890$) were very high indicating greater effect size to EPS. These results reveal that best diversification alternative significantly influence portfolio selection in the drink industry. Results for investment appraisal, diversification and portfolio selection a strong and significant relationship exist ($R = 0.946^a$; $R^2 = 0.895$; $F = 1056.830$; $p < 0.05$); the betas for the predictors DA ($\beta = 0.701$) and INA ($\beta = 0.288$) show that DA has high and significant effect size on EPS in this industry. The study concludes that investment appraisal techniques and diversification alternatives significantly influence efficient portfolio selection; and a significant relationship exist between investment appraisal, diversification

and portfolio selection in the soft drink industry in western Kenya. The study recommends that firms should use PBP technique and BDA for portfolio selection to achieve optimal performance.