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The Impact of Peer Influence and Social Networks on Investor Perception and Mutual Fund Preference

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Abstract
The adoption of mutual funds is a critical financial decision, influenced by various factors, including peer influence and social networks. The role of these factors in shaping individual choices regarding mutual funds remains underexplored. This study aims to bridge this gap by investigating the impact of peer influence and social networks on the adoption of mutual funds. The primary objective of this research is to observe a level to which peer inspiration & social network connections affect the decision-making process in adopting mutual funds. The study seeks to provide insights into the mechanisms through which these factors operate and contribute to individual choices in the context of mutual funds. For collecting and analysing data from a diverse sample of mutual funds customer across Rajasthan (N=200), quantitative method was used. Google form was used to gather information on participants' perceptions of peer influence, social network, and their adoption of mutual funds. Structural Equation Modelling (SEM) analysis was utilized to assess relationships between peer influence, social networks, and mutual fund preference, considering mediating and moderating effects. The study anticipates finding significant associations between peer influence, social network connections, and the adoption of mutual funds. The SEM analysis is expected to reveal the underlying mechanisms through which these factors exert their influence. It is hypothesized that individuals with strong ties to peers who have already adopted mutual funds are more likely to do so themselves. Moreover, the study aims to uncover potential variations in these relationships based on demographic and socio-economic factors.

Keywords : *Mutual funds, Peer influence, Social-Network, Adoption, SEM*

1. Introduction

Investors decision-making process is multifaceted and complicated and depends upon a great number of factors. Of these, the social networks and peer influence have a critical role in influencing investment decision making **(Manjunatha et al., 2026)**. In the modern world, where the sphere of digital communication and social media has been expanding, the force of social influence is stronger than ever **(Çela, 2015)**. The need to determine the impacts of these dynamics on financial preferences has increasingly emerged mandatory as an endeavour to researchers as well as practitioners as more investors go to peers in search of guidance, validation, and information. Stagnant growth means the economy is not adequately attaining the economic growth goal. Each of these situations is problematic because society is less well off than it would be by reaching the goals **(P. D. P. Sharma, 2017)**. Hence, it is of vital importance to study the investors' perception at present in India. The current paper concentrates on peer influence and social networks on investor perception with specific reference made to the preferences concerning mutual funds.

It is common to have investors, particularly the novices and the less experienced investors seeking the initiative of their peers as regards to the financial products including the mutual funds **(Kaur & Kaushik, 2016)**. The investors may switch from one Mutual Fund to another in same family funds or switch from one family to another. It depends upon their mindset, current market conditions and the performance of the funds. These switching behaviour among the investors were usually seen in the market since the investors were frequently selling their Mutual Funds and invest in some other funds in expectation of high returns **(P. D. P. Sharma, 2014)**. Mutual fund markets are constantly

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becoming more efficient by providing more promising solutions to the investors **(P. D. P. Sharma & Rao, 2014)**. In this respect, peer influence describes the effects that other individual or group of friends, relatives, peers, or the internet communities can impose on the decision-making process of an investor **(Merriman, 2020)**. Decision-making psychology illustrates that individuals tend to believe their members of the social group more, and therefore, peer pressure, as well as social affirmation, can influence their decisions to invest more than conventional financial performance and professional advice **(Ajzen, 1996)**.

Peer Influence and Social Networks

Social networks are power structures of compounded people who are linked and possess mutual connections, bonds and interests **(Fuhse, 2009)**. These ties, being on the basis of proximity, the same aim, and an interest form an ecosystem where people are affected by the behaviours and opinions of each other. Social networks may enable or prevent an investors readiness to accept new financial products, based on the opinion and actions of the influential ones in the network in the investing behaviour **(Akhtar et al., 2023)**.

These networks are based on peer influence, which is psychological in nature and is commonly known as social proof or herd behaviour **(Begho & Liu, 2024)**. The theory is that when people believe that others, in this case those in their social circle are undertaking an activity or behaving in a particular way they are more likely to undertake the same activity or behave in a particular manner **(Graham, 2002)**. Such impressiveness is especially pronounced with financial product such as mutual funds which may be complex and may leave the ordinary investor confused and bewildered. With this, people are likely to be compelled to heavily depend on the suggestions or seen trends in their social settings, instead of conducting a thorough and complete review on investment opportunities **(Baumohl, 2012)**.

Perception and Decision-Making

Investor perception is the way a person observes and comprehends financial opportunity, risk and reward prospects **(Miano, 2020)**. It is influenced by both the cognitive and emotional aspects, such as the personal experience, finance knowledge exposure, and others, such as peer opinion. Mutual fund preference in particular, is on the one hand, quite vulnerable to peer pressure, since in many cases, mutual funds may be viewed as a comparatively safer and more diversified investment choice when suggested by someone one trusts or when a position is taken up by the peer group **(Ranganathan, 2006)**.

In addition, the image of investor-perception is not just based on the comprehension of the financial performance of a product, but is also covered by emotional elements of trust, confidence, and social membership **(Naseer, 2025)**. When people feel that other people are in an investment that everyone is in, this lessens the perceived risk and chances of adoption are high **(Lee, 2009)**. Consequently, peer influence develops a social justification of mutual fund investments that may elevate the confidence of the investor and increase his/her willingness to use these financial instruments **(Karul & Nawaz, 2025)**. Investing in the hazardous capital market is necessary for this. Mutual funds are now among the feasible choices for investors in this situation. In India, investing in mutual funds has become increasingly significant. Investments in mutual funds are safer and provide higher returns on the portfolio than other financial vehicles **(Dadhich & Sharma, 2025)**.

The Digital Age of Social Networks

The use of social media and online forums has increased power of social networks in determining the behaviour of investors **(Awad et al., 2025)**. Social sites such as Facebook, Twitter, LinkedIn, as well as internet investment forums with reference to investing have turned out to be essential sources of financial information **(Halloran & Thies, 2012)**. In these sites, investors often post their experiences, insights and even recommendations on these sites often influencing the opinions of other people in their online communities **(Tu et al., 2018)**. Such networks establish a situation of mutual education and emotional encouragement that can play an important role in influencing the investment decisions of the person (or the people) who might otherwise have not touched the financial product in question.

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The digital era has increased the significance of social networks as they are the medium through which people can share their views and experiences in regards to mutual funds and other financial products freely **(Gil-Bazo & Imbet, 2025)**. As an illustration, an investor could be swayed after a post in one of the social media networking platforms to recommend a specific mutual fund or to respond to the solicitation of financial influencers to invest in mutual funds (V. Sharma & Mishra, 2024). These communications are virtual, but are as heavy as a high impact face-to-face peer influence.

Research Significance

The role of peer influence and social networks in the perception and mutual fund preference of investors is a very crucial area of understanding to both the academic community and practitioners. Academically, this study contributes to the body of knowledge concerning the behavioural finance topic by examining the influence of social aspects - in this case, peer pressure on personal choices regarding investments. Although the classical approaches to investment decision-making mostly rely on the rational approach to assessing the factors (including risk aversion, prospective returns, and market conditions), the presence of social networks leaves a new dimension unexplored.

This research has serious implications on financial services industry to the practitioners. The market by mutual fund companies such as this example can exploit the influence of the social through formulation of marketing campaigns which appeal to peer groups or social networks. By learning about peer influence and its dynamics, mutual fund providers can create a more powerful communications strategy and create trust in investor communities. Financial institutions can become more attractive to more individuals by bypassing the marketing strategies to fit the expectations and behaviour of the investor that are peer-influenced.

Research Aims and Structure

The central aim of this study is to ascertain how peer influence and social networks impact investor judgement and in particular mutual fund preferences. The study will test various posited propositions concerning how peer influence and other factors of social contacts are likely to relate to mutual fund decision making and to understand the processes that lead to this stage.

The necessity of such works is well confirmed by the works that stand in the basis of this introduction. Subsequent chapters cover the new scientific empirical literature review on peer pressure, difficulties caused by other people, value costs, social networks and investor behaviour. This is followed by a brief description of the research design including data collection procedures and methods of data analysis. The rationalizations for such actions will be covered through a discussion on the relevant theoretical framework. At the end of the paper, a couple of policy suggestions for financial firms and any potential research avenues in the future will be proposed. Finally, this paper provides analysis on social influence and seeks to understand the various ways in which investors make decisions in a networked society.

2. Literature review

In consumer behaviour and financial decision-making, the intricate interrelationship between peer effects, subjective expected utility, social networks, and individual attitudes, is the most relevant **(Frederiks et al., 2015)**. In building on a number of studies, a whole load of grounded logical hypotheses can be formulated to explicate associations among the multiple variables presented within the context. The impact exerted by other people on consumers has been known to be quite persuasive due to attitudes of conformity instigated in the first case **(Frederiks et al., 2015)**. As such, a degree of social pressure regarding the choices of their peers can be observed among many people, which can be termed as the social proof, and Cognitive Heuristic at work that is applied to make these choices **(MacCoun, 2012)**. One can do so as it is likely that after treatment there will be a positive change in the attitude towards mutual fund preference due to peer group influence **(Kaur, 2018)**. Mutual funds have emerged as an important segment of financial markets and so far, have delivered value to the investors. no industry can flourish without a proper regulatory mechanism **(Purohit & Sharma, 2012)**. Equally important is the assurance that even such gains led to mean more positive social attitudes and

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decisions. People are more likely to accept favorable or good products that would benefit them **(Eiser & der Pligt, 2015)**. This is what the term refers to 'how men think about natural exposures. The attitude towards mutual funds is shaped by perceived benefits. Therefore, one would assume that higher perceived benefits will result in more positive attitudes towards mutual fund preference **(Singh & others, 2012)**. Proceeding to include the effect of social networks in the analysis, one can also indicate the impact of network connections on relational attitudes towards mutual funds treatment. As certain scholars of the theory argue, strong ties or those close ties which are just a confine to the core Hey knit groups but apart are the ones that are known as the bridging capital **(Deb et al., 2025)**. Further than within the discrete selves, social networks operate offering pages for cross-fertilization of experiences, suggestions, perspectives. This facilitates an appreciation of technology as the internet and social networks that multiplies the screens and enables people to see various viewpoints **(Bauerlein, 2011)**. Therefore, it can be suggested that it must be easy to explain that when it concerns social media the amount and variety of information present within social networks are correlated with the positive attitudes towards mutual funds **(Lei & Ramos Salazar, 2022)**. Looking at these channels from the perspective of the emotional or motivational factors that control the behaviour of people, the explanation of the psychological processes of one person is based on the theory of cognitive dissonance **(Harmon-Jones, 2004)**. People tend to be in a state of equilibrium or consonance between attitudes and behaviours which means they tend to agree **(Schuman & Johnson, 1976)**. Applying this to the concept of mutual funds preference, it is reasonable to think that people who are subject to social pressure as far as mutual funds are concerned **(Barreda-Tarrazona et al., 2011)** and who believe in those social pressure benefits and are surrounded their social norms are at an advantage of having a desire for mutual funds rather than face cognitive dissonance **(Goetzmann & Peles, 1997)**. In other terms, one should expect these individuals to have a consumer orientation towards these products. An exhaustive analysis of customer behaviour in mutual fund investment relies on the nature of peer effects, expected benefits, social groups and attitudes **(Bollen, 2007)**. Positive aspects of the effect of peerage on attitudinal changes include those facilitating peer favorability attitudes and those associated with increasing benefits on attitudes and the last one is enhancing the impact of social networks on attitudes towards mutual funds **(Mishra et al., 2023)**. Given the structure of cognitive dissonance theory, these variables are bound to bring about changes in people's behaviour and decisions and describe very well the consumer in the context of financial management and security.

Hence following hypothesis can be formed:

H1a: Peer Influence significantly contribute in determining attitude for mutual funds.

H1b: Social Network significantly contribute in determining attitude for mutual funds.

H2: Perceived Benefit of mutual funds product affect the attitude for mutual funds.

The attitude of people to mutual funds and their perception of the mutual funds' benefits will play a crucial role in determining the propensity of people to adopt mutual funds. The Attitude-Behaviour Theory bases itself upon previous research findings where it is argued that positive attitudes towards a behaviour lead to an intention to participate in the behaviour **(Armitage & Christian, 2003)**. Besides, Theory of Planned Behaviour assumes that arrogances, idiosyncratic standards and apparent behavioural switch interactively determine behavioural intents **(Heydari, 2024)**.

When speaking of mutual funds, people who are more predisposed to its necessity, benefits, and value as a financial safety net will establish the intention to adopt such products **(Pellinen et al., 2015)**. This is similar to the favourable attitudes towards mutual funds which showed positive relations with intentions to buy. The perceived benefits, as emphasized by the Prospect Theory are useful in decision making especially in situations where the outcomes are uncertain **(Kahneman & Tversky, 2013)**. People tend to do something when they feel that the rewards will be more than the possible risks or expenses. Upon this, the Protection Motivation Theory maintains that protective actions

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are driven by the belief that people take when they identify the intensity of a threat and when they believe the effectiveness of a coping strategy **(Clubb & Hinkle, 2015)**. Applying this to the mutual funds, those who view the mutual fund advantages, including, but not limited to, financial security of their families in case of unexpected events, as valuable and effective, will be more likely to surmount inertia and go with the mutual fund **(Elton et al., 2007)**. This is in line with the research where consumers who felt that mutual funds was one of the ways of securing the wellbeing of their families were more likely to buy the policies. Moreover, the perceived returns on mutual funds are also closely related to risk perceptions of individuals. The Health Belief Model holds the view that a perception of personal susceptibility to a threat and the belief that a recommended action would be effective to reduce the threat would impact on the inclination to assume the action **(Kirscht, 1988)**. Using this to the situation of mutual funds, people who feel that there is a greater risk of unknown events affecting their families will tend to realize the importance of mutual funds in taking care of the financial aspect. This is in accordance with the results that those who perceived the increased degree of risk linked to the financial stability of their family were more prone to think about mutual fund preference. The term loss aversion is used in the context of behavioural economics which argues that people are more disaffected to losses than attracted to equal gains **(Gal & Rucker, 2018)**. Such imbalance in decision making would mean that people may be more inclined to invest in mutual funds as a way of avoiding any possible financial losses as opposed to pursuing any potential financial gains. The focus on the possible loss of financial security of loved ones was more effective in encouraging preference of mutual funds than focusing on the possible gains **(Palmiter, 2001)**.

Hence following hypothesis can be formed:

H3: Attitude for mutual funds leads to adoption of products by customer.

H4: Perceived Benefit of mutual funds leads to adoption of products by customer.

Methodology

Scale & Items

The questionnaire included 5-point Likert scale-based question for Attitude, Mutual funds, Adoption, Peer Influence, Perceived Benefit and Social Network.

Sample for the study

Buyers of mutual funds in Rajasthan were considered as universe for this study. Participants were selected using simple random sampling methods. An online google form was developed and distributed amongst respondents using email & social media platforms. 200 responses were received.

Data Analysis

Data analysis involved the utilization of SmartPLS 4 software to analyze primary data. The process strictly adhered to the guidelines for the proper application and reporting of results derived from PLS-SEM **(Purwanto, 2021)**.

Results

To test the formulated hypothesis, we used the two-stage approach of testing our formulated hypotheses in this research. The method is usually preferred as it gives a chance to explore the factor structure of observed variables in an unsupervised way, as well as provides the possibility to improve the model according to assumptions and theoretical considerations. Those underlying factor structure of the measured variables were identified using the two-stage approach. Factor loadings were initially predicted in the first phase by the Exploratory Factor Analysis (EFA) or Principal Component Analysis (PCA). Secondly, the Confirmatory Factor Analysis (CFA) was done in the second step, in order to determine the model fit and test the theoretical hypotheses.

Measurement Model

The loading of the factors as displayed in Table 1, explain the extent of the relationship between an item and the factor. As a rule, a loading of 0.5 and more is acceptable. In the specific study, the factors loading of all the items are above 0.7 which indicates strong relationships between the items and the factors. The use of Cronbachs alpha (a) to test the

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internal consistency of items in a factor with a bench mark of 0.7 or more which is generally accepted as good. The a values are all greater than 0.7 in this study which gives it a high degree of internal consistency. Composite reliability (CR) measure reliability of the factor scores and when the score is 0.7 and above it is a sign of good reliability. All the CR values in this study are bigger than 0.7, which substantiates good reliability. Average variance extracted (AVE) measures the share of the variance that is gathered by the factor as contrasted to measurement error and a value of 0.5 or above indicates strong convergent validity. In the current work, the values of all the AVE are greater than 0.58, which highlights good convergent validity. The variance inflation factor (VIF) is the measure of the weight of a variable on other factors. The VIFs in this research study have values below 5, which means that there are no major multicollinearity problems.

Table 1: Reliability & Validity of factors

Factor	Item	Outer Loadings	t-stat	VIF	Cronbach's Alpha	CR	AVE
Attitude	AT_1	0.837	0.00	1.749	0.815	0.89	0.729
	AT_2	0.879	0.00	1.879			
	AT_3	0.845	0.00	1.777			
Mutual fund preference	LIA_1	0.869	0.00	1.606	0.781	0.87	0.692
	LIA_2	0.803	0.00	1.558			
	LIA_3	0.821	0.00	1.724			
Perceived Benefit	PB_1	0.84	0.00	1.747	0.83	0.898	0.747
	PB_2	0.869	0.00	2.008			
	PB_3	0.883	0.00	2.039			
Peer Influence	PI_1	0.882	0.00	2.249	0.883	0.928	0.81
	PI_2	0.896	0.00	2.511			
	PI_3	0.921	0.00	2.921			
Social Network	SN_1	0.862	0.00	2.176	0.863	0.916	0.783
	SN_2	0.885	0.00	2.154			
	SN_3	0.908	0.00	2.31			

Interpretation:

Within the Fornell-Larcker criteria of measuring discriminant validity (as stated in Table 2), it is assumed to have been established when the square root of the Average Variance Extracted (AVE) of any factor is greater than the correlation with any other factor **(Ab Hamid et al., 2017)**. Regarding this research, one can observe that all of the diagonal values (the square roots of AVE) are larger than the off-diagonal correlations. This finding is a strong pointer that the constructs of interest have high levels of discriminant validity. Additionally, the diagonal values can be used as a measure of the variance which is accounted by each construct, whereby, the higher the values, so does the construct validity. In this particular research all the diagonal values exceed 0.73 and this highlights the existence of significant construct validity of all the constructs in question.

Heterotrait-Monotrait (HTMT) ratio of the correlations which is presented in Table 3 is another useful method to evaluate the discriminant validity of the measurement model. The value of HMTs must be lower than 0.9 in order to argue the occurrence of discriminant validity among two constructs **(Cheung et al., 2024)**. All the values of HTMT in the context of the current study are observed to be less than 0.9 and this is a good indication of good discriminant validity among the different constructs under research.

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Table 2: Fornell Larker Criteria

	Attitude	Mutual fund preference	Peer Influence	Perceived Benefit	Social Network
Attitude	0.814				
Mutual fund preference	0.728	0.732			
Peer Influence	0.629	0.622	0.790		
Perceived Benefit	0.738	0.718	0.606	0.764	
Social Network	0.665	0.616	0.631	0.649	0.785

Table 3: HTMT Matrix

	Attitude	Mutual fund preference	Peer Influence	Perceived Benefit	Social Network
Attitude					
Mutual fund preference	0.806				
Peer Influence	0.738	0.742			
Perceived Benefit	0.716	0.764	0.707		
Social Network	0.776	0.732	0.657	0.757	

Table 4: Hypothesis testing

Hypothesis		β	SD	t-stat	Sig.	Significance
H1a	Peer Influence -> Attitude	0.495	0.086	5.591	0.000**	Accepted
H1b	Social Network -> Attitude	0.337	0.085	3.826	0.000***	Accepted
H2	Perceived Benefit -> Attitude	0.691	0.047	14.629	0.000***	Accepted
H3	Attitude -> Mutual fund preference	0.423	0.082	5.182	0.000***	Accepted
H4	Perceived Benefit -> Mutual fund preference	0.363	0.099	3.655	0.000***	Accepted
[SRMR= 0.69; $R^2_{Attitude}$=0.731; $R^2_{Mutual\ fund\ preference}$=0.569]						

P<0.01***

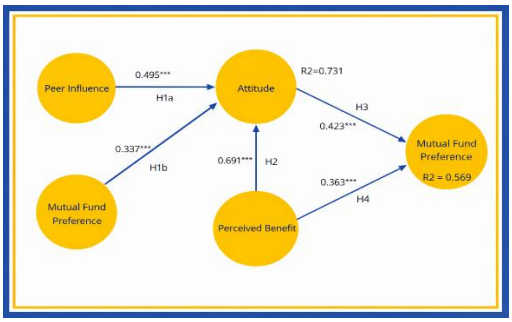

Fig 2: SEM model

The findings indicate significant proof of the conceptual relationships in the hypothesized relationships. Regarding the peer influence, the analysis proves that Peer Influence plays a vital role in Attitude formation (b = 0.495, SD = 0.086, t-stat = 5.591, p < 0.001), which means that people under the influence of peers have a stronger preference to form more positive attitudes about mutual funds, which also agrees with H1a. On the same note, Social Network connections play a role as the relationship between the Social Network and the Attitude is statistically significant (b = 0.337, SD = 0.085, t-stat = 3.826, p less than 0.001) which shows that H1b is true. It is noteworthy that such results highlight the strength of direct and indirect social interactions in determining the attitude of people towards the fund of choice. Going further, Perceived Benefit highlighted in the study has a strong and positive correlation with the Attitude (b = 0.691, SD

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= 0.047, t-stat = 14.629, p < 0.001), which supports H2. This means that when people feel that there is higher benefit related to preference of mutual funds, they tend to form positive attitudes towards it. This observation supports the idea that the value of a mutual fund preference as a risk-aversive tool can be considered a critical force influencing the attitudes of individuals.

Importantly, the direction between Attitude and mutual fund preference is also justified (b = 0.423, SD = 0.082, t-stat = 5.182, p < 0.001), which proves H3. This means that the more positive one is in terms of attitudes to mutual fund preference, the more likely he/she is to be mutual fund preference. Therefore, the paper highlights the central position of attitudes as a pre-eminent antecedent before actual mutual fund preferences decisions are taken. On the same note, the findings also support the association between Perceived Benefit and mutual fund preference (b = 0.363, SD = 0.099, t-stat = 3.655, p = 0.000) and, as such, H4 is upheld. This implies that those with the perception of great utility of mutual funds tend to translate their favorable attitudes into actual decisions of adoption. As a result, the results reassert the importance of perceived gains in encouraging people to substantially make steps in investing in mutual funds. Moreover, the estimated model Standardized root mean square Residual is obtained as 0.069, which is less than the value of 0.08, indicates that the model is a fairly good fit to the data.

Discussion

The results of the study provide a subtle insight into the interaction of peer influence, social networks, perceived benefit, attitudes, and adopting mutual funds. The strong statistical level in the paths of Peer Influence to Attitude, and Social Network to Attitude highlights the strength of both the direct and indirect social interactions toward the development of the attitude of the people towards mutual funds. This brings out the influence of peer influence on money. Moreover, the high correlation between Perceived Benefit and Attitude underlines the importance of the role of the perceived value of mutual funds in the direction of the positive attitudes. This reflects the value of the perceived value at the point of influencing consumer decision making.

The meaningful Attitude to Mutual fund preference and Perceived Benefit to Mutual fund preference are significant in that they help us understand the critical role of attitudes and perceived benefits as antecedents to real adoption decisions. The results can be related to the Expectancy-Value Theory according to which the perception of the value of a particular behaviour and the perceived consequences of this behaviour determine the choice of the person to participate in this behaviour. These strong ties resonate with the workings of behavioural economics that cognition and emotion have significant influences on financial decisions. This study has important implications on research and practice by adding to the body of knowledge on the mutual fund preference. On the one hand, it puts more emphasis on reputation of viewing social networks and peer influence as key elements in developing effective strategies to promote preference of mutual funds. Such approaches might use the strength of social proof and, targeted message, within peer groups to increase the positive perceptions and attitudes of individuals. Conversely, the paper highlights the importance of conveying the practical advantages of mutual funds during marketing campaigns, which support their positive effect on the attitude of potential customers and its integration into their decision-making process. The empirical findings of the current study offer a holistic view of the complex network of factors, which give rise to the adoption of mutual funds. The results of the study lay emphasis on the interaction between social influence, cognitive perception, attitude and perceived benefits, which together, leads to an overall picture of how people go through the process of decision making in the context of mutual funds. These insights can present an invaluable guide to devising approaches that appeal to the social interactions of consumers, their cognitive understandings, and their general objectives in finance in order to gain more acceptance of mutual funds.

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