

## HOW DO LAY CONSUMERS AND HOUSEHOLDS UNDERSTAND FINANCIAL STRATEGIZING?

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**ABSTRACT** The paper focuses on the concept of ‘financial strategies’ and addresses two problems: first, how to define the concepts of financial strategy and strategizing, and second, how to operationalize them into indicators for empirical research. The introduction to this new concept is based on the conviction that strategizing (which is understood as a specific attitude to life held by people who do not live for the moment, think about their future even if it is rather uncertain, set long-term financial goals and act towards achieving them), is an intrinsic factor in the financial behavior of people. It is argued that it is not possible to define financial strategy or to operationalize it objectively and universally since people operate in very different circumstances; i.e. in different institutional environments or at different stages of life, etc. The solution must be found in the interactionist sociological perspective with the emphasis on the construction of the interpretation of a situation: how individuals themselves make sense of financial strategizing in their own environment, the options they perceive and the constraints they feel.

**KEYWORDS** strategy, financial strategy, strategizing, rationality, embeddedness, uncertainty, action/structure debates in sociology, non-teleological interpretation of intentionality

### INTRODUCTION

The concept of individual or household ‘strategies’ in sociology reflects the ambition of researchers to avoid extremes of both structural determinism and excessive voluntarism in finding explanations for human behavior. It

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assumes that, on the one hand, agents are constrained in the range of possible goals and means that are open to them due to structural factors, while on the other hand, they are able to exercise initiative by pursuing their goals and choosing the appropriate means, making choices, being reflective about their own behavior and the behavior of others. What, though, is a strategy? Although sociologists agree about the ambitious nature of this concept, the way it has been conceptualized and operationalized in empirical research remains problematic. For example, Crowe (1989) and Anderson et al. (1994) defined strategies as ‘not behavior or practices but systems of rationally grounded decisions leading to desired medium- to long-term goals’ (Anderson, Bechhofer, Kendrick, 1994: 21). In other words, medium or long-term goal setting and rational decision making are the key components of strategic behavior which can be distinguished from non-strategic behavior. In another approach (Pahl and Gershuny, 1979), strategies are not linked to rational decisions but rather to different ‘rationales’ for actions: ‘reasonable’ rather than ‘rational’ actions are considered to be strategic. There is also no agreement about whether individuals or households are the strategizing actors, since households are not only units where members share goals about common goods, but can also be seen as arenas of conflict over resources and power where one member can gain more at the expense of another (Morris, 1989).

In empirical terms, the concept of strategy is widespread at all levels and for all subjects of analysis; for example, a variety of strategies can be found in the context of the economic policies of states or strategies of different classes, strata, or groups of people or households/individuals. Strategies are linked to the goals of action (‘growth strategy’), or to the types of agents (‘corporate strategy’) or to the performance of actions (‘paternalistic strategy’). Researchers have focused their attention on ‘work-family strategies’ (Moen & Yu, 2000), ‘coping (adaptive) strategies’ (Elder, 1974; Tilly & Scott, 1978; Harevan, 1982), ‘family strategies’ (Chayanov, 1986; Tilly, 1979; Tilly & Scott, 1978; Smith, 1978), ‘survival strategies’ (Walker, 1998), ‘educational strategies’ (Watson, 1976, Van de Werfhorst, 2005), ‘migration strategies’ (Stark and Levhari, 1982; Stark, 1984; Lucas and Stark, 1985; Stark and Bloom, 1985; Katz and Stark, 1986b), ‘inheritance strategies’ (Goody, 1976), ‘marriage strategies’ (Bourdieu, 1976), and so on. However, the concept of individual or household ‘financial strategies’ has not been yet established and validated in empirical research. If we would like to introduce such a concept and use it in our empirical research it is not clear which of the existing approaches to conceptual and operational definitions will better suit our purpose.

The Russian case is especially interesting because, unlike in Western societies, Russians have been living in times of major uncertainty and fragility of financial institutions for more than 20 years, which makes long-term financial strategizing very difficult. However, if the future is uncertain it does not mean that it will not come, one day at a time. This is why planning without certain outcomes is nevertheless better than not planning at all. However, do people strategize? How many of them? Which socio-demographic and economic factors encourage financial strategizing, if any? Does financial strategizing influence financial behavior when other things are equal? To answer these questions we need firstly to define the concept of financial strategies and strategizing and to operationalize them for empirical research.

In this paper we will focus on the concept of 'financial strategies' and address two problems: first, how to define the concept of financial strategy, and second, how to operationalize it into indicators for empirical research. The notion of financial strategy is familiar when we talk about what firms do, or traders in markets, but raises interesting issues when applied to individuals or households and their everyday financial behavior; a topic which is under-researched. There has been a lot of attention paid to finance in sociology, but it is dominated by research into bankers and traders, not households. The financial strategies of individuals or households represents a broader agenda than that of bankers and traders, but this paper deals with the groundwork: it involves an attempt to integrate practical work on financial literacy with more theoretical concerns in economic sociology. To base our conceptual enterprise on some sort of empirical basis we use data collected during focus group discussions where participants were asked to describe what they mean when they say that they have or do not have a financial strategy. Six focus-group discussions with middle class urban residents took place in October 2010<sup>2</sup>. In November 2011 three focus-groups took place with middle class urban residents<sup>3</sup> and two focus-groups with lower class urban residents<sup>4</sup>. The aim of these focus groups was to find out how people themselves define what a financial strategy is, whether they distinguish between strategic and non-strategic types of financial behavior, and if so, what people consider to be the main elements of financial strategies, which factors they think can facilitate

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2 In 2010 focus group discussions took place in Moscow, St. Petersburg, Voronezh, Saratov, Yekaterinburg, and Krasnoyarsk (6 groups).

3 In 2011 focus group discussions with the middle class urban residents took place in Moscow, Saratov, and Yekaterinburg (3 groups)

4 In 2011 there were also focus group discussions with the low class urban residents in St. Petersburg and Yekaterinburg (2 groups)

the implementation of financial strategies, and which ones constrain them and force them to behave non-strategically.

The paper is structured in the following way. In the beginning we discuss the concept of strategy in the action/structure debates in sociology and the concept of rationality in economics and sociology. Then we focus on the concept of financial strategy by comparing the ways the concept of strategy is approached in economics and economic sociology. After that, we summarize the findings from the focus group discussions in terms of their contribution to the existing theoretical discussions. In our view there are two distinct issues which must be addressed in any debate about the concept of strategy. One is the determinism/voluntarism of individual actions where strategies are positioned in between these two extremes. The other centers on the problem of rationality.

## **BETWEEN ACTION AND STRUCTURE**

Social scientists often use the word ‘strategy’ not as a specific concept but rather as a synonym for ‘behavior’ or different types of behavior. When the term ‘strategy’ is used conceptually it is contrasted with other concepts such as ‘action’ and ‘behavior’. Anderson et al. (1994) pointed out that this notion was brought into the social sciences by Bourdieu (1976), Levine (1977), Tilly (1979), Anderson (1980), Oppenheimer (1981) and Pahl (1984) in order to avoid extremes of structural determinism and excessive voluntarism in finding explanations for the behavior of people. Whereas ‘behavior’ is determined either by economic rationality or social conformity and ‘action’ has too much emphasis on the interactions that take place at the micro level, the concept of ‘strategy’ fills the gap by allowing researchers to find out how in structurally determined situations people can choose otherwise. On the one hand, agents are able to exercise initiative by pursuing their ends and choosing the appropriate means, but on the other hand, their range of possible goals and expedients is constrained. This is why the notion of strategy is useful; it may be able to take into account the interweaving of economic interests and social institutions and resolve the old-age contradiction between action and structure.

The idea that the notion of ‘strategy’ should be conceptualized between action and structure approaches has to be discussed in more detail since it is not clear between which extremes one has to find the trade-off. If the extremes are total determinism of individual behavior and absolute free will, the action approach in sociology does not seem to match the criterion of full individual

autonomy. The action approach in sociology, which was pioneered by Weber and further developed by the interactionist perspective, has never asserted that people are entirely free in their actions. For example, the 'I and Me' concept which was introduced by Mead to explain the process of socialization and identity formation proceeded from the assumption that the self is profoundly social; i.e. is fixed by the labels, projects or obligations which society gives to it. However, the individual is able to do otherwise because of the 'I' – the source of individual reflection. This means that both individual freedom and structural predetermination are never absolute. So, if the notion of strategy is used to resolve the contradiction between the extremes of structurally-determined behavior and the ability to act at one's own discretion, it is more reasonable to consider the action approach in sociology to be a tradeoff solution rather than one of extremes. The polar opposite to determinism should be the economic assumption of free will rather than action theories in sociology. There are a number of approaches in new economic sociology which develop the action theory perspective in sociology and which we can use to solve our research problem.

Following the social interactionist approach, Beckert (2003) introduced the concept of the non-teleological interpretation of intentionality which is based on the same pillar of American pragmatism and on a similar idea about the importance of interpretations of situations and generalized expectations. According to Beckert, people develop a notion of what kind of strategies are rational, or rather 'reasonable', through interaction. They are not looking for global or local optima, but rather for safe (problem-free) ways of doing something. In a slightly different vein, Zelizer (2010) articulates culture as a social setting in which interpretations of economic activities may differ. In terms of structure and agency, her approach points in both directions: towards how culture influences interpersonal relations and their outcomes (interpretations), as well as to how interpersonal relations influence culture through these interpretations. By doing this she applies the conceptual approach of Weber (the role of protestant ethics in the development of capitalism) and micro sociology (interactions, identity, perceptions) to the new spheres of interest (life insurance, children, etc).

Two further approaches that sit between structure and agency are those of Giddens and Bourdieu. Giddens (1984) conceptualizes strategic choice in his structuration theory as a 'third way' between voluntarism and determinism. Human activities, he argues, are recursive: "in and through their activities as agents, they reproduce the conditions that make their activities possible". Bourdieu (1986) defines strategies as a "... 'practical sense of things'; i.e. practical mastery of the logic or immanent necessity of a game, which is

gained through experience of the game, and which functions this side of consciousness and discourse (like the techniques of the body, for example). Notions such as habitus (or system of dispositions), practical sense, and strategy are tied to the effort to get away from objectivism without falling into subjectivism”.

It has been argued here that the notion of strategy has been introduced to avoid extremes of structural determinism and excessive voluntarism in finding explanations for the behavior of people. In our opinion, the existing solution to this dilemma is proposed by interactionist approaches with the emphasis on the construction and reconstruction of the interpretation of a situation, which could be made during the process of interaction or by the use of other mechanisms. The mechanisms may include cultural, institutional or discursive elements.

## **SOCIAL (DIS)EMBEDDEDNESS OF RATIONALITY**

Should strategic behavior be conceptualized as rational in an economic sense or can it go beyond the assumption of rationality? To answer this question we need to take into account that rationality is understood differently in economics and sociology.

When economists assume that people are rational they mean that people basically know what they want, and they act accordingly. If people are not consciously rational, then, for theoretical purposes, they can be treated as if they are: individuals act consistently according to their independent preferences, are able to seek and process necessary information according to the procedures of Bayesian statistics and maximize their utility. The assumption of rationality in economics works as an explanatory framework. It is not assumed that people always make their choices consciously in exactly the same way economists model them. However, if their actions do not contradict the predictions of these models, people are considered ‘as if’ they are rational (Friedman, 1953). The concept of rationality allows for an explanation and a forecast of people’s behavior based on universal principles: maximizing behavior, market equilibrium and invariability of tastes and preferences. In economics, rationality works in much the same way as the law of conservation of energy in physics: if somebody finds that energy comes from nowhere or disappears into nowhere it is better to look for the way it was converted rather than to report about the miracle. As a result, if, for an external observer, somebody’s behavior seems to be non-rational, it means that s/he is not seeing either the hidden utilities or the latent costs of that

behavior (Becker, 1976). That is why the assumption about rationality has a very strong methodological implication: it provides a stable foundation for generating predictions about people's responses to various changes, but at the expense of assuming that rationality is a built-in unconditional quality of human nature. As a result, for economists the concept of strategy does not enrich the concept of rationality. It is just another word for the same idea.

The problem becomes more complicated when rational behavior has to be conceptualized under the assumption of uncertainty. The main doubt arises about whether the concept of rationality can explain economic behavior in the presence of uncertainty. Rationality implies that people know what they want and are able to take informed decisions to minimize the costs of achieving their goals. In times of uncertainty, rational decision-making is impeded by the fact that people may become unclear about both; i.e. which goals to achieve and which means to use. In economic theory there are a number of answers to this problem: 1) converting uncertainty into risk by assigning probabilities to different options; 2) developing institutions which reduce uncertainty (like the state deposit insurance schemes that exist to prevent bank runs); and, 3) applying bounded rationality which economizes the costs of searching for the information needed to take decisions and choose appropriate means, assuming that people are not unclear about their goals. Beckert (2003) wrote about the fourth solution: framing models (Esser 1993, Lindenberg, 1993), where 'framing' is defined as a typical perception of a situation that is limited by one single aspect. This mental 'definition' of a situation precedes the action and shapes it in a particular way depending on that single aspect. Because of framing, alternative perceptions and alternative actions are neglected, and thinking, emotion, and action inevitably follow the demands of the respective frame.

In sociology, the concept of rationality has a different meaning: it is neither taken as an overarching framework within which all behavior is explained and understood, nor it is considered to be disembedded from social relations. Rather, it is linked to a particular type of behavior: conscious acts of optimization in the individual decision-making process. In sociology, it is accepted that one can distinguish between different types of rationality. Following Weber, instrumental rationality is free from any normative constraints and operates with a plurality of relatively independent ends, none of which is absolute (*Zweckrationalität*). Value-rationality conceives action as oriented toward a single absolute end defined in terms of the values or adherence to a code of conduct (*Wertrationalität*). Hence, in sociology behavior which is not fully rational or even not rational at all (traditional or affective) is quite possible.

The sociological approach to rationality, unlike that pursued in economics,

is based on the idea of the social embeddedness of rationality which was developed by Polanyi and Granovetter. According to Polanyi (1944), rational behavior is not an in-born quality of human nature but rather a competence acquired in the presence of the particular type of social institution. Polanyi analytically separated formal rationality from substantive rationality, mentioning that a 'rational man' is the result of specific historical conditions and changes in social institutions. He also made a point about the possibility and the danger of economic actions becoming disembedded from the social background in market economies where land, money and labor are commoditized and the ideology of self-regulated markets prevails. He argued that this would check the development of the market economy. In order to survive, society would once again seek to regulate the market. While he regarded formal rationality and disembedded economic action as feasible, he argued that their pervasive existence would only be temporary.

From the micro rather than the macro perspective, Granovetter (1985) suggested that Polanyi overestimated the gap between pre-modern and modern societies and pointed out that substantive rationality exists in market societies and formal rationality in socially-embedded systems. He stated that the economy is always, though to different degrees, embedded in concrete ongoing systems of social relations; this is why economic explanations always have to take social relationships into account. He did not abandon the economic approach but he rather considered it a good initial working hypothesis that could help a researcher approach the subject under investigation. Economic rationality in this case is treated not as the universal explanation but rather as a variable component of human actions.

Granovetter stated that it is one of the main questions of social theory how economic behavior and institutions are affected by social relations. However, he rejected structural explanations as suggested in the 'oversocialized' approach of Parsonian sociology. His main argument was based on a critique of economic theory which views economic action as determined by rational calculations about individual gain unaffected by social or kinship obligations. However, he also provided a critique of the sociological assumption that norms and values inevitably make people act in certain ways. What Granovetter saw as the main deficiency of both approaches was their atomized view of actors: "Social influences are all contained inside an individual's head, so, in actual decision situations, he or she can be atomized as any *Homo Economicus*, though perhaps with different rules for decisions. More sophisticated (and thus less oversocialized) analyses of cultural influences (e.g. Fine and Kleinman, 1979; Cole, 1979, chap.1) make it clear that culture is not a once-for-all influence but an ongoing process, continuously constructed and reconstructed

during interaction. It not only shapes its members but also is shaped by them, in part for their own strategic reasons” (Granovetter, 1985, p.73 in Readings in Economic Sociology, ed. by Biggart, 2002). Although the atomistic approach of economic theory and Parsonian sociology are at opposite extremes, they nevertheless have much in common because of the similar drive for universal explanations. Universalism, rather than specific views about rationality or determinism, makes both theories targets for critique. Granovetter noted that in the action approach and social constructivism social actors are considered to be capable of relatively independent action and social reality is seen as emerging from reflexive interactions between these actors.

Following this idea, Beckert (2003) developed the concept of a non-teleological interpretation of intentionality in economic actions. He proposed placing the focus on the interpretive acts by which actors construct perceptions of rationality intersubjectively in the process of interaction, considering economic rationality not as optimizing behavior, but as “the construction of the meaning of rational economic action” (Beckert, 2003, p.773). ‘Generalized other’ and ‘embeddedness’ are referred to as “social structuration of worlds of meaning whose enactment is based on interpretation” (Beckert p.771). If applied to financial strategies, this approach can be extended and applied not only to personal relations between ordinary people, but also to impersonal communication between financial institutions (companies and government) and ordinary people through advertising, entertainment and education. Interesting issues arise when a marketing signal is transmitted in the form of an educational one, such as in the case of national programs about financial education.

Often, economic sociology is presented as a theoretical agenda in which particular kinds of social relations are considered as factors that make economic behavior diverge from the narrowly instrumental. However, if we assume that instrumental behavior is also seen as social behavior, economic sociology has to explain not only what makes economic behavior diverge from narrow instrumentality, but also in which social circumstances instrumental behavior emerges. This is what interests us here: how the rational financial strategies of individuals or households are conditioned by the nature of financial institutions.

The question is how economic behavior is shaped by society – if the term ‘economic’ is understood not in its narrow formal sense but in the wider substantive meaning of the term (Polanyi, 1944). Polanyi believed that the task of social science is to divest actual situations of generalities and to grasp them in their concrete aspect. This means that sociologists do not need to invent general sociological principles and carry out research in order to prove

that they work. Economic sociology is more powerful when it is not copying economic theory by using economic generalities or by creating sociological ones which have to be proven. It is more powerful when it undertakes research without ‘prejudices’ in favor of any universal theoretical generalization. This does not mean that research should avoid any theoretical reasoning – it means that there should not be ‘privileged’ sociological theoretical explanations which have to be proven during research.

Economic models are based on the assumption that actors are atomized, egoistic, informed and rational. This model is often criticized by sociologists who substitute egoism and rationality with social variables like norms, institutions, networks or culture. This criticism has two basic weaknesses. First, it requires rejecting everything useful which has been elaborated in economic theory. Second, the same critique may be applied to economic sociology: if rationality or atomization do not seem to be good enough for understanding economic behavior, why should norms and networks be any better? Or, in other words, why is one form of abstract generalization better than another? Any general principle, irrespective of its content, tends to produce its own artifacts in empirical research: if one believes in the innate propensity of a human being to barter and exchange one tends to reveal markets everywhere; if one believes in networks s/he may find Robinson Crusoe networking on a desert island.

Arguably, the more interesting empirical question for sociologists is what those social institutions which ensure rational behavior of individuals or households are, and how the process of socialization into rational behavior actually occurs. In light of this question, it is significant that recent attempts by several governments to enhance citizens’ financial education by implementing state-run programs are aimed at bridging the gap between the relatively high level of sophistication of financial institutions and the relatively low level of financial literacy of ordinary people. Different understandings of the nature of rationality can lead to different recommendations to policy makers. If we believe in the innate rationality of human beings, in order to encourage financially literate behavior policy makers simply need to provide them with more information about financial products. If people make more informed choices, it will result in better financial decisions and the better working of financial markets. If we think that rationality is socially embedded, on the other hand, the starting point should be not individuals but rather financial market institutions (state regulation of financial markets, consumer protection, etc.)

How are rationality and strategizing related to each other? There is a lack of agreement in the literature as to whether we should associate only strategic behavior with rational decisions, or whether we should widen the

scope of strategic actions and include other types of actions. According to Crowe, strategies are linked with “conscious and rational decisions involving a long-term perspective” (Crowe, 1989: 19). Pahl and Gershuny argue in favor of substituting different types of ‘rationales’ for ‘rationality’ (Pahl and Gershuny, 1979). In our opinion, it is better not to link strategic behavior only with rational action, both in terms of conceptual and, in particular, operational definitions of the term ‘strategy’. Empirically, it is not possible to identify objectively which actions are rational and which are not. The only possibility is to follow an economic approach and to use rationality as an overarching framework. However, this would be something of a dead-end solution, since the only difference between strategic and non-strategic types of behavior would be the length of their time horizons. As a result, there is no need for the introduction of the concept of strategy, merely the need to differentiate long-term decisions from short-term actions. If we widen the scope of strategic actions and include different types of ‘rationales’, like traditional actions, or even the strategy ‘of having no strategy – living for the moment’, we will encounter a similar danger – that we are forced to embrace all types of behavior under the umbrella of strategic actions and end up again with the length of the decision making time horizon as the only criterion with which to differentiate strategic actions from non-strategic ones. However, what we want to catch by the introduction of the concept of strategy is the *different kinds of attitudes of people who do not live for the moment, who think about their future even if it is rather uncertain and who set long-term financial goals and act towards achieving them.*

To sum up, the sociological conceptualization of the notion of strategy should not be narrowly linked to economic rationality alone. On the contrary, it should take into account other types of rational and non-rational actions under conditions of choice, as well as the social embeddedness of strategies in wider institutional contexts.

## THE CONCEPT OF STRATEGY IN GAME THEORY

To benefit from the advantage of the concept of strategy, one has to clarify it theoretically. There are a number of approaches in social sciences which conceptualize this term differently. They include game theory, discursive analysis, cultural approach, and family history. In the game theory approach the concept of strategy is concerned with how rational individuals make decisions when they take into account the reactions of others (Von Neumann and Morgenstern 1953, Selten 1991, Gigerenzer and Selten 2001). A

strategy is defined as a complete description of how a player could play a game dependent on what “he or she observes other players in the game to have done” (Romp, 1997:9); in other words, a list of how to act in different situations.

Game theory is based on the assumptions of individualism and rationality, despite the idea that players in the game are mutually interdependent. In this approach, people cooperate not because they feel solidarity with others, but rather because they find that cooperation is more beneficial for them than non-cooperation. When their assessments change, they start playing opportunistically. For example, people tend to play ‘hawk’ (do not cooperate) in a one-shot Prisoners’ Dilemma. In a finitely repeated Prisoners’ Dilemma people change their behavior and tend to play ‘dove’ (cooperate) since they are discouraged from being hawkish because of the fear that their counterparts will retaliate later in the game. “But, at the final stage, no later retaliation is possible. Since hawk dominates dove in the one-shot Prisoners’ Dilemma, both players will therefore choose hawk at the final stage, whatever the history of play may have been” (Binmore, 2007). Even though economists themselves acknowledge the fact that the actual behavior of individuals often violates the assumption of rationality, the rational choice model is still considered to be better than anything else. They believe “that the functional goal of social science is not just to predict human behavior in the abstract, but to analyze social institutions and evaluate proposals for institutional reform. When our task is to look for potential flaws in a social institution, it can be very helpful to analyze the institution under an assumption that the agents in the institution are not themselves flawed” (Myerson, 1999).

While the assumption of rational agents is too strong and problematic for sociologists, they can nevertheless contribute to this approach by suggesting institutional improvements that encourage people to make better long-term individual or household strategies. For example, a reformer of pay-as-you-go pension systems may find that people’s actual behavior deviates from that which is predicted by the assumption that all individuals maximize the marginal utility of their consumption over their life-cycles and appropriately react to new stimuli (Attanasio and Banks, 2001). If age generations differ not only in their financial condition through various stages of their life cycles, but also in values, habits and experiences, then one has to take into account that people of different ages may react differently to similar stimuli.

The game theory approach may seem to come very close to the idea which sociologists hold – i.e., behavior as a description of potential individual strategies in the process of interaction with other players. This is why some sociologists think that “game theory could help to explore these possibilities,

and that it therefore can be seen as a tool to map out and investigate a certain type of counterfactual” (Swedberg, 2001, p.321). In other words, in the game theory framework it is possible to reveal different routes for justifiable actions in given circumstances. However, there are problems with using the game theory approach in sociological research. It may sound new and fresh to sociologists who have not used this perspective in their studies before, but it is not clear what kind of new ideas ‘game related sociology’ can offer in return to other social sciences. According to Swedberg (2001, pp. 303-304), while the founding fathers of mathematical sociology in Columbia University acknowledged the importance of this theory in economics, they did not see much value in incorporating this approach in sociology. This is because only extending rational choice models to cases when decisions are taken in the process of interaction with other agents violates the basic assumptions of sociological theories of actions and interactions. Interaction in game theory is conceptualized quite simply as the reaction of one player to the actions of another, but only in terms of the pay-offs they struggle for. This is why the concept of a strategy in game theory offers very few theoretical tools to bridge the gap between structure and agency approaches in sociology. Games seem to be useful when one wants to explore how rational individuals would react under specified circumstances. But if we do not know whether the pay-offs were correctly assigned, who the other players are and to what extent they are rational, the game approach may not help.

What makes the sociological concept of strategy very different from the concept employed in the framework of the game theory approach is that sociologists try to find out the meanings and motivation people have when they act, whereas game theorists assume that the goal is a priori maximization of pay offs from the game. “The importance of the concept of strategy is that it is based upon the assumption that one must ask households or individuals themselves what they are doing in order to understand how they make sense of their own environment. It is therefore an inductive concept grounded in certain kinds of empirical research” (Wallace, 2002, 277-278). Both research strategies have advantages and limitations in terms of their validity. In the sociological approach problems may arise because people may picture themselves differently when they answer sociologists’ questions to how they usually picture themselves in their everyday lives. Economists avoid such a problem because they take into account what people do and what can be measured objectively, rather than what people say in social surveys. However, the application of an a priori universal model of rational maximization may produce artifacts in research: if one assumes the innate rationality of human beings, other types of motivation may not even be noticed.

In our research we proceed from the idea that even if people give socially-acceptable accounts of their actions it is still interesting to reveal what types of behavior they perceive as strategic. What do they mean by strategic behavior, even if they themselves do not act strategically? In such cases the main focus of the researcher is to reveal the relationship between the patterns of behavior and the subjective meaning people attach to their actions – the realm of options they see and the nature of the constraints they feel. Comparisons between different patterns of behavior and their subjective justifications will probably allow us to find out which particular aspects of institutional contexts may be responsible for them.

## THE CONCEPT OF STRATEGY IN SOCIOLOGY

When the term ‘strategy’ is used in military language and political science, it usually refers to a set of activities undertaken to pursue desired goals with existing resources; this means that there can be no strategy without resources and power. This idea was further developed by Knights and Morgan (Knights and Morgan, 1990) by emphasizing that strategic thinking and acting should not be mixed up with “rationalized accounts of strategies” which are fully conditioned by power and ideology: “...power is exercised in such a way that as to transform individuals into subjects who are constituted through, and find their sense of identity in, the strategy” (Knights and Morgan, 1990: 480). In other words, in this Foucauldian analysis (Foucault, 1977), what is usually seen by individuals as well as researchers as mainly independent action is explained as the ultimately predetermined effect of different discourses.

According to this approach, it is virtually impossible to think outside discursive practices. As a result, individual strategies are formed by these legitimate perspectives, rather than by people themselves. It seems that this perspective leaves no room for individual strategies because it pictures them as a predetermined result of operating discourses. However, discourses are not coherent and they often contradict each other. Correspondingly, even if within a discourse people are imposed to follow a determinate path they at least can switch from one discourse to another. Important conclusions for our research can be made following this approach. Institutional arrangements differ in terms of the perceived opportunities they offer for strategizing through discourses. When strategizing is perceived as a normatively desirable and feasible activity, people tend to interpret their actions as strategies more often, whereas in the absence of the discourse of strategizing they do so less often. The goal then is not to reveal whether strategies are really products of

individual activities, or if they are only perceived as being fully predetermined by operating discourses, but rather under which circumstances (institutional arrangements) individuals have a long term vision about their lives, make strategic decisions and act accordingly.

What in discourse analysis was conceptualized as a power of discourse according to the cultural approach is described as a power of values, skills, habits or styles. People act in culturally-determined ways, which means that the choices people make are limited by objective conditions and are governed by the normative regulation of the means and ends of action (Warner, 1978:121). This general description of the cultural approach is specified differently in structural and action perspectives. Following the structural approach of Parsons, people's choices are directed by their 'value orientations' which they share with other people and internalize through socialization. Accordingly, values serve as criteria or standards for selecting between alternatives. However, selection, choice and decisions are just an illusion. The structural approach leaves no room for individuals to lead; i.e. to strategize. Following the action perspective, choices are limited but not determined. Weber suggested that different types of interests rather than values and norms are the main motives behind human actions. Interests are neither determined a priori by social norms and values, nor are they merely the products of individual preferences. Weber links interests with meanings as definitions of situations that actors attach to their behavior. The term strategy has never appeared in Weber's writing; however, his concept of action motivated by interests and encoded with meanings is very similar.

Ann Swidler (Swidler, 1986) in her cultural explanation argued that neither interests nor values can explain human actions because "both views are flawed by an excessive emphasis on the "unit act," the notion that people choose their actions one at a time according to their interests or values. But people do not, indeed cannot, build up a sequence of actions piece by piece, striving with each act to maximize a given outcome. Action is necessarily integrated into larger assemblages, called here 'strategies of action' (Swidler, 1986, p. 276). Neither goals nor means entirely shape individual actions. Culture influences action not by providing the ultimate values towards which action is oriented, but by shaping a repertoire or 'tool kit' of habits, skills, and styles from which people construct "strategies of action" (Swidler, 1986, p.273). The latter are defined as "persistent ways of ordering action through time". In her conceptualization of a strategy she develops the approach which was introduced by Bourdieu in his analysis of marriage (Bourdieu, 1976:58-71): "strategies are the larger ways of trying to organize a life (trying, for example, to secure position by allying with prestigious families through marriage) within which particular

choices make sense, and for which particular, culturally shaped skills and habits (what Bourdieu calls “habitus”) are useful” (Swidler, 1986, p. 276). According to this view, strategies are seen not a sequence of actions oriented to achieving a particular goal, but rather general directions in life which seem to be sound.

The concept of strategy is very often read to mean individual strategy. However, finances are most of the time shared household assets rather than being the exclusive property of a single individual. The concept of ‘household strategies’ is discussed in Wallace’s paper on the conceptual relevance of this term (Wallace, 2002). She writes that “... ‘household strategies’ was a concept used first of all in studies of Latin America and Africa where the informal economy was at least as important as the formal economy in understanding every day economic behavior among the urban poor (Hart, 1973; Castells and Portes, 1989; Roberts, 1991)” (Wallace, 2002: 275). She argues that household strategies can be used for comparative research and can help to explain the social factors underlying economic behavior, and suggests that household strategies are likely to become especially important as conceptual tools for understanding people’s behavior in societies where there is growing participation of women in the labour market, rapid social change which puts households in a situation of risk and uncertainty, as well as where large parts of the economy are informal.

Being used as a concept in empirical studies into economic change in Britain in the 1980s (Gershuny and Pahl, 1979, Gershuny, 1978, Pahl, 1980, Pahl, 1984, Wallace and Pahl, 1985), the notion of strategy was further developed in a number of sociological papers: in Crow’s article on the use of this concept in sociological research (Crow, 1989), in Knights and Morgan’s note of dissent (Knights and Morgan, 1990), and in Anderson, Bechhofer and Kendrick’s chapter on individual and household strategies in the book ‘The Political Economy of a Household’ (1994). For Crow, a strategy is a conscious, purposeful and long-term action (Crow, 1989:19). Knights and Morgan focus on the idea that strategic thinking and acting are conditioned by power (Knights and Morgan, 1990). In their opinion only powerful agents are able to work out strategies. Referring to Bourdieu, Morgan emphasizes the innovative component in the concept of strategy and its ability to explain how particular patterns of behavior emerge and reproduce. Anderson et al. stress the idea that ‘strategy’ must be distinguished from ‘behavior’, implying that “strategies are not behavior or practices but systems of rationally grounded decisions leading to desired medium- to long-term goals” (Anderson, Bechhofer, Kendrick, 1994: 21). This means that the concept of strategy is used in order to mark the ways in which people plan and map their future

in a changing world. In all the aforementioned definitions, it is emphasized that a strategic action is defined as *a long-term, goal-oriented, conscious, innovative, resourceful and powerful action*.

## **EMPIRICAL OPERATIONALIZATION OF THE CONCEPT OF STRATEGY**

While being promising conceptually, the strategic approach has turned out to be rather ambiguous in empirical research. If one wants to identify strategies in real life, it is better to be cautious and circumspect with all of these components. For example, when considering the time horizon of actions, it is not clear how long 'long-term' may actually be. Should an action be comparable over a lifetime, or should we consider ten, five, three or one year to be long enough? If a family has been saving for half a year for a family holiday, can we consider this activity long-term? Perhaps yes, because holidays used to be a yearly event for most families, and that is why it is unlikely that the horizon of planning will be longer than one year. If all other characteristics of a strategic action feature the requirement that the duration of action should be long-term this seems to be too formalistic. But we respond in the negative as well, and prove it with the idea that it is necessary that saving for a holiday must be regular over a period of a number of years in order to be qualified as a strategic action. In this case its long-range character will again be considered basic. Hence, the question of how long a 'long-term action' cannot be definitively answered, and may vary depending on the researcher's preferences.

The ambiguity of the notion of 'long-term' is further complicated by the fact that strategies are not only long-term repeated actions, but rather attempts to structure the future in a changing world. If this is so, strategies consist of a number of interrelated internal phases with different types of actions. If there is a transition to another strategy (or non-strategy) or a move through the different phases within the same strategy, it is always not easy to identify. For example, if a family has moved their savings from Sberbank to a commercial bank, can we say this is part of the same strategy, or not? It seems that it is possible to give grounds for supporting both answers. We can classify this action as another stage of making bank deposits, or separate it into two different strategies because of the huge difference between saving using a state bank and saving using a commercial bank.

The above examples prompt us to focus not on the length of action, but rather on their goal. Is it not the goal that makes the strategy? Let us take

for example a couple who want to buy a house and have been accumulating monetary resources for it. Let us suppose that a couple of years later, this family decides to continue saving, but this time it is for an apartment instead of a house. Would that be a change in strategy? Maybe not; a researcher may say that there is very little difference between these two goals; i.e. both involve purchasing real estate. But if this family later changed its mind once again and decided to rent a house, what should we say then? Now we may say it is a different strategy; the family are not going to buy; they are going to rent – there is a big difference between these two activities. But there is also a big difference between living in a house and living in an apartment. Why did not we take this into account earlier? And yet we can also say ‘no’ again; this is not a change in strategy: the aim of the family is still to solve a housing problem, and actually nothing has changed because the family is still saving. But what does this mean? Is the purpose of saving not important? Or is the concept of strategy flexible enough to prove whatever we want?

And how can we interpret a case where changes in motivation have not caused corresponding modifications of the actions performed? Let us assume that a family at some point was carefully studying offers on the financial market, looking for information, making comparisons among different options and making decisions about the most preferable forms of saving. A couple of years later the family was still using the same financial tools, but at that time its preferences had become rather habitual than the result of rational evaluation of market options. Is it still worth considering these actions ‘strategic’? Or maybe it is better to admit that habitual behavior is out of the strategic domain? Again, on the face of it both answers seem to be valid; habits are usually persistent: this is why they may be considered strategies. But there is also a case to be made against this: habitual behavior has little in common with rationally-grounded decisions made with long-term goals in mind.

This is one of the crucial issues in the conceptualization of the strategic approach: how to deal with routine behavior. If we label it strategic behavior because of its persistent character, there will not be a lot left to be viewed as non-strategic. If routine is considered as being beyond strategic behavior, we face the problem of how to distinguish between conscious selection of ends and means from imitation of already-proven patterns of behavior, which are often non-reflexive. For example, a traditional or habitual way of behaving may be proved optimal from an economic point of view, and in this case it is unlikely to be distinguished from a strategic one, as culturally or structurally-determined behavior. If we look at the behavior of retired people in Russia we may not be able to say with certainty if the reason they keep their savings in Sberbank is because they do not know about other financial opportunities

(or maybe they do not know how to use them) – or because they consider Sberbank’s offer to be the best among all others. To attempt to escape this potential impasse, one must consider the innovative capacity of action to be the important distinguishing criterion of strategic behavior because it is exactly the inability or reluctance to see and appraise new possibilities that distinguishes non-strategic action from strategic action. But unfortunately there is no strict conformity between innovative and strategic actions because intuitively we feel that strategies are not always innovative.

An important component of a strategic approach deals with agents’ motivations. It says that it is necessary not only to look at the performance of action but also at its underlying motivation. Similar behavior may be guided by different motives, and only by taking them into account can we understand the behavior itself. However, it is not clear how we can be made aware of the reasoning that leads to action. Direct questioning has its limits. People may have one way of thinking, another mode of presenting those thoughts to an observer and yet another way of living their real lives. Anderson et al. bring up the question of how to take into account people’s motivations and understand actual motives: “Strategies we take to be more generalized than plans, general prescriptions which actors take into account when making plans within structural constraints. Actors may not themselves refer specifically to strategies; we infer their existence from the accounts they give to their plans” (Anderson, Bechhofer, Kendrick, 1994: 21). This means that in our research into motives, we cannot rely on either direct measurement of incentives or mere inference of them from behavior. We have to think about indirect procedures for investigating people’s motivations.

Lastly, if we are dealing with plans for the future, the problem of their feasibility arises, which is also a tricky question. Can a plan be referred to as a strategy if it is not possible to carry out the plan? And how can we estimate the chances that it will be done? If somebody has failed to accumulate money to buy a house by losing his money as the result of the bursting of a financial bubble, does it mean that he/she had no strategy? No, we would rather say that he had a strategy, but he failed to accomplish its goal because his strategy was risky. But if somebody decided to bury his money expecting it to grow into a tree with golden leaves, we may say it was not a strategy but rather a dream. But the problem is that both actions are basically similar, and on the other hand, all innovative ideas look like dreams at some point in time, so logically we should not reject Pinocchio’s financial strategy just because it looks unfeasible now.

Consequently, it is challenging to sort behavior into groups of strategic and non-strategic actions by looking at the outward characteristics of behavior

itself. There is also a problem with the strategy of non-strategic behavior. It is definitely feasible and reasonable not to be strategic if one thinks about the unintended consequences of her/his actions, so being non-strategic also may be a sort of strategic decision. Taking all these doubts into consideration, it seems that the given definition of a strategy is not going to work well in empirical investigations. First of all, this is because the definition is too loose – almost all existing actions, including non-strategic ones (since one may have a strategy to have no strategy) can be presented as strategic, depending on the personal preferences of the researcher.

As a result, we believe that there are only two ways that we can conceptualize the notion of strategy which then can be operationalized into indicators for empirical research. The first way is to follow the logic of game theorists and model how rational individuals would react to the actions of other players under a set of given circumstances. The second – which we follow in our research – is to reveal what people themselves consider to be strategic actions. As mentioned above, we have discussed the concepts of strategy and financial strategy, as well as the concept of rationality. The main conclusion is that it is not possible to define financial strategy, or to operationalize it objectively and universally, since people operate in very different circumstances; i.e. in different institutional environments or at different stages of their lives, etc. The solution has to be found in the interactionist sociological perspective with the emphasis on the construction of the interpretation of a situation: how individuals themselves make sense of financial strategizing in their own environment, the options they see and the constraints they feel.

## **PARTICIPANT VIEWS ABOUT THE DEFINITION AND THE DIMENSIONS OF ‘FINANCIAL STRATEGIZING’**

To base our conceptual enterprise on some sort of empirical basis, we use the data collected during 11 focus group discussions which took place in October 2010 (6 focus-group discussions with middle-class urban residents) and November 2011 (3 focus-group discussions with middle-class urban residents and 2 with lower-class urban residents). The aim of these focus groups was to find out how people themselves define what a financial strategy is, what people consider to be the main elements of financial strategies, how they distinguish between strategic and non-strategic types of financial behavior, which factors they think can facilitate the implementation of financial strategies and which ones constrain them and force them to behave non-strategically. Usually, qualitative analysis is designed to reveal different

types of meanings, attitudes and actions, etc. However, our data showed a high degree of consistency concerning what people mean by strategies and strategizing. According to what our informants said, financial strategizing is characterized by the following attributes:

## Goal setting and planning

A person with a strategy does not live for the moment; s/he defines goals in life and has a drive to achieve. These goals are not just dreams or wishes; they should be translated into plans with more or less clear understanding of how to achieve them.

*It is possible to understand if a person has a strategy by looking at his or her results. There should be an improvement in his or her life... (Ekaterinburg)*

*...what characterizes a person with a strategy? – (s)he defines goals for life, thinks in advance, does not live for the moment... (St. Petersburg)*

*...strategic thinking implies actively standing up to life, not living it up... (Ekaterinburg)*

*...planning... (Saratov)*

*...initially there should be a goal, and then its achievement... (Krasnoyarsk)*

*...long-term plans or perspective... (St. Petersburg)*

*...plan for a period of life with a clear understanding of what you want and what resources you have to accomplish it... (Voronezh)*

*...I think that a strategy means having properly formulated goals. I have a goal – I act to accomplish it. This is strategy. (Moscow)*

### *Having control over life*

Planning is very important not only because it helps with organizing one's life and managing resources more efficiently, but also it enables an actor to exercise control over his or her life. A lot of things may happen in life without our knowledge, or may even be imposed on us. Strategizing allows us the opportunity to take at least something into our own hands and manage our own life – otherwise life manages us. It is interesting that our focus group

participants gave examples of extreme cases of when people failed to balance their wishes and their means even though they achieved their goals, but they did this at the expense of their normal lives and existence.

*... when a person wants to buy a car so much that he cannot live a normal life – he almost starves in order to economize on his daily consumption to be able to buy a car – it is not strategy, it is stupidity...(Ekaterinburg)*

It is not so important if due to new circumstances people have to postpone their plans, or to reconsider how they are going to achieve their goals. What is important is that people do not lose control of the situation, they are able in one way or another to move forward towards achieving their life goals. If chance governs all, strategies vanish.

*...today, do we find ourselves in a situation when we have to live for the moment? We aim and plan one thing but life dictates that we do something different. As a result, all our plans and strategies are ruined. The situation is very unstable, what we get is unknown. Chance governs all...(Voronezh)*

#### *Achievement motivation and willpower*

Buying lottery tickets and hoping for a jackpot which will be big enough for us to be able *to live out the rest of life idly* cannot be considered strategic behavior for two reasons. Firstly, the goal of strategic behavior cannot be idleness. A strategy for retirement can be directed at accumulating funds for leisure but this is just because in old age it often impossible to continue living an active and healthy life. Secondly, one has to make an effort to achieve his or her strategic goals and not to rely upon hit-or-miss outcomes.

*...an individual who thinks strategically takes an active stand in life. This is aimed at achieving positive goals, not just hanging out, having a good time with friends at nightclubs...(Ekaterinburg)*

When speaking about the realization of plans, on the one hand focus group participants mentioned that one needs to have enough willpower to reach a target. However, alternative thinking and situational decision-making are not in conflict with strategizing. In the presence of uncertainty, forward-looking, long-term planning needs to be regularly reconsidered.

*...willpower. It happens that you have chosen your strategy but you do not have enough willpower to follow it – so you stay put, nothing happens...(Voronezh)*

*...one needs consistency in action, willpower; the ability to control impulsive behavior...(Moscow)*

*...I do not like the word 'planning'; the process of achieving goals should be flexible, one has to have alternatives in case something goes wrong...(Moscow)*

*...long-term planning is just not possible in our country. The rules of the game are constantly changing in major ways.... (Ekaterinburg)*

### *Resourcefulness*

To be able to strategize, one needs resources. Even though it is still possible to draw up plans without having access to resources, means are needed to materialize those plans. If incomes are secure, individuals are able to strategize. Interestingly enough, focus group participants, while specifying what they consider to be resources (besides money and time) mentioned information, knowledge, education and understanding.

*...I feel that at my age it is late to look forward. In our country if you are not young you may lose your job and will not be able to find another; in this situation it is not possible to have a strategy ... (Ekaterinburg)*

*...to be able to strategize you need resources: money, knowledge, understanding... (Saratov)*

*...knowledge is a resource – the same way as money. If one has his wits about him and also has some money, then they have more chance to succeed... (Ekaterinburg)*

*...one can rely on his or her brains, on education, on how you can apply it. My boss was born into an aristocratic family, his Mom graduated from the Institute for Noble Maidens. Her family was repressed, they lost everything; they were exiled to Uzbekistan. His Mom had five children but all of them got a higher education, one even became a member of the Academy. She told them: 'If a Blue Coat comes and takes away everything you have, the only thing which he will not be able to take away is what you have in your head'. She explained them why it is important to study and get an education. Education is that which it is not possible to take from a person, and something you can use... (Moscow)*

### *Personal responsibility for choices*

Finally, people mentioned taking personal responsibility for both financial successes and failures to be a sign of strategically-minded person.

*...Before, I thought that somebody should help me, advise me what to do. Now I understand that if I take a decision, I am responsible for it... (Moscow)*

## **CONCLUSION**

The main aim of this paper was to find out if the concept of strategy, and general and financial strategy in particular, can be of any use in empirical research in economic sociology, and if so, how to define and operationalize this concept. We argued that if strategy is defined in terms of long-term rational behavior, there is no need for a new concept. However, what we want to catch by the introduction of the new concept is the different kinds of attitudes of people who do not live for the moment, who think about their future even if it is rather uncertain, who set long-term financial goals and act to achieve them. It makes sense only in the framework of the social constructivist approach to find out how people themselves define what financial strategy is, what people consider to be the main elements of financial strategies, how they distinguish between strategic and non-strategic types of financial behavior, which factors they think can facilitate the implementation of financial strategies and which ones constrain them and force them to behave non-strategically. Interesting ideas were revealed in focus group discussions about the financial strategizing of ordinary people. Strategizing is linked with active motivation for achievement: the goal of strategic behavior cannot be idleness. However, strategizing should not result in a lack of balance between wishes and means, when goals are achieved at the expense of daily life and normal existence. Alternative thinking and situational decision-making are not in conflict with strategizing: in the presence of uncertainty; forward-looking, long-term planning requires regular reconsideration. To be able to strategize, one needs resources: information, knowledge, education and understanding, in addition to money and time.

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