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The Imperative Of Wisdom: Balancing Failure, Experience, And AI Limitations In Knowledge Transmission

Fayzullayeva Marifat Abduvaxob qizi
Phd student at Tashkent International University, Uzbekistan

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Abstract: Wisdom is a critical factor for effective leadership and organizational success, encompassing not only technical knowledge but also ethical judgment, situational awareness, and social responsibility. While artificial intelligence (AI) can process vast amounts of data, identify patterns, and support decision-making, it cannot replicate the depth of learning derived from human experience and reflection. This review examines the nature of wisdom, highlighting the roles of experience and failure in cultivating practical, context-sensitive, and ethically grounded decision-making. It also explores the limitations of AI in transmitting tacit knowledge, moral insight, and reflective understanding. Drawing on examples from management practice, the paper demonstrates that AI enhances efficiency and analytical capacity but cannot substitute for the nuanced judgment and human-centered learning that underpin wise leadership. The findings underscore the importance of integrating AI tools with experiential learning, reflective practices, and ethical deliberation to develop adaptive, resilient, and morally aware leaders in complex organizational environments.

Keywords: Wisdom, Leadership, Artificial Intelligence (AI), Knowledge Transmission, Experiential Learning, Ethical Decision-Making, Organizational Success, AI Limitations.

INTRODUCTION:

In management, the concept of wisdom goes far beyond making choices that are merely effective; it requires leaders to exercise ethical judgment, situational understanding, and social responsibility (Schwartz & Sharpe, 2010; Edmondson, 2011). Decision-making in organizations impacts not only operational outcomes but also the well-being of employees, teams, and other stakeholders, as well as broader societal implications (Aristotle, trans. 2009). Wisdom is cultivated progressively, emerging from a combination of practical experience, critical reflection, and accumulated knowledge, rather than through formal training or theoretical study alone (Polanyi, 1966; Schön, 1983).

Knowledge in organizations can be classified into distinct types. Explicit knowledge refers to information that is clearly defined, organized, and easily communicated through documents, procedures, or training materials (Nonaka & Takeuchi, 1995). In contrast, tacit knowledge is embedded in personal experience, deeply contextual, and often difficult to formalize. It includes intuition, social awareness, and the ability to make ethical judgments, all of which develop through repeated practice and reflection (Polanyi, 1966; Schön, 1983). For example, an experienced manager might instinctively understand how to mediate team conflicts, predict stakeholders' reactions, or handle sensitive negotiations—skills that cannot be fully captured in written guides or classroom instruction (Klein, 1998; Edmondson, 2019).

Artificial intelligence (AI) is increasingly applied in organizations to support data-driven decision-

making. AI can handle vast datasets, identify patterns, and provide recommendations, making it possible to uncover trends that may be invisible to human analysis (Davenport & Kalakota, 2019; Brynjolfsson & McAfee, 2017). For instance, AI can correlate market performance with operational metrics and employee productivity, allowing managers to make faster, more informed decisions (Davenport & Kirby, 2016). Despite these advantages, AI lacks firsthand experience, emotional intelligence, and ethical reasoning, which are essential for interpreting complex social and organizational dynamics (Dreyfus, 1972; Searle, 1980).

This paper examines three interrelated questions regarding wisdom in management:

1. What distinguishes wisdom from knowledge or technical skill?

2. How do practical experience and learning from failure contribute to developing reflective, ethically grounded, and context-sensitive wisdom?

3. Why is AI unable to fully convey tacit knowledge or replicate the reflective learning derived from human experience?

By addressing these questions, this review highlights how organizations can utilize AI as a supportive resource while maintaining the central role of human judgment, ethical reflection, and experiential learning in leadership practice (Davenport & Kirby, 2016; Edmondson, 2019).

The Nature of Wisdom in Human Experience

Wisdom in management is more than simply possessing knowledge; it is the capacity to apply understanding effectively in complex, unpredictable, and ethically challenging situations (Aristotle, trans. 2009; Schwartz & Sharpe, 2010). In practice, organizational decisions rarely follow clear-cut rules or purely logical models. A manager may be well-versed in financial plans, project schedules, or performance metrics, but true effectiveness relies on judgment shaped by experience, intuition, and the ability to navigate ambiguity (Polanyi, 1966; Klein, 1998).

Take, for instance, a project manager responsible for coordinating a team across multiple departments during a crucial product launch. While formal knowledge helps track milestones and budgets, it is hands-on experience that allows the manager to redistribute resources under unexpected constraints, boost the morale of a struggling team, or negotiate successfully with a difficult stakeholder (Schön, 1983; Edmondson, 2019). This type of practical, context-dependent knowledge, often referred to as tacit knowledge, develops gradually through repeated real-world engagement, reflective thinking, and social learning, making it difficult to capture in written instructions or standard procedures (Polanyi, 1966; Nonaka & Takeuchi, 1995).

A critical aspect of wisdom is recognizing the limits of what one knows. No matter how experienced, leaders cannot predict every outcome because uncertainty is inherent in human systems (Tsoukas & Chia, 2002). While AI can quickly analyze large datasets and detect patterns, it cannot grasp ethical nuances, emotional subtleties, or social dynamics (Dreyfus, 1972; Searle, 1980). For example, an AI system might recommend cutting departmental costs to improve efficiency, but only a human manager can judge how such a decision will affect team cohesion, employee morale, and organizational culture, balancing practical outcomes with ethical considerations (Edmondson, 2011).

Failure as a Source of Wisdom

Failure serves as a fundamental mechanism for learning, influencing managerial judgment, ethical reasoning, and decision-making over time (Sitkin, 1992; Edmondson, 2011). Managers frequently operate in settings marked by uncertainty, incomplete information, and conflicting priorities, making mistakes an inevitable part of organizational life. However, it is not failure itself that produces learning—insight emerges from deliberate reflection, careful analysis, and sense-making (Schön, 1983).

A distinction exists between productive and unproductive failure. Productive failure occurs when setbacks are examined thoughtfully, allowing individuals or teams to uncover actionable lessons. For instance, a team introducing a new workflow might initially fall short of efficiency targets. By analyzing what went wrong, they may identify communication gaps, ambiguous responsibilities, or misaligned incentives, and then use these insights to improve future performance (Edmondson, 2011; Argote, 2013).

In contrast, unproductive failure arises when errors are repeated without reflection. For example, if deadlines are consistently missed but no effort is made to understand the underlying causes, frustration, blame, and disengagement often result, while no meaningful learning takes place (Argyris & Schön, 1978; Edmondson, 1999). Such failures can reinforce ineffective routines and prevent organizational growth.

Engaging with failure in a reflective way allows managers to develop context-sensitive capabilities, including a deeper understanding of team dynamics, organizational power structures, and emotional responses (Weick, 1995). Moreover, confronting failure sharpens ethical awareness, as leaders experience firsthand the consequences of their decisions on others and learn to act with moral responsibility (Schwartz & Sharpe, 2010). These lessons are inherently human; artificial intelligence, while able to track errors or suggest corrective actions, cannot internalize moral or emotional insights, making it unable to fully replicate the learning derived from failure (Dreyfus, 1972; Searle, 1980).

Experience as the Foundation of Practical Wisdom

Experience is a cornerstone in transforming abstract or theoretical knowledge into practical, actionable wisdom (Kolb, 1984; Schön, 1983). While formal training and academic frameworks provide essential guidance, they cannot fully capture the nuances of real-world decision-making. True understanding emerges only through direct engagement with complex, dynamic situations, where managers encounter emotions, interpersonal dynamics, cultural norms, and timing constraints that influence outcomes in ways that theory alone cannot predict. For example, a manager may study negotiation strategies in textbooks, learning techniques such as active listening or compromise. However, only through actual negotiations—where unspoken tensions, power imbalances, and subtle cues from counterparts are present—does the manager acquire the ability to navigate conflicts effectively and make ethically sound decisions (Klein, 1998; Edmondson, 2019).

Experience is both cumulative and reflective. Each encounter with ambiguity, challenge, or failure adds to a manager's ability to recognize recurring patterns, anticipate potential problems, and apply intuition in context-sensitive ways (Klein, 1998). Over time, this reflective practice deepens understanding and sharpens judgment, creating a reservoir of tacit knowledge that cannot be easily codified or taught through formal methods. Importantly, the applicability of experience is highly context-dependent: strategies that succeed in one organizational, cultural, or interpersonal setting may fail in another, underscoring the difficulty of automating or standardizing experiential wisdom (Polanyi, 1966; Tsoukas, 2005). In essence, practical wisdom emerges not just from repeated exposure but from deliberate reflection on those experiences, enabling managers to adapt intelligently to new and unforeseen circumstances (Polanyi, 1966; Tsoukas, 2005).

Artificial Intelligence: Capabilities and Boundaries

Artificial intelligence (AI) has shown exceptional ability in handling and analyzing explicit knowledge. It can process large volumes of structured and unstructured information, monitor key performance indicators, uncover correlations, and generate recommendations at a speed and scale that surpass human capabilities (Davenport & Kalakota, 2019; Brynjolfsson & McAfee, 2017). For example, AI can predict future sales patterns by examining past transactions, identify bottlenecks in production processes, or optimize the allocation of resources—tasks that would otherwise require extensive time

and be prone to human error (Davenport & Kirby, 2016). By revealing patterns and offering actionable insights, AI enhances operational efficiency, informed decision-making, and strategic planning within organizations.

However, AI is inherently limited when it comes to human-centered understanding. It does not possess subjective experience, emotional awareness, or the capacity for ethical reasoning—qualities that are crucial for navigating complex social and organizational contexts (Dreyfus, 1972; Searle, 1980). Because AI relies primarily on historical data, it struggles to predict entirely new events, unfamiliar behaviors, or dynamic social interactions that fall outside its programmed knowledge or learned patterns (Brynjolfsson & McAfee, 2017). For instance, an AI system might label an employee as "high risk" for leaving a company based on performance records or engagement metrics. Yet only a human manager can interpret subtle social signals, such as changes in body language, informal comments, or shifts in team dynamics, while also considering personal circumstances and responding with empathy or ethical judgment (Edmondson, 2019).

In essence, AI serves as a powerful supportive tool that can improve efficiency and provide valuable insights, but it cannot replicate the human ability to make nuanced, context-sensitive, and ethically informed decisions (Brynjolfsson & McAfee, 2017). Effective organizational leadership requires combining AI's analytical strengths with human judgment, reflection, and social intelligence to achieve outcomes that are not only efficient but also ethical and sustainable.

The Incompatibility of Transferring Wisdom Directly from Failure

Failure is not merely a technical or operational setback; it is a deeply human experience that carries emotional, social, and ethical dimensions, all of which shape judgment and decision-making over time (Sitkin, 1992; Schön, 1983). When individuals experience failure, they confront not only what went wrong but also how their decisions affected others, how trust and relationships were impacted, and what moral or ethical considerations were at play. This reflective process is essential for developing practical wisdom, as it allows leaders to interpret mistakes, learn contextually, and adapt their future behavior accordingly (Weick, 1995).

While AI can meticulously record errors, track performance metrics, and suggest technical corrections, it cannot engage in reflective learning or internalize lessons in a human sense (Weick, 1995). For instance, consider a failed product launch: an AI system might detect technical issues such as mispricing, poor targeting, or ineffective advertising strategies. These insights, while valuable for process improvement, are limited to observable data. A human manager, on the other hand, can interpret the social and organizational dynamics behind the failure—such as miscommunication among teams, risk aversion, or the influence of company culture on execution—and integrate these insights into future strategic decisions (Edmondson, 2011). This reflective, contextual understanding enables a leader to adjust not only operational tactics but also team management, stakeholder engagement, and ethical considerations, demonstrating the uniquely human dimension of learning from failure.

Implications for Management Education and Practice

1. Preserve experiential learning: Leadership development programs should prioritize hands-on experiences that allow managers to apply theoretical knowledge in practical contexts (Kolb, 1984; Mintzberg, 2009). This includes simulations of complex scenarios, role-playing exercises, project-based challenges, and structured mentorship programs. Such activities enable participants to confront uncertainty, make decisions in real time, and reflect on the consequences of their actions. For example, a leadership simulation in which participants navigate a crisis in a virtual company can help future managers understand the interplay between team dynamics, stakeholder expectations, and organizational constraints.

2. Use AI as a support tool: While AI can analyze data, identify trends, and generate

recommendations, it should serve as a supplement rather than a replacement for human judgment (Davenport & Kirby, 2016). Managers must interpret AI insights within the context of organizational culture, ethical considerations, and social dynamics. For instance, an AI system may flag patterns of declining employee engagement, but only a human manager can understand the underlying causes, such as interpersonal conflicts or workload imbalances, and decide on appropriate interventions.

3. Cultivate reflective cultures: Organizations should foster environments that encourage open discussion, feedback, and learning from mistakes to build psychological safety (Edmondson, 1999). When employees feel safe to share errors or challenge assumptions, teams can collectively examine failures, extract lessons, and innovate without fear of punishment. For example, regular post-project debriefs or "lessons learned" sessions can transform individual mistakes into shared organizational knowledge, promoting continuous improvement and ethical decision-making.

4. Balance AI and human judgment: Effective management requires a careful balance between leveraging AI for efficiency and relying on human insight for contextual interpretation (Schwartz & Sharpe, 2010). While AI can streamline routine analysis, humans must evaluate long-term consequences, ethical implications, and nuanced social factors. For example, AI may recommend cost-cutting measures based on data alone, but managers must consider employee morale, brand reputation, and legal or ethical risks before implementing decisions. This balance ensures that technological tools enhance rather than replace the reflective, ethical, and adaptive capabilities that define wise leadership.

CONCLUSION

Wisdom arises from the dynamic interaction between knowledge, practical experience, learning from failure, and deliberate reflection (Schön, 1983; Kolb, 1984). Skills such as tacit understanding, ethical reasoning, and context-sensitive judgment are cultivated through real-world engagement rather than formal instruction alone. While artificial intelligence can support organizations by improving efficiency, analyzing data, and offering recommendations, it cannot replicate the moral reasoning, emotional insight, or reflective learning that humans acquire through lived experience (Dreyfus, 1972; Searle, 1980).

Organizations that successfully combine AI tools with human-centered learning practices are better positioned to develop leaders who are reflective, adaptive, and ethically grounded. Such leaders can navigate the challenges of complex and uncertain environments, making decisions that balance efficiency with human and societal considerations (Schwartz & Sharpe, 2010; Edmondson, 2011; Nonaka & Takeuchi, 1995). By integrating technology with the cultivation of practical wisdom, organizations ensure that leadership is both informed by data and guided by human judgment, creating sustainable and responsible outcomes (Schwartz & Sharpe, 2010).

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