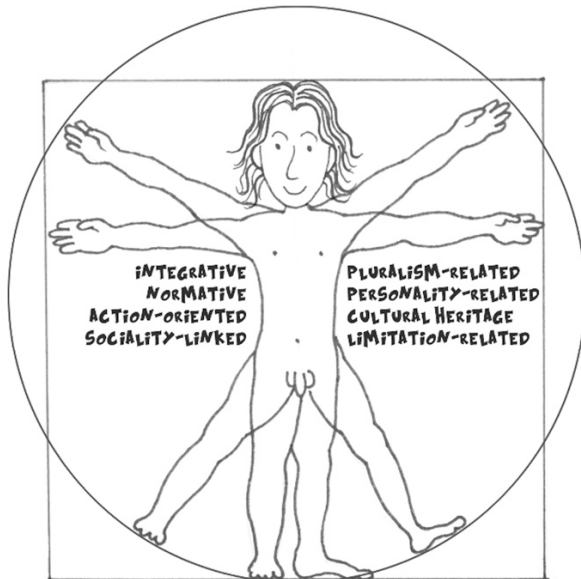# Practical Wisdom: Revisiting an Ancient Virtue in the Context of a Diverse Business World

Claudius Bachmann

INTEGRATIVE
NORMATIVE
ACTION-ORIENTED
SOCIALITY-LINKED

PLURALISM-RELATED
PERSONALITY-RELATED
CULTURAL HERITAGE
LIMITATION-RELATED

1 Introduction

Wise women, wise men, wise people are urgently needed in business and society these days. We might, for instance, think back to the far-reaching leadership failures and business scandals of the past few decades: the collapse of Enron, the bursting of the dot.com bubble and the ensuing loss of trillions of dollars in both stock and real estate wealth, and more recently, the tinkering with the LIBOR, the consumer deceptions in the food and automobile industries, etc. – all clear evidence of a lack of Practical Wisdom in leaders and managers.

Moreover, we might also call to mind the state of our planet to appreciate the manifold and complex issues facing societies today and in the future. Issues like climate change, scarcity of resources, refugee and migration flows, the growing gap between rich and poor, but also far-reaching societal transformation processes like digitalization, globalization or radicalization, to name but a few, are all calling for Practical Wisdom among those who assume leadership roles in business and society. The need to incorporate Practical Wisdom into our globalized world and its various management contexts is summarized by Bachmann and colleagues (2017, p.16), who note that in times "when the need for excellence in judgment, character, and perspicacity appears to be higher than ever, Practical Wisdom promises to become a valuable resource for management that might counteract some conspicuous management failures of late".

Small wonder then, that an increasing number of scholars are beginning to rediscover Practical Wisdom as an antidote to managerial misbehavior and as an outstanding quality of successful leadership (e.g. Intezari & Pauleen, 2017; McKenna, Rooney, & Boal, 2009). In general, these and other approaches to Practical Wisdom in management have been focused mainly on bridging the gap between purely theoretical knowledge and practice-oriented skillfulness, while simultaneously integrating moral and social aspects (cf. Bachmann, Habisch, & Dierksmeier, 2017). Studies explore the role of Practical Wisdom in various areas of management, including leadership (McKenna et al., 2009), entrepreneurship (Dunham, 2010), decision-making (Intezari & Pauleen, 2017), strategy (Statler, Roos, & Victor, 2007), sustainable management (Roos, 2017), and management education (Bachmann, 2014).

However, when reviving the centuries-old concept of Practical Wisdom (as described in detail by Jan Radicke in Chapter 1 of this volume) in the modern business world, the characteristics and conditions of modern societies have to be considered. They are diverse and by far transcend the limits of this essay. Undoubtedly, however, due to the socio-economic and socio-cultural effects of globalization and digitalization, people are nowadays experiencing culture, ethnicity, religion and value differences to an extent that has never existed before (cf. Genkova's chapter in this volume). Therefore, a modern re-interpretation of Practical Wisdom must prove its adaptability to this new, highly diverse environment. For instance, what exactly is or should be a practically wise decision or action if the meaning of "the right way" or "the right thing" is based on diverse and even competing values and worldviews? And vice versa: What might Practical Wisdom contribute when dealing with social phenomena such as individualization, pluralism, changes in values or fragmentation of life concepts?

Although I certainly do not have all the answers to these fundamental questions, I hope that the following will at least shed some light on the centuries-old concept of Practical Wisdom – recently rediscovered in management literature – and its possible connections to Diversity Management. First, using as a basis the argument that Practical Wisdom becomes manifest when its eight core features – action-oriented feature, integrative feature, normative feature, sociality-linked feature, pluralism-related feature, personality-related feature, cultural heritage feature, and limitation-related feature – are combined to the largest extent feasible (Bachmann et al., 2017), I explore the implications of this conceptualization for management practice. I then link the stream of Practical Wisdom-oriented research to the emerging field of Diversity Management which constitutes the second pillar of this volume and suggest avenues for further research.

2 Practical Wisdom Revisited

In order to grasp what Practical Wisdom is and to make sense of the thoughts and arguments developed in the following articles, it is worth taking a step back

to examine Practical Wisdom more closely. In our everyday life, most of us probably have some sort of understanding of wisdom (or stupidity). We might associate wisdom with insight, reflexivity, experience, responsibility, creativity and so on. It is also likely that we assume to, more or less, understand what others mean when they speak about a wise person or an unwise decision. Narratives of wise role models exist in all cultures and in all regions of the world. However, if asked to concisely describe or even to define wisdom, we will most probably face serious difficulties in coming up with a satisfactory answer. This is to say nothing of the virtually impossible task of finding a commonly agreed upon definition of wisdom with people from various cultures and with highly different understandings of wisdom.

It is therefore hardly surprising that also in academia there is considerable controversy about the nature of Practical Wisdom and its meaning. A thorough review of the relevant literature reveals that Practical Wisdom is a complex and multidimensional issue which has its roots in ancient times, but has attracted much attention in contemporary research in diverse disciplines such as philosophy (Tiberius & Swartwood, 2011), theology (Bachmann, 2016), psychology (Walsh, 2015), management studies (McKenna et al., 2009) and others. Indeed, Practical Wisdom appears to be a much broader phenomenon than one usually might expect at first sight. It was probably the ancient Greek philosopher Aristotle who first developed a systematic understanding of what constitutes a practically wise person. Especially in book VI of his Nichomachean Ethics, he includes Practical Wisdom (*phronesis*) as one of the five intellectual virtues. In sum, the Aristotelian *phronesis* requires first the openness to receive and understand each particular situation as it is, second the theoretical knowledge and the experience to choose and apply the appropriate means, and third the excellence of character to define the right ends.

In the occidental philosophy of the Middle Ages, it was principally Thomas Aquinas who revived the Aristotelian concept of *phronesis* in his Summa Theologiae (II-II, 47-56) in the Latin term, *prudentia*. By echoing Aristotle, he describes Practical Wisdom as "right reason in matters of action" (*recta ratio agibilium*; II-II, 47,2 sed contra), which applies universal knowledge to a particular

case (cf. II-II, 47,3 ad1). Other wisdom traditions, for instance, can be found in the ancient Chinese scripture Yi Jīng (or Book of Virtues), which points out that the sense of balance between polarities is crucial for practical wise living. Also throughout the Islamic traditions, concepts of Practical Wisdom (*al-Hikmah*) were widespread. They can be defined as "a total insight and […] sound judgment concerning a matter or situation through understanding cause and effect phenomena" (Beekun, 2012, p. 1005).

Contemporary academic studies on Practical Wisdom can broadly be classified into two lines of research. On the one side, scholars have sought to theoretically conceptualize and contextualize Practical Wisdom (cf. Bachmann et al., 2018). They refer to particular virtue traditions, ranging from Aristotelian, Catholic, and Confucian traditions which embrace Practical Wisdom as necessary and partially constitutive for human flourishing (e.g. Melé, 2010) to modern-day adaptations such as neo Aristotelian-Thomistic action theory (Rhonheimer, 1994) or Confucian re-interpretations (Yu, 2006). Others extract a set of qualities (McKenna et al., 2009), abilities (Nonaka & Takeuchi, 2011), components (Intezari & Pauleen, 2017) or competencies (Bachmann, 2014) which jointly constitute Practical Wisdom, wise decisions or wise actions. In a complementary perspective, others have sought to operationalize Practical Wisdom through an empirical lens striving to identify scientific criteria for control, replication, and prediction regarding the nature and development of wisdom (cf. Walsh, 2015). Mainly in the field of psychology, scholars have developed multiple measurement scales (Thomas, Bangen, Ardelt, & Jeste, 2017) and presented several varieties or subtypes of wisdom (Trowbridge, 2011).

3   The Anatomy of Management's Practical Wisdom[1]

This review, which is by no means exhaustive, shows that there is no unanimous consent on what Practical Wisdom means and highlights a broad diversity of interpretations, approaches and terminologies within contemporary wisdom

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[1] This section is based on and draws extensively on Bachmann et al. 2017 and 2018.

research. Here, combining conceptual considerations with empirical findings I define Practical Wisdom as:

Practical Wisdom in management is the capacity to combine its eight core features to the largest extent feasible: integrative feature, normative feature, sociality-linked feature, pluralism-related feature, personality-related feature, cultural heritage feature, limitation-related feature, and action-oriented feature.

This definition argues that Practical Wisdom improves managerial reasoning, decision making, and acting, by concurrently (1) integrating and balancing several, often competing interests, rationalities, emotions, challenges, and contexts, (2) orienting towards normative guidance of human flourishing, (3) considering the indispensable sociality of every human being as well as (4) today's multi-layered diversity in life and society, (5) acting appropriately and authentically in a self-aware manner, (6) rediscovering transmitted cultural and spiritual heritage, (7) being aware of the incompleteness of human existence and humble in the face of one's own achievements and capabilities, and (8) targeting always realization in practice. In the following, I elaborate on this and illustrate how it draws on already existing key definitions.

Integrative-feature: Since ancient times, Practical Wisdom has fundamentally been linked to the particular circumstances or concrete occurrences within a given situation. It thus includes the integrative ability to perceive and understand the true complexity of reality in its multi-layered facets in an open-minded and holistic way. From the Aristotelian *phronesis*, the Confucian *yì*, the Islamic *al-Hikmah,* and Aquinas' *prudentia* up to current wisdom literature, Practical Wisdom requires deliberative and appropriate judgment for each particular situation.

Taking this cue from the other disciplines, contemporary research on Practical Wisdom in management emphasizes the ability to appropriately respond to a specific situation, while considering the contextual framework of time, space, and sociality (Malan & Kriger, 1998, p. 246). This is particularly relevant in times of increasing complexity, information gaps, ambiguities, and unpredictability of today's business world (Clark, 2010; Intezari & Pauleen, 2014). For this purpose,

Practical Wisdom integrates right thinking, right desire, and right action and creates harmony among reason, emotions, and behavior. Therefore, Practical Wisdom transcends the one-dimensionality of economic rationality and rejects 'one-size-fits-all' solutions (cf. Rundshagen's chapter in this volume). Quite to the contrary, Practical Wisdom considers contradictions, tensions and paradoxes necessarily inherent in corporate acting without, a priori, prioritizing particular aspects over other concerns (Hahn, Preuss, Pinkse, & Figge, 2014). Overall, Practical Wisdom includes deliberation, integration, and critical reflection. Like a captain or coach, Practical Wisdom functions as a unifying instrument that makes a team greater than the sum of its individual members. Thus, leaders equipped with Practical Wisdom can grasp and successfully deal with several, often competing interests, rationalities, emotions, requirements, and challenges of management practice. This capacity for "knowing how" rather than "knowing that" is always contextual and situational.

Normative feature: Practical Wisdom is thoroughly normative. Considering not just how to attain any end, but what to choose as an end worthy to pursue, Practical Wisdom provides the knowledge about and orientation toward normative guidance for attaining the good life, both for oneself and for one's community. In the tradition of Aristotle and Aquinas, Grassl (2010) describes Practical Wisdom as the force that drives us to do what is good, precisely because it is good. It tackles the question of what ultimately orients someone's actions and decisions, thus, going far beyond indifferent cleverness, tactical cunningness, or even immoral underhandedness. Also, according to the empirical findings of psychological studies examining everyday beliefs and folk understandings, a practically wise person adheres to and is guided by moral principles or values (Bluck & Glück, 2005). Practical Wisdom may thus be a powerful motivational alternative to purely economic self-interest (Fontrodona & Sison, 2006, p. 37) as it positively affects moral sensitivity, moral judgement, and moral motivation (Morales-Sánchez & Cabello-Medina, 2013). Prasad Kaipa, influential Silicon Valley-based CEO advisor and coach, speaks about 'enlightened self-interest' becoming a business imperative for practically wise managers in the twenty-first century (Kaipa & Radjou, 2013). Quite similarly, Dennis Moberg describes the motivational and moral component of Practical Wisdom in management as

"a disposition toward moral excellence that is both rare and challenging to master" (Moberg, 2007, p. 542).

Sociality-linked feature: Practical Wisdom essentially refers to the indispensable sociality of the human being and emphasizes interdependence over independence. It shapes the interaction between the intra-personal sphere of individual preferences and the inter- and extra-personal sphere of the social environment. From Aristotle to the present, philosophers have time and again emphasized how the virtuous person has to prove his or her Practical Wisdom within the context of the *polis* and society. This sociality-linked aspect also takes a prominent place within psychological research on the application of wisdom in interpersonal contexts (Staudinger, 2008).

This is consistent with the argument of today's leadership research that leaders with Practical Wisdom consider humans as rational *and* emotional beings rather than as calculative utility-maximizers (Grassl, 2010). For instance, they are able to deal successfully with conflicting stakeholder interests (Freeman, Dunham, & Mc Vea, 2007) and to acknowledge the cultural and societal context in which their own company operates. Leaders with Practical Wisdom, therefore, have the social aptness and sensibility to be aware of and to act in congruence with their own needs and interests as well as those of society as a whole.

Pluralism-related feature: In the age of globalization and digitalization, cultural, socio-economic, and ideological diversity has grown exponentially. Nowadays, we are faced with highly diverse, frequently controversial cultures, religions, beliefs, or attitudes of modern and globalized societies. Accordingly, post-enlightenment philosophic discourses emphasize that a modern version of Practical Wisdom should accept an irrevocable plurality regarding distinct concepts of the highest good and regarding different ways to lead a reasonable life. From a psychological perspective, wisdom therefore includes heuristics on how to handle differences in values and priorities, both at an individual and a social system level.

In the realm of management wisdom studies, corresponding issues are discussed regarding different conceptions of leadership and cultural values. Malan

and Kriger (1998, p. 245) acknowledge that "organizations exist in multiple environments with several competing values and worldviews. The answer to creating effective organizations lies in understanding the assumptions of these competing views". In the context of global markets and production locations, it is up to practically wise management to respect and to properly handle the broad diversity within different parts of life and society.

Personality-related feature: Practical Wisdom does not define universally valid recommendations, but indicates what an individual should do – here and now (see also Martina Stangel-Meseke's chapter in this volume). Thus, Practical Wisdom is essentially linked to personal identity; i.e., a practically wise person wants to act wisely, does so, and believes it is good to do so. Accordingly, psychological studies emphasize the immediate and inseparable connection between wisdom and wise persons as 'carriers of wisdom' (Takahashi & Bordia, 2000). The reciprocity between someone's Practical Wisdom and his or her personality raises the question of how to act appropriately as well as authentically in a self-disciplined but confident manner in pursuit of right, credible, inspiring, and convincing goals. In various classical philosophical traditions offered by generations of moral philosophers, the concept of Practical Wisdom is intertwined with conceptions of self-control and the ability to subordinate passion and desire to the authority of reason.

Cultural heritage / experience feature: Practical Wisdom also appears as a form of cultural heritage that is transmitted from generation to generation by various spiritual and secular traditions. This includes established knowledge, beliefs, exemplary behaviors, and concrete advice concerning all aspects of life. Aristotle, for instance, recommended that one study practically wise people in order to grasp what Practical Wisdom is (NE 1140a25). To a far larger extent, the habit of delivering accumulated Practical Wisdom to posterity was common practice in nearly all ancient cultures.

How to re-discover and make use of the wisdom resources of cultural heritage in today's management and leadership practice is the subject of a sizable number of recent studies on Practical Wisdom (Lenssen, Malloch, Cornuel, & Kakabadse, 2012). In this context, the collection of beliefs, examples, and role mod-

els of the multiple spiritual traditions of mankind are perceived as a source of Practical Wisdom, which may contribute to the humanization of business practices worldwide. However, considering and valuing the cultural and spiritual traditions as an element of Practical Wisdom does not mean to uncritically and indiscriminately follow age-old master doctrines. Quite on the contrary, accumulated wisdom – which emerged in highly different contexts, sometimes even centuries ago – has to be adapted to modern-day scenarios and experiences through reflective attention (Habisch & Bachmann, 2016).

Furthermore, Practical Wisdom not only draws from ancient resources, but also requires studying and reflecting upon one's own experiences as well as examples of well-lived lives. For instance, Thomas J. Watson Jr., who transformed IBM into the world's largest computer company, reflects upon his management style in his autobiography: "No textbook in the world can tell you how to be the chief executive of IBM, and the most important lesson had been drilled into my head by my dad" (Watson, 1990, p. 400). Practically wise leaders analyze the pathways of history and explore why certain strategies were successful in specific situations, while others were not (Lynch, 1999).

Limitation-related feature: Practical Wisdom also includes the awareness of the limitations imposed on human beings. In order to foster his dialogue-partners' wisdom, Socrates relentlessly questioned all assumptions and thus exposed the contingencies and limits of human knowledge. This limitation-related feature has recently been revived as a component of Practical Wisdom by psychological research as the necessity to reflect the incompleteness of human existence and the limits of one's knowledge (Sternberg, 1998). This is why many old spiritual traditions connected Practical Wisdom with a divine sphere in order to convey a twofold meaning. On the one hand, these traditions illustrate how and why humans should always strive for wisdom in all its excellence, even though it quite hard to attain. On the other hand, they portray wisdom as a divine gift rather than a human achievement, stating that wisdom can never be gained by one's own efforts alone.

Practically wise management, therefore, is freed from the overconfidence of expertise and the hubris that often follows it (Nonaka et al., 2014). In his essay

on Practical Wisdom qualities, Statler (2014, p. 411) claims that executives – regardless of age – are usually endowed with considerable intelligence, "yet … often remain tragically unaware of what they do not know". In contrast, practically wise leaders realize that one's knowledge and interpretations are fallible and fragmentary. Hence an essential part of Practical Wisdom is being humble in the face of one's own achievements and capabilities and in defending oneself from the negative impact of elitist individualism and mystic glorification of a narcissistic individual-centered leading figure (Küpers, 2012).

Action-oriented feature: The features briefly outlined above, however, are insufficient to generate Practical Wisdom, because it must *always* be put into practice. Therefore, Practical Wisdom finally requires the ability to transform every manifestation of knowledge, beliefs, and decisions into action. This embodiment in action crops up already in Aristotle's virtue *phronesis* prescribing how to deal with modifiable and contingent aspects, which are related to particular circumstances or occurrences that can be controlled, initiated, constructed or changed. It also reappears in the Christian moral-theological description of Practical Wisdom as 'foremost of the virtues' guiding the other virtues toward action. In contemporary literature, it can be found in the psychological approach of the 'Berlin Wisdom Paradigm' as procedural knowledge exercising 'hands-on' expertise and experience in the performance of activities (Baltes & Staudinger, 2000).

This action-oriented feature is also highly significant for successful management and leadership (McKenna et al., 2009). Much of the literature highlights that the current challenges of management are not so much related to theoretical calculations and mathematics as they are to questions of action-oriented judgment (Bennis & O'Toole, 2005). This aspect is exemplified by Ben Horowitz' experience in becoming one of the most successful venture capital investors of Silicon Valley. Reflecting on his career, Horowitz (2014) stated that nothing in practice is as simple as theorists lead us to believe it to be. Thus, Practical Wisdom in management is by no means a purely theoretical endeavor, but rather a process of operationalization towards everyday practice.

4   Practical Wisdom and Diversity Management: A Roadmap towards a Future Research Agenda

So, having sketched a framework for understanding Practical Wisdom in management, the question now is how we might begin linking the stream of Practical Wisdom-oriented research to the emerging field of Diversity Management, which constitutes the second pillar of this volume. While I by no means have all the answers to this question, I would like to share two initial thoughts about where we might start and in which direction further research could go.

4.1   Bridging the Economic-Ethical-Dichotomy in Diversity Management

It was probably in the USA of the mid-1980s that the interest in the topic of diversity and its management in organizations emerged and finally staked its claim as a relevant research area in management and organization studies (for details, please see Petia Genkova´s chapter). In this context, the management of diversity was largely perceived as a way of capitalizing on the competitive advantage of the heterogeneity of the workforce. Due to the influence of the praxis-orientated approach of management consultants, research on multiculturalism and pluralism in organizations mainly viewed diversity from an explicit cost-benefit perspective and was aligned towards achieving economic success.

In the wake of this, the so-called 'business-case for diversity' formed the mainstream of Diversity Management theory. Following a purely economic rationale, business-case research on Diversity Management advocates and aims to prove that companies can create a shared value between the economic benefits of the firm and the societal benefits of equality and interculturality. The academic focus on the business-case concerning diversity issues undoubtedly legitimized this topic in organizational literature as pluralism and differences were valued as strategic assets for the first time in the history of management.

However, some organizational scholars have recently argued that the business-case perspective represents a limited and one-dimensional view of Diversity Management as it prioritizes economic aspects at the expense of other concerns. From this perspective, for instance, Diversity Management theory ap-

pears as yet another tool to maximize profits rather than for challenging work-place inequalities and discrimination. Ethical concerns are pushed to the peripheries of instrumental strategy making. These shortcomings of the business-case rationale have given rise to various calls for alternative and critical approaches on Diversity Management which seek to counteract the former instrumental focus through a strong normative or ethical approach. While quite heterogeneous in terms of theoretical background, this field of research usually emphasizes the importance of the intrinsic value of diversity which does not require further external or instrumental benefits and argues that corporations ought to accept their social responsibilities as a normative obligation.

Future research on Diversity Management, however, should bridge the gap between predominantly instrumental, economic approaches on the one side and, emphasizing ethical ones on the other (cf. McNett, 2015). Therefore, I would like to suggest that looking at Diversity Management through a Practical Wisdom lens may contribute to a holistic and more integrative approach and reframe the former "either/or" divergence of economic and ethical perspectives on Diversity Management to a "both/and" convergence. Diversity Management theory built upon Practical Wisdom as outlined above, makes both economic and ethical considerations integral parts of strategic management.

In this sense, cultivating Practical Wisdom in organizational contexts does not serve as just another managerial tool for maximizing profits; rather, it guides us toward an organizational setting whereby the value of both diversity and economic success is in allowing personal development and interpersonal relations to emerge.

4.2   Incorporating diversity into a Modern Theory of Practical Wisdom

In the days of Aristotle, one of the forefathers of the idea of Practical Wisdom, people lived in highly localized and fragmented societies. Undoubtedly, at that stage in history intercultural exchange, social conflicts and differences in habits, customs, and moral perceptions already existed. However, in the contemporary globalized world, where all sorts of borders – spatial, temporal, cultural – are fluid, socio-economic, socio-cultural, and ideological diversity increased to an

extent never experienced before in human history. As a consequence, modern societies are characterized by competing worldviews and by regularly recurring social phenomena such as continual changes in values or fragmentation of life concepts.

This is especially relevant if we talk about Practical Wisdom. As we have seen above, a normative or ethical orientation is essential to motivate, justify, and legitimize practically wise actions. When we ask in a business environment why we should do this or that, we are likely to hear that we should do the right thing because such actions are good for business results. That may be fine, but from a Practical Wisdom perspective we have to go further, considering not just how to attain purely economic goals, but what to choose as an end worthy of pursuit. But what happens when people disagree for reasonable and good reasons about what is right, what is good, and how to attain it? The de facto divergence of values and norms spread around our global societies therefore calls for a 'cosmopolitan turn' within a modern theory of Practical Wisdom (cf. also Scherle's chapter in this book). In light of this the question whether a conception of Practical Wisdom is able to integrate diversity and socio-ethical heterogeneity appears to be the litmus test for any contemporary adaptation.

Thus, I would like to suggest that Diversity Management research might contribute to such endeavours. Over the past decades researchers have successfully developed and tested policies and strategies, procedures and programs for managing diversity. This led to the creation of tools, materials, and other aids which have become a part of everyday organizational life.

Building on these insights, a modern theory of Practical Wisdom could adapt practical frameworks and guidelines that facilitate practicing and operationalizing Practical Wisdom in times of interculturality of ethical norms and social values. Accordingly, Practical Wisdom manifests itself through successful Diversity Management.

5   Concluding Thoughts

Practical Wisdom and Diversity Management have become important themes for both academic theory and business practice. We know a great deal about each, but there has been precious little research exploring the relationship between them.

Thus, the main goal of this article was to propose a way of understanding Practical Wisdom and to discuss its implications for management. To that end, the stream of Practical Wisdom-oriented research was connected to Diversity Management in order to explore the potential for cross-fertilization between the two fields.

I hope this chapter has provided a helpful starting point for readers of this book and that it will encourage interdisciplinary scholarship and discourse on how Practical Wisdom and Diversity Management can be integrated and how the social, cultural and ethical domains of management studies can be joined together to create well-reasoned, ethically-oriented and inclusive business practices.

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