

Why leaders need soft skills in the age of AI

Written by

[Cláudia Custódio](#)

Published

18 September 2023

Category

[Strategy & Leadership](#)

Key topics

[Artificial Intelligence](#), [Careers](#), [COVID-19](#), [Digital Transformation](#), [Jobs and Labour](#), [Leadership](#), [Management](#)

Emotions are not a weakness, but a strength. Learn how to harness yours to improve your leadership skills

If we were to meet someone who felt no emotion – no joy, sadness, anger, disgust, empathy or compassion – we might be concerned that a serious psychological condition was at play. And yet, this is exactly how classical economics sees us all operating – as [homo economicus](#), economic actors who make decisions to maximise our own self-interest.

This characterisation frames people as purely rational beings, only ever considering the cost-benefit ratio of their options. Values, social norms and emotions don't influence *homo economicus*, with the exception, perhaps, of one fear: the fear of risk.

How Seinfeld exposed the flaws in traditional economics

To imagine real people behaving with such exaggerated selfishness and rationality is, frankly, comical. Discussing her book [Seinfeld and Economics](#) on [NPR's Planet Money podcast](#), Professor Linda Ghent made this point. “He will not do anything if it doesn’t benefit him,” Ghent said of the character [George Costanza](#) from the 90s sitcom. “In some ways, he really is the true economic man.” Through [Jerry Seinfeld](#) and his fellow self-centred characters, we see the comic absurdity of treating empathy and mutual aid as inconveniences unless they provide a direct personal benefit.

And just like the world of *Seinfeld*, economics treats emotions and the actions that stem from them mostly as a deviation from the optimal, even as it increasingly [recognises their importance](#). Even in behavioural economics, emotional actions are not seen as “normal”. Rather, they are viewed as psychologically and socially influenced departures from rational economic behaviour, or biases.

This shift also prioritises the skills that are least likely (for the moment at least) to be delegated to artificial intelligence

This view of humanity extends to elements of leadership thinking too. [Agency theory](#), for example, deals with the relationship between principals and agents, and presumes that, when the former contracts the latter to perform a task on its behalf, both will behave in a self-interested way, rather than working towards mutual benefit. Agents require incentives (for example, a bonus for good performance) to make decisions that also benefit the principal, as they are fundamentally viewed as selfish, lazy robots.

What COVID-19 taught us about leading with empathy

Thankfully, this is not how real people operate and, as a result, these traditional models can only offer very general guidance about how to lead and motivate human beings. Making optimal decisions without being influenced by emotions might be useful in some circumstances, but effective leadership has more to do with the human side of the manager and their interpersonal or “soft” skills.

To inspire, a leader has to be able to communicate effectively, listen actively, and express ideas persuasively. They also need to resolve conflicts and manage change

with empathy and understanding. The COVID-19 pandemic, for example, presented managers with a series of emotional and practical challenges, not least keeping their remote teams unified and motivated. More recently, the cost-of-living crisis in the UK has increased individual and team-wide uncertainty, anxiety and stress, requiring emotional understanding and care from managers.

Although functional (or “hard”) skills are important, it is soft skills that differentiate successful executives

The purely rational metrics and processes that could effectively manage *homo economicus* are not up to these challenges. Of course, in a world informed by the granular detail of large-scale databases and swayed by the automation of large language models, this nuance might easily be lost. However, there is evidence that companies are increasingly prioritising soft skills in their senior managers.

Falling demand for hard skills

A [recent paper](#) by researchers at University College London, Harvard Business School and Cornell University explores the evolution of interpersonal skills in top executives. The authors argue that, although functional (or “hard”) skills are important, it is soft skills that differentiate successful executives.

They break soft skills down into two categories: human resources and social skills. The former refers to the skills required to motivate employees, while the latter refers to the skills required to empathise and persuade. Over time, the authors document a fall in demand for skills associated with financial and material resource management, and a rise in demand for soft skills, and social skills in particular. This is especially the case for CEOs in relation to other C-suite positions.

Even in behavioural economics, emotional actions are not seen as “normal”

Clearly, companies are increasingly on the lookout for executives with the ability to interact with, relate to, and persuade others at the most senior levels, with less emphasis on traditional operational and administrative capabilities. These are generalist skills that can be easily transferred across firms and industries, for which firms are typically [willing to pay a premium](#). This shift also prioritises the skills that

are least likely (for the moment at least) to be delegated to artificial intelligence.

This suggests the business world is becoming aware that developing and retaining executive talent with strong interpersonal skills is crucial, both to improve operational performance and to prepare for future challenges. *Homo economicus* may once have been a useful economic tool, but, much like George Costanza, he doesn't represent a modern, complex workforce – so he has no place in the C-suite either.

Written by

[Cláudia Custódio](#)

Published

18 September 2023

Category

[Strategy & Leadership](#)

Key topics

[Artificial Intelligence](#), [Careers](#), [COVID-19](#), [Digital Transformation](#), [Jobs and Labour](#), [Leadership](#), [Management](#)

Main image: uniquepixel/iStock/Getty Images Plus via Getty Images.

Share



About Cláudia Custódio

Professor of Finance

Cláudia Custódio is Professor of Finance at Imperial Business School and a research associate for the Centre for Economic Policy Research, the European Corporate

Governance Institute, and the Financial Markets Group at the London School of Economics.

Prior to joining Imperial London, she worked at Nova School of Business & Economics in Lisbon and Arizona State University. Professor Custódio's research interests are mainly in corporate finance, including corporate diversification, mergers and acquisitions, capital structure and risk management.

Read [Cláudia's Imperial Profile](#) for more information and publications.

Monthly newsletter

Receive the latest insights from Imperial Business School

[Sign up now](#)

Is your CEO right for the job?

A survey of over 1,000 CEOs has revealed how the most successful spend their day, but the highest performers might not have the best skills, ideas and thinking for every organisation.

[Read more](#)