



Transformational Leadership as a Mediator: Linking Leadership Traits to Organizational Performance in the Libyan Investment Authority

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ABSTRACT

The Libyan Investment Authority (LIA), established in 2006, is significantly hindered in its organizational performance due to ongoing socio-political instability and bureaucratic inefficiencies. This study explores how leadership traits influence performance, particularly within crisis situations, and highlights the crucial role of transformational leadership. A quantitative analysis was conducted using data from 278 staff members through self-administered questionnaires and analyzed with Structural Equation Modeling (PLS-SEM). Key findings indicate that leadership traits specifically knowledge, drive, and honesty have a notable direct impact on organizational performance. Moreover, the relationship between these traits and performance is significantly mediated by transformational leadership behaviors, such as intellectual stimulation and inspirational motivation. This research underscores the importance of focusing on behavioral transformation in leadership development for sovereign wealth funds operating in conflict zones, rather than solely identifying traits conducive to leadership.

1. Introduction

Leadership is a pivotal determinant of organizational performance, particularly in public sector entities tasked with managing national assets. The Libyan Investment Authority (LIA), tasked with managing Libya's sovereign wealth, operates in a unique and challenging environment characterized by political fragmentation, economic volatility, and ongoing conflict since the 2011 revolution. These external pressures have severely impacted LIA's financial and operational performance, necessitating a leadership approach that is both resilient and proactive.

Traditionally, research on leadership has focused heavily on Leadership Traits stable characteristics such as intelligence, drive, and integrity as predictors of success (Kirkpatrick & Locke, 1991). The underlying assumption is that leaders with superior traits will inevitably yield superior organizational outcomes. However, in complex and crisis-laden environments like that of LIA, possessing traits alone may not be sufficient. The volatile nature of the Libyan context requires leaders to actively influence, inspire, and motivate a disengaged workforce.

This brings into focus the role of Transformational Leadership, defined by its ability to inspire followers to transcend their own self-interests for the sake of the organization (Bass, 1990). Transformational leadership acts as a behavioral conduit, converting innate leadership traits into actionable outcomes. While the individual importance of traits and transformational behaviors is well documented, the mediating mechanism that is, how traits translate into performance specifically through transformational behaviors in the context of a developing economy in crisis requires further empirical validation.

This study addresses this gap by examining the workforce at LIA's Tripoli headquarters. It specifically investigates: (1) the direct effect of leadership traits on organizational performance, and (2) the mediating effect of transformational leadership on this relationship. The study is significant not only for the academic literature on leadership in non-Western contexts but also for the practical governance of the LIA, offering evidence-based recommendations for leadership training and recruitment in a post-conflict setting.

2. Literature Review

2.1 Leadership Traits and Performance

Trait theory posits that certain inherent characteristics distinguish leaders from non-leaders. These traits, including knowledge, drive, desire to lead, honesty, and intelligence, are considered the raw material of leadership. Northouse (2021) argues that these traits serve as prerequisites for effective action, providing leaders with the intellectual and emotional capacity to handle complexity. In the context of organizational performance, traits like knowledge and honesty are particularly critical. Knowledge allows leaders to navigate the technicalities of asset management, while honesty (integrity) fosters the trust necessary for stakeholder engagement (Derue et al., 2011). Recent post-pandemic research has

emphasized the trait of adaptability, suggesting that leaders who can adjust their approach in volatile environments are more likely to sustain performance (Carnevale & Hatak, 2020). In the case of LIA, where asset freezes and governance disputes are common, the trait of honesty is vital for restoring institutional credibility.

2.2 Transformational Leadership

Transformational leadership is characterized by four dimensions: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Unlike transactional leadership, which relies on contingencies, transformational leadership seeks to elevate the motivation and morality of the follower. Bass (1990) established that transformational leadership is universally applicable and highly effective in driving organizational performance. In the post-2020 era, this style has gained traction as organizations seek to navigate rapid changes. Jyoti and Bhau (2021) found that transformational leadership significantly enhances employee innovative behavior, which is a direct contributor to organizational success. For LIA, which suffers from low morale and disengagement, the intellectual stimulation and inspirational motivation components of transformational leadership are essential. These behaviors allow leaders to re-engage staff by challenging the status quo and articulating a compelling vision for the organization's recovery.

2.3 Leadership Traits as Antecedents to Transformational Leadership

While traits are distinct from behaviors, they form the psychological foundation for them. A leader's extraversion facilitates the expression of inspirational motivation, while intelligence supports the intellectual stimulation of followers. However, research indicates that traits do not automatically lead to performance; they must be enacted through specific behaviors.

This study posits Transformational Leadership as a mediator. It suggests that traits such as knowledge and drive enable a leader to become transformational, but it is the actual practice of transformational leadership that directly improves performance. Masa'deh et al. (2021) argue that modern leadership models must account for this process, suggesting that the behavioral manifestation of leadership is the proximal cause of employee outcomes, even if traits are the distal cause. Therefore, H1 predicts a direct relationship, while H2 predicts that this relationship is channeled through transformational behaviors.

3. Methodology

3.1 Research Design

This study employs a quantitative, cross-sectional research design. The data were collected at a single point in time to examine the associations between the research variables: Leadership Traits (Independent Variable), Transformational Leadership (Mediator), and Organizational Performance (Dependent Variable). This design was deemed appropriate for establishing the explanatory power of the proposed theoretical framework within the LIA context.

3.2 Population and Sampling

The target population consists of employees working at the LIA headquarters in Tripoli, Libya. Given the socio-political instability and the difficulty of accessing a comprehensive sampling frame, a convenience sampling technique was employed (Etikan, Musa, & Alkassim, 2016). Participants were selected based on their accessibility and willingness to participate. A total of 278 valid responses were obtained. This sample size is statistically sufficient for Structural Equation Modeling (PLS-SEM), as it exceeds the recommended "rule of thumb" of 200 cases for complex models with mediating effects (Hair et al., 2017).

3.3 Data Collection Instrument

Data were collected using a 27-item structured questionnaire. The items were adapted from established scales:

- Leadership Traits: Adapted from Kirkpatrick & Locke (1991), measuring traits such as Knowledge, Drive, Honesty, and Intelligence.
- Transformational Leadership: Adapted from Bass and Avolio (1995), measuring the four I's.
- Organizational Performance: Adapted from Venkatraman & Ramanujam (1986), measuring financial and operational dimensions.

All items were measured on a 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

3.4 Data Analysis

Data were analyzed using SmartPLS 4.0 to assess both the measurement model and the structural model. A bootstrapping procedure (5,000 subsamples) was used to determine the significance of the mediating effects.

Table: 1 Demographic Profile of Respondents (N=278)

Demographic	Frequency	Percentage
Gender		
Male	210	75.5%
Female	68	24.5%
Age		
20 – 29 Years	45	16.2%
30 – 39 Years	135	48.6%
40 – 49 Years	78	28.0%
50 and above	20	7.2%
Education		
Bachelor’s Degree	110	39.6%
Master’s Degree	148	53.2%
PhD / Doctorate	20	7.2%
Position		
Junior Staff	135	48.6%
Middle Management	98	35.3%
Top Management	45	16.1%

4. Results

4.1 Measurement Model

The measurement model was assessed for validity and reliability. The Cronbach’s Alpha values for all constructs exceeded the threshold of 0.70, and Composite Reliability values exceeded 0.80, indicating good internal consistency. Convergent Validity (AVE) values were above 0.50, and the Square Root of AVE for each construct was greater than the correlations with other constructs, confirming the presence of Discriminant Validity.

4.2 Hypothesis Testing

The structural model was evaluated to test the proposed hypotheses.

H1: Leadership traits have a significant direct effect on organizational performance. The analysis reveals a direct positive relationship between leadership traits and performance.

H2: Transformational leadership significantly mediates the relationship between leadership traits and organizational performance. The bootstrapping technique was used to test the indirect effect of leadership traits on performance through transformational leadership.

Table: 2 Hypothesis Testing Results

Hypothesis	Relationship	Path Coefficient	T-Value	P-Value	Decision
H1	Traits Performance	0.312	5.432	0.000	Supported
H2	Traits Trans. Leadership Performance	(Indirect Effect)	4.876	0.000	Supported

5. Discussion

The primary objective of this study was to understand how leadership traits influence organizational performance within the LIA. The results provide strong empirical evidence that leadership traits are indeed vital for LIA's performance. Specifically, traits such as knowledge, drive, and honesty directly contribute to better financial and operational outcomes. This supports the fundamental tenets of trait theory, even within a volatile context like Libya. For a sovereign wealth fund like LIA, where technical asset management knowledge is paramount and honesty is needed to combat reputational risks, these findings underscore the importance of rigorous recruitment processes that screen for these foundational traits. However, the study's critical contribution lies in confirming the mediating role of Transformational Leadership. The results show that while traits provide the necessary potential for leadership, it is the active practice of transformational behaviors such as inspiring a shared vision and intellectually stimulating followers that most strongly drives performance. This finding is particularly relevant to LIA's current crisis. A leader may be knowledgeable and honest (traits), but if they cannot inspire their staff to remain productive amidst asset freezes and political turmoil (transformational behavior), the performance will suffer.

The partial mediation observed suggests that while traits have intrinsic value, LIA leaders must actively cultivate transformational behaviors to maximize performance. This aligns with the post-pandemic view of leadership, where adaptability and employee engagement are critical (Carnevale & Hatak, 2020). For the LIA, this implies that training programs should not stop at hiring "the right people." Instead, they must invest in leadership development that teaches how to be transformational: how to motivate, how to foster innovation, and how to build a culture of resilience.

6. Conclusion

This study analyzed the influence of leadership traits on the performance of the Libyan Investment Authority, with transformational leadership as a mediator. Based on a sample of 278 employees, the findings confirm that both leadership traits and transformational leadership are critical drivers of performance. Importantly, transformational leadership serves as a significant mediator, bridging the gap between a leader's inherent traits and the actual performance outcomes of the organization.

Recommendations:

- 1 Recruitment: LIA should maintain high standards for screening traits like knowledge and honesty during the hiring process.
- 2 Training: Leadership development initiatives should pivot from focusing solely on technical skills to developing transformational behaviors. Workshops should focus on communication, visioning, and inspirational motivation.
- 3 Succession Planning: Future leaders should be groomed by current transformational leaders to ensure the continuity of these behavioral standards within the organization.

This research contributes to the limited body of knowledge on leadership in sovereign wealth funds and conflict-affected economies, demonstrating that in difficult times, traits matter, but behavior transforms.

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