



Resilience in Adversity: The Moderating Role of Organizational Culture on Leadership and Performance in Sovereign Wealth Funds

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ABSTRACT

Sovereign Wealth Funds (SWFs) function in a complex environment characterized by extensive global scrutiny and geopolitical volatility, managing large amounts of national assets. Traditional research has largely focused on governance and investment strategies, leaving the human capital aspect, particularly the influence of leadership and organizational culture on performance, relatively unexplored. This study examines the Libyan Investment Authority (LIA) to understand how organizational culture affects the relationship between leadership traits, transformational behaviors, and organizational performance. Using data from 278 employees and a Partial Least Squares Structural Equation Modeling (PLS-SEM) framework, the research reveals that both leadership traits and transformational leadership directly enhance performance. However, it highlights that organizational culture acts as a critical "boundary condition"; a positive and collaborative culture amplifies the benefits of effective leadership, whereas a lack of such a culture hinders leadership effectiveness. The study introduces a "Resilience in Adversity" model, positing that in volatile contexts, an empowering organizational culture is essential for leaders to convert their potential into successful performance results, thereby expanding the SWF literature with a focus on human capital dynamics amidst institutional challenges.

1. Introduction

Sovereign Wealth Funds (SWFs) represent some of the most powerful financial institutions in the global economy. Established to manage and invest national revenues typically derived from oil, gas, or commodities, SWFs such as the Norwegian Government Pension Fund Global and the Abu Dhabi Investment Authority play a critical role in intergenerational wealth preservation. However, the operating environment for SWFs is increasingly characterized by volatility, ranging from global financial crises and market downturns to, in extreme cases, domestic political instability and conflict (Balding, 2008). When SWFs operate in stable democracies, institutional frameworks and governance protocols often provide sufficient stability to ensure performance. However, in contexts of "adversity" defined here by the intersection of economic fragility, political fragmentation, and socio-political instability, the reliance on bureaucratic structures alone is insufficient. In these environments, the "social architecture" of the organization, specifically its Organizational Culture, becomes a pivotal factor in determining whether the fund succumbs to external pressures or demonstrates resilience.

The Libyan Investment Authority (LIA), established in 2006, represents an archetypal case of a SWF operating in adversity. Since the 2011 revolution, LIA has faced governance disputes, asset freezes, and significant operational disruptions. In such a context, leadership traditionally defined by traits like intelligence and drive, or behaviors like inspirational motivation, faces immense barriers. A leader may possess high levels of emotional intelligence and a clear strategic vision, yet fail to achieve organizational performance if the surrounding culture is bureaucratic, risk-averse, or factionalized (Al-Kotob, 2019).

This paper addresses a critical gap in the SWF literature by conceptualizing Organizational Culture as a moderator. It moves beyond the question of "Does leadership matter?" to investigate "When does leadership matter most?" Specifically, it argues that in adverse environments, a positive, clan-oriented, and proactive culture acts as a catalyst, amplifying the effectiveness of leadership traits and transformational behaviors. Conversely, a weak or toxic culture acts as a suppressant, rendering even the most capable leaders ineffective. Using a quantitative sample of 278 employees from the LIA headquarters, this study employs Structural Equation Modeling (SEM) to test these interaction effects. The findings provide theoretical and practical implications for SWFs globally, suggesting that resilience in adversity requires a symbiotic relationship between individual leadership capability and a supportive cultural ecosystem.

2. Literature Review and Theoretical Framework

2.1 Leadership and Performance in Sovereign Wealth Funds

The literature on SWFs has historically focused on macro-level governance structures, such as the Santiago Principles, investment diversification, and transparency (Truman, 2010). However, there is a growing recognition that SWFs are distinct corporate entities that require effective management of human capital. Research indicates that SWFs suffer from principal-agent problems and bureaucratic inertia, which can stifle performance (Dewenter et al., 2021).

Leadership in SWFs is often conceptualized as transactional focused on compliance and fiduciary duty. However, the increasing complexity of global markets demands Transformational Leadership, characterized by intellectual stimulation and individualized consideration (Bass, 1990). In stable contexts, transactional leadership may suffice, but in volatile environments, leaders must inspire change and resilience. Furthermore, the role of Leadership Traits the personal attributes of leaders remains foundational. Traits like integrity and knowledge are non-negotiable for trust in SWFs, but as noted by Northouse (2021), traits alone are insufficient to predict complex performance outcomes without considering the behavioral context.

2.2 Theoretical Framework: The Moderating Role of Organizational Culture

Organizational Culture is defined as the shared values, beliefs, and assumptions that govern how people behave in an organization (Schein, 2010). In the context of this study, it encompasses dimensions of Team Orientation, Innovation/Risk-Taking, and Proactive Approach.

The theoretical contribution of this paper is the application of Interaction Theory (Moderation) to SWF management. Moderation occurs when a third variable affects the strength or direction of the relationship between an independent and a dependent variable (Hayes, 2017). This study posits that organizational culture moderates two distinct paths:

- 1 Path A (Traits Performance): The relationship between leadership traits (e.g., Drive, Honesty) and performance is stronger when the culture supports open communication and teamwork.
- 2 Path B (Transformational Leadership Performance): The relationship between transformational behaviors and performance is stronger when the culture values innovation and risk-taking.

This "Resilience in Adversity" framework aligns with Contingency Theory, which states that leadership effectiveness is contingent upon the situation. In a high-adversity environment like that of the LIA, the "situation" is heavily defined by the organizational culture. A culture that tolerates ambiguity and promotes collective resilience allows leaders to exercise their traits and behaviors without being stifled by bureaucratic inertia (Cameron & Quinn, 2011).

2.3 Post-Crisis Leadership and Culture

Recent post-2020 literature highlights that crisis environments amplify the need for cultural alignment. Wang et al. (2024) argue that in the post-pandemic era, organizational culture serves as a buffer against burnout and uncertainty. For SWFs, which operate in a state of "perpetual crisis" due to political and market pressures, this cultural buffer is essential. A clan-like culture that fosters psychological safety allows leaders to admit errors, take calculated risks, and pivot strategies behaviors essential for SWF survival in adverse conditions (Al-Weshah et al., 2020).

3. Methodology

3.1 Research Context and Design

The study utilizes a quantitative, cross-sectional design. The context is the Libyan Investment Authority (LIA) Tripoli headquarters. While the LIA is a single case, its attributes a sovereign wealth fund operating in a conflict-affected, resource-dependent economy make it a theoretically relevant proxy for studying "adversity" in the SWF sector. The target population includes all employees at the LIA headquarters involved in investment, legal, and operational departments.

3.2 Sampling and Data Collection

Due to the political instability and difficulties in accessing a complete sampling frame, a convenience sampling technique was employed (Etikan et al., 2016). A structured questionnaire was distributed electronically to staff, resulting in 278 valid responses. This sample size is robust for PLS-SEM analysis, particularly for complex models with interaction effects, adhering to the "rule of thumb" of 10 observations per item or minimum 200 cases (Hair et al., 2017).

The instrument measured:

- Leadership Traits: Knowledge, Drive, Honesty, Self-Esteem (8 items).
- Transformational Leadership: Intellectual Stimulation, Inspirational Motivation (4 items, treated unidimensionally).
- Organizational Culture: Team Orientation, Innovation, Proactive Approach (4 items).

- Organizational Performance: Financial returns and operational efficiency (4 items).

3.3 Data Analysis Technique

The study used SmartPLS 4.0 for the analysis. The analysis involved two stages:

1. Measurement Model: Assessing validity and reliability.
2. Structural Model: Testing the direct effects (H1, H2) and the interaction effects (H3, H4). The interaction effects were tested using the product-indicator approach (Henseler et al., 2015) to create interaction terms for Organizational Culture Leadership Traits and Organizational Culture Transformational Leadership.

4. Results

4.1 Measurement Model

The model demonstrated adequate fit. The reliability of the constructs was high (Cronbach's Alpha > 0.85). Discriminant Validity was established (Heterotrait-Monotrait Ratio of Correlations < 0.90), confirming that the constructs (Traits, Leadership, Culture, Performance) are distinct entities in the respondents' minds.

4.2 Hypothesis Testing

Hypothesis H1 (Direct Effect): Leadership traits have a significant positive effect on organizational performance = 0.312, $t = 5.432$, $p < 0.01$. Hypothesis H2 (Mediating Effect): Transformational leadership significantly mediates the relationship between traits and performance = 0.189, $t = 4.876$, $p < 0.01$.

Hypothesis H3 (Moderating Effect): Organizational culture significantly moderates the relationship between Leadership Traits and Organizational Performance. The analysis revealed that the interaction term (Traits Culture) was significant.

Hypothesis H4 (Moderating Effect): Organizational culture significantly moderates the relationship between Transformational Leadership and Organizational Performance. The analysis revealed that the interaction term (Transformational Leadership Culture) was significant.

Table: 1 Structural Model and Moderation Analysis Results

Hypothesis	Path / Interaction	Path Coefficient	T-Value	P-Value	Decision
H1	Traits Performance	0.312	5.432	0.000	Supported
H2	Mediation (Traits TL Perf)	0.189	4.876	0.000	Supported
H3	Moderation: Traits Culture Perf	0.245	3.912	0.000	Supported
H4	Moderation: TL Culture Perf	0.310	4.105	0.000	Supported

Table: 2 Slope Analysis for Moderating Effects

Moderating Relationship	Low Culture (-1 SD)	High Culture (+1 SD)	Interpretation
Traits Performance	Slope = 0.15 (Weak)	Slope = 0.48 (Strong)	Leadership traits have a weak impact on performance in a poor culture but a strong impact in a rich culture.

Trans. Leadership			Transformational leadership is
Performance	Slope = 0.22 (Weak)	Slope = 0.55 (Strong)	less effective in a toxic culture but highly effective in a supportive culture.

5. Discussion

The results of this study offer a nuanced understanding of how sovereign wealth funds (SWFs) can achieve resilience in adverse environments. The primary contribution is the validation of Organizational Culture as a robust moderator for both static (traits) and dynamic (transformational) forms of leadership.

5.1 Culture as a Boundary Condition for Leadership Traits

The findings for H3 reveal that the value of leadership traits such as knowledge, drive, and honesty is contingent upon the organizational culture. In the context of the LIA, this suggests that a leader's integrity and strategic knowledge do not automatically translate into performance if the surrounding culture is rife with distrust, silos, or bureaucratic resistance. For SWFs operating in adversity, this implies that recruitment alone is insufficient. A SWF can hire the brightest, most driven investment professionals from global markets (high traits), but if the organizational culture is factionalized (e.g., split along political lines, as often happens in divided nations), those traits will be wasted. The culture acts as a "filter" or "gatekeeper," determining whether leadership potential can be actualized. This supports the theoretical argument that context matters: leadership traits are "necessary but not sufficient" conditions for performance in high-uncertainty environments (Schein, 2010).

5.2 Culture as a Catalyst for Transformational Leadership

The findings for H4 confirm that Transformational Leadership is most effective when paired with a supportive culture. Transformational behaviors challenging the status quo, intellectual stimulation, envisioning a bold future are inherently risky. In a stable bank or corporation, taking calculated risks might be standard procedure. However, in a SWF operating in adversity (like LIA), where external audits and political scrutiny are intense, risk-taking can be perceived as dangerous by staff. A High Culture (one characterized by Team Orientation and Innovation) provides the psychological safety required for Transformational Leadership to work. When leaders try to inspire staff to "challenge the process" or "innovate new investment vehicles," staff in a supportive culture will follow. Staff in a culture of "Attention to Detail" (often a proxy for risk-averse compliance) will resist. Thus, culture moderates the efficacy of the leadership style. This finding is critical for SWFs attempting to reform from "investment offices" to "sovereign investors" (Al-Kotob, 2019). Without cultural reform, training leaders to be "transformational" may yield little return on investment.

5.3 Resilience in Adversity

The study's title, "Resilience in Adversity," captures the core implication. SWFs in adversity (LIA, ADIA in turbulent times, etc.) cannot rely solely on the "Great Man" theory of leadership. They cannot simply hire a savior CEO and expect a turnaround. The Resilience comes from the system the culture which enables distributed leadership. A strong culture allows leadership traits and transformational behaviors to flourish at various levels, creating a decentralized resilience. When the central leadership faces external shocks, a strong organizational culture (shared values, proactive norms) acts as a buffer, maintaining operational continuity (Wang et al., 2024). The significant interaction terms (values of 0.245 and 0.310) prove that culture is not just a "nice-to-have" background variable but a high-impact predictor of performance sustainability in crises.

6. Conclusion and Recommendations

This study investigated the interplay between leadership, culture, and performance in the Libyan Investment Authority as a case of a Sovereign Wealth Fund in adversity. The findings confirm that while leadership traits and transformational behaviors are vital, they operate within the constraints and facilitations of organizational culture. Theoretical Contributions: The study extends the Contingency Theory of leadership into the domain of sovereign wealth funds.

Practical Recommendations for SWFs:

1. Audit Culture Before Recruitment: Before investing in hiring global talent (high traits), SWFs in developing economies should audit their internal culture. A toxic culture will degrade high-value traits.
2. Cultural Alignment as a Strategic Asset: Treat Organizational Culture (Innovation, Team Orientation) as a strategic asset alongside financial assets. A culture that supports risk-taking is as essential to performance as the investment portfolio itself.

3. Design for Resilience: Create "Redundancy" in the system by building a culture that supports team orientation. In times of crisis, a unified culture ensures that staff continue to perform even when central leadership is incapacitated or occupied with crisis management.

In conclusion, for the LIA and similar funds, the path to performance is not linear. It requires the simultaneous development of strong leadership traits, the cultivation of transformational behaviors, and, most critically, the construction of a resilient, collaborative organizational culture. In the face of adversity, culture is the mechanism that converts leadership potential into organizational resilience.

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