The effect of leadership style and compensation practices on employee performance: The mediating role of employee motivation at the Trust Bank Gambia

Check for updates

[1*]Ndey Mariama Jammeh, [2]Yasmine Nasution

[1, 2] Department of Management, Faculty of Economics and Business, University of Indonesia - Indonesia

e-mail:
[1*]ndey.mariama@ui.ac.id *(corresponding author)*
[2]yasminen2304@gmail.com

ABSTRACT

This study examines the effects of leadership style and compensation practices on employee performance, with employee motivation serving as a mediating variable, at Trust Bank Gambia Plc. A quantitative research approach was employed, involving 100 employees, and the data were analyzed using partial least squares structural equation modeling (PLS-SEM). The findings indicate that employee motivation mediates the relationships between leadership style and employee performance and between compensation practices and employee performance. These results suggest that leadership style and compensation practices contribute to employee performance through their influence on employee motivation, which supports employees' effort, persistence, and commitment to organizational goals. This study highlights the strategic importance of employee motivation in enhancing performance outcomes in the banking sector, particularly in the context of a developing West African economy. However, the study is limited to a single institution and a cross-sectional research design. Future research could extend the investigation to other sectors and institutions or employ longitudinal research designs to examine these relationships over time.

Keywords: *Leadership Style; Compensation Practices; Employee Motivation; Employee Performance; Trust Bank Gambia*

©2026 Copyright : Authors
Published by : Program Studi Manajemen, Universitas Nusa Cendana, Kupang – Indonesia.
This is an open access article under license:
CC BY (https://creativecommons.org/licenses/by/4.0/)

INTRODUCTION

The performance of the employees is one of the key concerns in the banking sector, where the quality of service, the effectiveness of operations and the trustworthiness of the employees are directly related to the service quality, the level of operational efficiency, and the customer trust. In competitive financial markets, banks have been under increasing pressure to increase employee productivity (Van den Broeck et al., 2021; Good et al., 2022). Whilst at the same time manage digital transformation, escalating customer expectations and regulatory needs. The increase in employee performance is however, not automatic and thus one would require well-designed human resource management systems behaviours of the leaders and reward structures (Martin et al., 2016). The present study addresses Trust Bank Gambia Plc. which is one of the largest commercial banks in The Gambia, which has recently heavily invested in the digital banking infrastructure, but is still facing some of the performance-related issues associated with leadership practices, compensation systems, and the level of employee motivation (Chen et al., 2023).

The issue that drives this study is two-fold. First, although the joint influence of leadership style and compensation practices on employee outcomes is widely acknowledged in theory and practice, empirical evidence from the Gambian banking industry showing how the two operate together is scarce. Most earlier work comes from developed economies or large emerging markets, so it remains unclear whether the same relationships hold in smaller developing-country banking systems. Second, despite the study of leadership and compensation, the psychological process by which they influence performance (Lai et al., 2020) (that is, employee motivation) is commonly treated as an outcome or independent variable rather than an explanatory mediator. This exclusion is a risk of simplifying the causal pathways and could be why some earlier results on direct effects are weak or inconsistent. Specific performance pressures at Trust Bank Gambia Plc have developed: the implementation of a new core banking system (Flexcube 12.2) has heightened customer expectations of digital services, but many employees are still not able to balance between the traditional customer service and the new technological requirements. Additionally, employee motivation appears to be stagnant, and it is unclear which leadership practices and compensation plans are most effective in promoting motivation and, ultimately, performance.

The research gap that this study fills is thus tripled. To start with, there is a lack of organization based, quantitative studies of leadership and compensation within the Gambian banking sector. Although the customer behaviour and adoption of e-banking is not new, there is no extensive study on the internal human resource dynamics. Second, even though the issue of employee motivation is widely recognized as one of the crucial drivers of performance, (Good et al., 2022). The limited number of empirical studies investigating the problem of motivation as a mediating variable in the developing-economy banks has formally tested the motivation as a mediating variable using rigorous methods such as structural equation modelling (Hair et al., 2011). In the absence of this testing, it is not known whether leadership and compensation have direct or indirect effects on performance through motivational states. Third, prior research on the direct links among leadership style, compensation practices and employee performance have been mixed, some studies have found the direct relationships to be strong, and some studies have found the direct relationships to be weak or contingent. This implies that an explanatory model that includes the aspect of mediation will serve to clarify these discrepancies by showing the processes at play.

It is on this background that the current study has three major aims. The first is to investigate how the leadership style and compensation practices impact the employee motivation in Trust Bank Gambia Plc. The second is to establish the direct effects of leadership style, compensation practices, and employee motivation on employee performance. The third is to test whether employee motivation mediates the relationship between (a) leadership style and employee performance and (b) compensation practices and employee performance. Three research questions guide these aims: (1) How do leadership style and compensation practices affect employee motivation? (2) What are their direct and indirect effects on employee performance? (3) Does employee motivation mediate the two proposed relationships?

The theoretical foundation of the study draws on Leader-Member Exchange (LMX) theory, which describes how high-quality relationships between leaders and employees create trust, support, and reciprocity and so raise motivation and performance (Martin et al., 2016). Complementary insights come from Self-Determination Theory (SDT), which adds that meeting basic psychological needs (autonomy, competence, and relatedness) fosters autonomous motivation (Gagné & Deci, 2005), and from Expectancy Theory, which highlights how clear effort-performance-reward linkages strengthen motivation (Van Eerde & Thierry, 1996). By integrating these frameworks, the study proposes that both leadership style and compensation ethics determine employee outputs not mainly through direct control but by shaping the motivational states that drive discretionary effort and persistence.

This research is both theoretically and practically important. Theoretically, it contributes to human resource management literature by assesing empirically an integrated mediation model in an under-researched context the Gambian banking sector. It goes beyond mere direct-effect models and offers a theory-based explanation of the way that managerial inputs are converted into performance outputs. The study also provides methodological rigor, which can be used in the future to inform comparative research in other similar developing economies.

In practice, the results can be used to offer practical guidance to the human resource practitioners and the bank managers of Trust Bank Gambia Plc. To give an example, when it is found that the leadership style and compensation practices can only influence performance through motivation, interventions should focus on motivational conditions (e.g., positive leadership approach, fair and transparent rewards) instead of merely applying formal controls or using monetary rewards. The findings also carry policy implications for regulators and industry associations seeking to strengthen human capital and service quality in the financial sector.

Finally, the study potentially serve interests of banks in that it will help to identify evidence-based pathways to enhance employee motivation and, by implication, performance, which will improve the competitiveness and customer satisfaction in the Gambian financial market.

LITERATURE REVIEW, RESEARCH FRAMEWORK, AND HYPOTHESES

The paper is based on Leader-Member Exchange (LMX) Theory which depicts the main theoretical perspective of leadership effectiveness. LMX theory holds that a leader's effectiveness depends on the quality of the dyadic relationships the leader forms with subordinates (Sobral & Furtado, 2024). Good LMX relationships are of high quality which entails trust, mutual respect, support and reciprocity which enhance employee motivation and performance (Stringer, 2006). The theory assumes that the quality of these exchanges makes employees more willing to give discretionary effort beyond their

formal role requirements. Moreover, LMX quality also influences the psychological states of employees like motivation, engagement, and commitment of the organization. The theory explains that the difference in performance can be attributed to the quality of the relationship and not the leadership qualities (Bolade-Ogunfodun, 2025). In line with the study variables, the LMX theory is a first-hand informant of the conceptualization of the leadership style used in this study focuses on the behaviours of relationship quality, support, and recognition as important leadership behaviour that determines employee motivation and the resultant performance.

The theoretical framework to explain employee motivation as a mediating mechanism is Self-Determination Theory (Olafsen, 2024). SDT separates autonomous motivation that is supported by internal interest, values and internalized goals and controlled motivation that is supported by external rewards or pressure. According to the theory, there are three fundamental psychological needs that are needed to function optimally and they include: autonomy, which is the need to feel self-directed and self-selected; competence, which is the need to feel effective and competent; and relatedness, which is the need to feel connected and belonging (Coxen et al., 2021; Gagné & Deci, 2005; Vo et al., 2022). The mediation rationale followed in this research is that the leadership practices and compensation schemes that can facilitate such needs improve autonomous motivation, which consequently leads to long-term effort and improvement in the quality of performance (Zafar et al., 2024).

In explaining the impact of compensation practices on motivation, Vroom's Expectancy Theory (Thu & Van, 2024) discusses the impact of compensation practices on motivation by three main beliefs, namely, expectancy, or the belief that effort will result in performance; instrumentality, or the belief that performance will be rewarded; and valence, or the value the employee puts on the rewards provided. This model underpins the study of the effectiveness of perceived compensation equity and the intelligibility of performance-reward relationships in shaping motivational levels and performance (Van Eerde & Thierry, 1996).

The leadership style in the given research has been theorized to portray the exchange relationship between a leader and his/her subordinates in line with Leader-Member Exchange (LMX) theory. Unlike traditional approaches that focus on a leader's general behaviour toward a group, LMX theory is concerned with the dyadic relationship that develops between a leader and each individual employee. Its central assumption is that leaders build relationships of differing quality with different employees, and that the quality of these relationships shapes employees' attitudes and performance. High-quality LMX relationships involve mutual trust, respect, support, and open communication (Pletzer et al., 2024; Martin et al., 2016). With such kind of relation, employees feel that they are supported, treated impartially and listening to their needs by their supervisors.

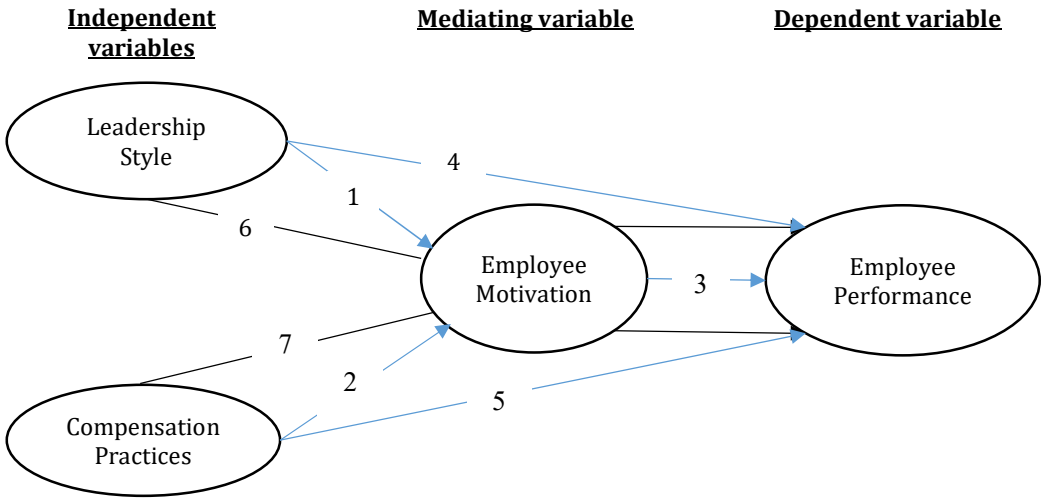
This aspect of relationship results in psychological safety, commitment and motivation, which consequently leads to performance. Instead, the relationships between poor and no LMX are more transactional and limited to formal job demands, leading in most cases to less engagement and reduced efforts towards discretion. In this study, leader-member exchange quality is represented by four dimensions: trust, respect, support, and quality of communication (Zafar et al., 2024).

Trust is a measure of how much employees think that their supervisor is neither dishonest nor unreliable. Respect is the degree of mutual understanding and respect between the leader and the employee. Support is a level of advice, feedback and support of the supervisor. The quality of communication can be determined as the frankness, transparency and efficiency in the communication between the leader and the

subordinate (Djennad & Djellouli 2025; Martin et al., 2016). These dimensions suggest the relational and interactional orientation of leadership under LMX theory and replaces the position of the sentiment that good leadership enhances motivation and performance among employees by improving the quality of their interpersonal interactions. Leadership style is therefore measured here as employees' perceptions of the exchange relationship with their immediate supervisors, not as a general leadership trait or behavioural style..

This theoretical consistency will guarantee that the theoretical basis of the research is consistent with the grand theory adopted (LMX), the research model, and the measurement strategy applied in Chapter Three. Such supportive leadership behaviours include giving guidance and encouragement as well as resources; recognition and individual attention in benefiting employee input and meeting individual needs; fostering trust and respect to establish a reciprocal and high-quality relationship; and defining performance expectations and feedback through clarification of goals and provision of constructive feedback.

Figure 1 presents the research framework and seven hypothesizes (H1–H7) for leadership style, compensation practices, employee motivation, and employee performance.



Source: Developed by the Researcher, 2026

Figure 1
Research Framework

Leadership Style and Employee Motivation

LMX theory suggests that high-level leader-member exchanges might be used to help employees to meet their relatedness, competence, and autonomy needs, which boost motivation (Martin et al., 2016; Hoch et al., 2018). Lai et al. (2020) found that transformational leadership was much more effective in enhancing employee motivational states. Bakker et al. (2023) have found that leadership behaviours arouse work-related activation processes related to motivational engagement. One of the key

factors in establishing the psychological conditions and motivation orientations of the employees is the type of leadership.

According to the Self-Determination Theory (SDT), leadership behaviours that support autonomy, competence, and relatedness can increase intrinsic motivation because they help satisfy employees' basic psychological needs (Holtan et al., 2024; Van den Broeck et al., 2021). Transformational and supportive leadership behaviours such as providing vision, motivation, giving individualized attention and positive feedback, can also increase meaning and competence of the employees and thereby increase motivation (Oroh et al., 2024). This theoretical suggestion is supported by the empirical data. Lai et al. (2020) have found transformational leadership contributes substantially to employees' motivational conditions, which in turn affect performance outcomes. Similarly, Bakker et al. (2023) showed that the work-related activation processes that are directly related to motivational engagement are aroused by the leadership behaviours.

These findings indicate that the leadership approach can serve to support greater measures of the employee motivation. In the case of the banking sector whereby the staffs are subject to the performance targets and demands of service quality, the leadership behaviours that bring clarity, support and recognition are likely to increase willingness of the employees to put in a consistent effort (Sah, 2025; Tanoto, 2024). So, the following hypothesis is elaborated. Hence:

H1: There is a strong positive influence of leadership style on the motivation of the employees at Trust Bank Gambia Plc.

Compensation Practices and Employee Motivation

According to the expectancy theory, incentive motivated force grows when clear relations of efforts and rewards are established and equitable distribution of reward is practiced (Vroom, 1964). Chen et al. (2023) discovered that pay for performance improves job performance by activating intrinsic motivation mechanisms. Elrayah and Semlali (2023) discovered that total rewards have a beneficial impact on motivational states in case they are perceived as just. The compensation practices determine the motivation to the employees both in terms of the expectancy and equity.

Expectancy Theory states that employees are motivated when they believe that effort leads to performance and that performance leads to the rewards they value (Vroom, 1964). Employees will invest more effort when the compensation systems during the initial phase testifying of the relationship between effort and the reward. Further, the Equity Theory underlines the fact that the beliefs of equity in the reward distribution play the role in motivation and allocation of efforts (Chen et al., 2023; Elrayah & Semlali, 2023). Recent empirical studies support this view. Investigating the effect of the pay-for-performance systems on the job performance, Chen et al. (2023) discovered via a meta-analytic path model that the effect of the systems is positive and partially mediated by the intrinsic motivational processes. Further, research that examines the total reward systems has shown that the financial reward and the non-financial reward enhance the motivational status of the employees when they feel that the reward is fair and meaningful (Adil & Devesh, 2023; Elrayah & Semlali, 2023).

Transparent, performance-linked compensation is likely to raise employee motivation in banking environments, where performance metrics and targets are prominent (Mahendra & Syarief, 2022; Riatmaja & Wibawanto, 2022). That is why the hypothesis is as follows. Hence:

H2: Employee motivation is strongly positively influenced by compensation practices at Trust Bank Gambia Plc.

Employee Motivation and Employee Performance

SDT assumes that autonomously motivated employees persist longer, are more creative, and can work longer (Van den Broeck et al., 2021). The meta-analysis by Good et al. (2022) affirmed the existence of positive correlation between work motivation and performance. Motivation of employees is generally considered to be a key predictor of the performance of the work. As the SDT suggests, the autonomously motivated staff members are more persistent, creative and in the end put in more effort resulting in the high-performance results (Van den Broeck et al., 2021). Motivation does not only determine how much should be put in, but the quality of the same. This relationship is also confirmed by the meta-analytic evidence. Good et al. (2022) observed that the work motivation had a stable positive relationship with the job performance in the organizational contexts (Khan & Dash, 2014).

Similarly, the literature of leadership-based mediation proves that, in the same case, the performance improves as the leadership increases the motivational involvement of the employees (Lai et al., 2020)Motivated employees more easily achieve performance goals and maintain service standards, which matters especially in banking, where accuracy, responsiveness, and service quality are essential. The next hypothesis is therefore proposed:

H3: There is a strong positive impact of employee motivation on employee performance in Trust Bank Gambia PLC.

Leadership Style and Employee Performance

LMX theory indicates that high quality exchanges directly enhance clear tasks and performance execution of tasks in addition to motivational impacts (Martin et al., 2016). Martin et al.'s (2016) meta-analysis revealed a positive correlation between LMX quality and task performance. Gunasekare (2021) reported that leadership is a significant indicator of performance in banking.

The leadership style, in addition to its effect on output of the employees through motivation, can affect employees performance directly. These leadership behaviors that offer structure, guidance, monitoring and feedback have the direct potential to enhance task clarity and performance execution. This direct relationship is supported by empirical studies. In a meta-analysis of LMX, Martin et al. (2016) have discovered that positive leader-employee relationship is connected to the high-quality performance of the tasks.

In a similar study, Gunasekare (2021) found that the employee performance within the banking industry strongly depends on the leadership style. On this evidence, leadership style is expected to affect performance both directly and indirectly (Nyakundi et al., 2021). In this way, the hypothesis is formulated as the following. Hence:

H4: Leadership style has a high positive impact on employee performance in Trust bank Gambia Plc.

Compensation Practices and Employee Performance

According to Expectancy theory, it is possible that explicit performance-reward relationships can directly impact allocation of effort towards performance targets (Vroom, 1964). Chen et al. (2023), reported a positive relationship between pay for performance and job performance. According to Yang et al. (2022), recognition-based rewards positively influence task performance. The compensation practices may also have direct effects on performance of the employees; this is mostly where performance is linked to the monetary incentives or recognition.

The Expectancy Theory implies that employees who perceive a direct link between performance and rewards will work harder to achieve the outcomes they desire. Chen et al. (2023) found found that pay-for-performance systems correlate positively with job performance, although the strength of the correlation depends on contextual factors. In the same vein, Yang et al. (2022) have reported that recognition-based rewards positively influence task performance. Compensation practices in the banking scenarios whereby the performance goals can be measured, and these are reward based, one would anticipate the performance results to be directly affected (Hameed et al., 2014; Mahato & Kaur, 2023). So, the hypothesis is as follows:

H5: Compensation practices are very important and lead to a strong positive influence on the performance of employees at Trust Bank Gambia Plc.

The Mediating Role of Employee Motivation

LMX and SDT indicate that leadership effects on performance are conveyed significantly by motivational mechanisms (Martin et al., 2016; Van den Broeck et al., 2021). Lai et al. (2020) have shown that leadership affects performance via engagement. Putri et al. (2024) reported that leadership is related to performance through work motivation. Mediation occurs when an independent variable influences a dependent variable through an intervening variable. In theory, the performance would be improved because the leadership style would promote states of motivation that lead to improved effort and perseverance (Putra et al., 2023).

Similarly, performance is affected by the compensation practices in terms of influencing the motivational reaction of the workers to the rewards. Such mediation logic is empirically supported. Lai et al. (2020) demonstrated that leadership affects performance by engagement, whereas Chen et al. (2023) demonstrated that payment systems affect performance by the motivational pathways. It is therefore reasonable to treat employee motivation as the psychological process linking leadership style and compensation practices to employee performance (Susanto & Haryono, 2020). Accordingly, the mediation hypotheses outlined below are also developed:

H6: Leadership style and employee performance in Trust Bank Gambia Plc are mediated by their employee motivation.

H7: Compensation practices and employee performance are mediated by employee motivation in Trust Bank Gambia Plc

METHOD

This research was done in Trust Bank Gambia Plc. which is one of the largest commercial banks in The Gambia, with 18 branches and about 450 full time employees. The context of the study is the Gambian banking sector that is marked by the growing digitalization, competition among twelve licensed commercial banks, and the current problem of employee motivation and performance.

The focus of analysis was individual employees who are working in the operational, customer service, administrative, and managerial areas because they are the ones who are directly exposed to the leadership practices, compensation systems, and performance expectations. The targeted group was all full-time employees of Trust Bank Gambia Plc. who had at least six months of tenure such that the respondents had adequate experience to give their opinion on leadership and compensation practices.

Simple random sampling method was used, which provided all the employees with an equal chance of being selected and reduced the selection bias (Djennad & Djellouli, 2025). The sample size was established at 100 respondents which according to

Structural Equation Modelling (SEM) analytical requirements corresponds to a model of medium complexity (Jhantasana, 2023; Kock & Hadaya, 2018). The last sample was composed of 58 percent men and 42 percent women workers. Respondents were distributed across age groups: 30% aged 18 30 years, 35% aged 31 40 years, 20% aged 41 50 years, and 15% above 50 years. Education-wise, 33% had a diploma, 45% a bachelor's degree, 13% a master degree and 9% a PhD. Regarding tenure, 29% had worked for 1 5 years, 34% for 6 10 years, 21% for 11 15 years, and 16% for more than 15 years. This profile shows that there is a well experienced workforce that can be used in the examination of the research variables.

Primary data were collected using a structured self-administered questionnaire distributed through official email addresses of sampled employees. The questionnaire was implemented via Google Forms to facilitate easy distribution and centralized data management. After obtaining administrative approval from the bank, a survey link was sent along with a cover letter explaining the research purpose, assuring anonymity and confidentiality, and stating that participation was voluntary. Completion and submission of the questionnaire implied informed consent. A reminder email was sent two weeks after the initial distribution to enhance the response rate. A total of 100 valid responses were received, representing a 100% achievement of the target sample size.

All variables were measured using multi-item scales adapted from validated instruments in the existing literature. Leadership style was measured with six items adapted from Bass and Avolio (1995) and Lai et al. (2020), capturing dimensions of supportive leadership, recognition, respect, and communication. Compensation practices were measured with six items adapted from Heneman and Schwab (1985), covering base salary fairness, performance-based incentives, non-financial rewards, and perceived equity. Employee motivation was measured with six items adapted from Gagné et al. (2015), assessing enthusiasm, willingness to exert extra effort, energy, commitment, and persistence. Employee performance was measured with five items adapted from Williams and Anderson (1991), focusing on meeting performance standards, efficiency, quality, target achievement, and handling of responsibilities. All items were rated on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Data analysis was conducted in two stages using SPSS version 26 and Smart PLS 4 First, a pre-test was performed on 44 respondents to assess validity through Exploratory Factor Analysis (KMO ≥ 0.50, Bartlett's test $p < 0.05$, factor loadings ≥ 0.50) and reliability through Cronbach's alpha (≥ 0.70). Second, the main analysis employed Partial Least Squares Structural Equation Modelling (PLS-SEM). The measurement model was evaluated for indicator reliability (outer loadings ≥ 0.70), internal consistency (composite reliability ≥ 0.70), convergent validity (AVE ≥ 0.50), and discriminant validity (Fornell-Larcker criterion and HTMT < 0.90) (Fornell & Larcker, 1981; Hair et al., 2019; Henseler et al., 2015). The structural model was assessed for collinearity (VIF < 5), explanatory power (R^2), predictive relevance ($Q^2 > 0$), and model fit (SRMR < 0.08) (Hu & Bentler, 1999). Hypotheses were tested using bootstrapping with 5,000 subsamples, examining path coefficients (β), t-statistics, p-values ($p < 0.05$), and confidence intervals. Mediation was confirmed when the indirect effect's confidence interval excluded zero (Geisser, 1974 ; Hair et al., 2019).

RESULTS AND DISCUSSION

Demographic Characteristics of Respondents

The sample consists of both male and female employees across various departments. Most respondents hold a bachelor's degree (45.0%) and have worked at Trust Bank for

6-10 years (34.0%), reflecting a well-experienced workforce suitable for examining leadership, compensation, and performance dynamics. Table 1 presents the demographic characteristics of the respondents by gender, age, education, and tenure.

Table 1
Demographic Characteristics of Respondents

Profile	Classification	Frequency	Percentage
Gender	Male	58	58.0%
	Female	42	42.0%
Age	18-30 Years	30	30.0%
	31-40 Years	35	35.0%
	41-50 Years	20	20.0%
	>50 Years	15	15.0%
Education	Diploma	33	33.0%
	Bachelor's Degree	45	45.0%
	Master's Degree	13	13.0%
	PhD	9	9.0%
Tenure	1-5 years	29	29.0%
	6-10 years	34	34.0%
	11-15 years	21	21.0%
	> 15 years	16	16.0%

Source: Processed by the Researcher, 2026

Indicator Reliability, Internal Consistency, and Convergent Validity

Table 2 presents the outer loadings, Cronbach's alpha, composite reliability, and AVE for each construct. All outer loadings are above the recommended threshold of 0.70, except for CP1 (0.469), which was noted as a weak indicator. Cronbach's alpha values range from 0.833 to 0.939, all exceeding 0.70, confirming internal consistency. Composite reliability values are also above 0.70, further supporting reliability. The AVE for all constructs is above 0.50, with the lowest being 0.522 for CP, which still meets the convergent validity criterion.

Table 2
Measurement Model: Outer Loadings, Reliability, and Convergent Validity

Construct	Indicator	Outer Loading	Cronbach's Alpha	Composite Reliability (rho_c)	AVE
Leadership Style	LS1	0.783	0.833	0.881	0.558
	LS2	0.740			
	LS3	0.824			
	LS4	0.591			
	LS5	0.777			
	LS6	0.717			
Compensation Practices	CP1	0.469	0.859	0.897	0.522
	CP2	0.782			
	CP3	0.845			
	CP4	0.862			
	CP5	0.763			
	CP6	0.796			
Employee Motivation	EM1	0.711	0.859	0.896	0.588
	EM2	0.771			

	EM3	0.890			
	EM4	0.719			
	EM5	0.732			
	EM6	0.796			
Employee Performance	EP1	0.885	0.939	0.954	0.807
	EP2	0.900			
	EP3	0.926			
	EP4	0.900			
	EP5	0.885			

Source: Processed by the Researcher, 2026

Discriminant Validity

Discriminant validity was assessed using the Fornell-Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio. According to the Fornell-Larcker criterion, the square root of the AVE for each construct (diagonal values in bold) should be greater than its correlation with any other construct (Fornell & Larcker, 1981; Henseler et al., 2015). As shown in Table 3, this condition is satisfied for all constructs.

Table 3
Discriminant Validity: Fornell-Larcker Criterion

Construct	LS	CP	EM	EP
LS	**0.747**			
CP	0.513	**0.722**		
EM	0.576	0.527	**0.767**	
EP	0.515	0.410	0.672	**0.898**

Note: Diagonal values (in bold) are the square root of the AVE; off-diagonal values are inter-construct correlations.

Source: Processed by the Researcher, 2026

The HTMT ratios are presented in Table 4. All values are below the conservative threshold of 0.90, providing strong evidence of discriminant validity.

Table 4
Discriminant Validity: Heterotrait-Monotrait Ratio (HTMT)

Construct Pair	HTMT
CP ↔ LS	0.614
EM ↔ LS	0.670
EM ↔ CP	0.622
EP ↔ LS	0.578
EP ↔ CP	0.463
EP ↔ EM	0.733

Overall, the measurement model demonstrates satisfactory validity and reliability, allowing for the evaluation of the structural model.

Source: Processed by the Researcher, 2026

Assessment of the Structural Model (Inner Model)

The structural model was evaluated to test the research hypotheses. It entailed analysis of collinearity (VIF), coefficient of determination (R^2), predictive relevance (Q^2), model fit (SRMR), as well as the significance of path coefficients (Djennad & Djellouli, 2025).

Collinearity Assessment (VIF)

Collinearity among predictor constructs was assessed using the Variance Inflation Factor (VIF) (Hair et al., 2019). As shown in Table 5, inner VIF values are below the conservative threshold of 5, indicating that collinearity is not a concern in the structural model.

Table 5:
Collinearity Assessment (VIF - Inner Model)

Path	VIF
LS → EM	1.357
CP → EM	1.357
EM → EP	1.000
LS → EP	2.124
CP → EP	2.124

Source: Processed by the Researcher, 2026

Coefficient of Determination (R^2)

The R^2 value indicates the proportion of variance in the endogenous variables explained by the exogenous constructs (Kock & Hadaya, 2018). According to Hair et al. (2011), R^2 values of 0.25, 0.50, and 0.75 are considered weak, moderate, and substantial, respectively. Table 7 shows that leadership style and compensation practices explain 41.3% of the variance in employee motivation (moderate), while employee motivation explains 50.4% of the variance in employee performance (substantial).

Table 7
Coefficient of Determination (R^2)

Endogenous Variable	R^2	R^2 Adjusted	Category
Employee Motivation (EM)	0.413	0.401	Moderate
Employee Performance (EP)	0.504	0.488	Substantial

Source: Processed by the Researcher, 2026

Predictive Relevance (Q^2)

Stone-Geisser's Q^2 value assesses the model's predictive relevance. A Q^2 value greater than zero indicates that the model has predictive relevance for a given endogenous construct (Geisser, 1974; Stone, 1974). Table 8 presents the Q^2 values obtained through blindfolding. All Q^2 values are positive, confirming the predictive relevance of the model.

Table 8
Predictive Relevance (Q^2)

Endogenous Variable	Q^2
Employee Motivation (EM)	0.259
Employee Performance (EP)	0.363

Source: Processed by the Researcher, 2026

Model Fit (SRMR)

An index of model fit is the Standardized Root Mean Square Residual (SRMR). A good fit is generally assumed to be a value less than 0.08. The estimated model has a SRMR of 0.077 and this is less than the threshold thus gives a good fit to the model (Hu & Bentler, 1999). As shown in Table 9, the SRMR values of the saturated model and the estimated model are both 0.077.

Table 9
Model Fit (SRMR)

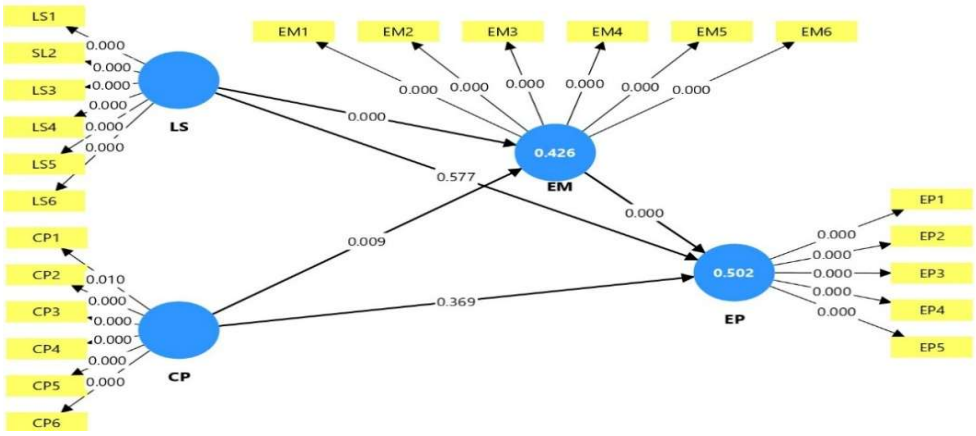
Model	Saturated Model	Estimated Model
SRMR	0.077	0.077

Source: Processed by the Researcher, 2026

Hypotheses Testing (Path Coefficients)

The hypotheses were tested by examining the path coefficients and their significance levels using a bootstrapping procedure with 5,000 subsamples (Ray, 2020; Hair et al., 2019). The results are presented in Table 10 and illustrated in Figure 2.

Figure 2
Structural Model Results from Smart PLS



Source: Processed by the Researcher, 2026

Table 10
Path Coefficients and Hypothesis Testing Results

Hypothesis	Path	Path Coefficient (β)	T-Statistics	P-Values	Confidence Interval (5%; 95%)	Result
H1	LS → EM	0.505	5.281	0.000	[0.311; 0.682]	Supported
H2	CP→EM	0.282	2.632	0.009	[0.087; 0.491]	Supported
H3	EM→ EP	0.708	5.729	0.000	[0.442; 0.925]	Supported
H4	LS → EP	0.064	0.558	0.577	[-0.161; 0.292]	Not Supported
H5	CP→ EP	-0.103	0.899	0.369	[-0.328; 0.120]	Not Supported

Source: Processed by the Researcher, 2026

Mediation Analysis

Mediation analysis was conducted to examine the indirect effects of leadership style and compensation practices on employee performance through employee motivation. The results are presented in Table 11.

Table11
Mediation Analysis Results

Hypothesis	Path	Indirect Effect (β)	T-Statistics	P-Values	Confidence Interval (5%; 95%)	Result
H6	LS → EM → EP	0.358	4.968	0.000	[0.225; 0.505]	Supported
H7	CP → EM → EP	0.200	2.006	0.045	[0.047; 0.425]	Supported

Source: Processed by the Researcher, 2026

The mediation analysis reveals that employee motivation significantly mediates the relationships between both leadership style and compensation practices on employee performance. The indirect effect of leadership style on employee performance through employee motivation is 0.358 ($p < 0.001$), while the indirect effect of compensation practices on employee performance through employee motivation is 0.200 ($p = 0.045$).

Summary of Hypothesis Testing Results

Table 12 summarizes the results of the hypothesis tests: H1, H2, H3, H6, and H7 are supported, whereas H4 and H5 are not supported.

Table 12
A Summary of All Hypothesis Testing Results

Hypothesis	Statement	Result
H1	Leadership style has a positive effect on employee motivation	Supported
H2	Compensation practices have a positive effect on employee motivation	Supported
H3	Employee motivation has a positive effect on employee performance	Supported
H4	Leadership style has a positive effect on employee performance	Not Supported
H5	Compensation practices have a positive effect on employee performance	Not Supported
H6	Employee motivation mediates the relationship between leadership style and employee performance	Supported
H7	Employee motivation mediates the relationship between compensation practices and employee performance	Supported

Source: Processed by the Researcher, 2026

CONCLUSION AND SUGGESTION

This study aimed to examine how leadership style and compensation practices affect employee performance through the mediating role of employee motivation at Trust Bank Gambia Plc. The main contribution is providing empirical evidence from an under-researched Gambian banking context and demonstrating that motivation fully mediates these relationships using SEM.

Summarizing the results in relation to each hypothesis: Leadership style significantly increased employee motivation (H1 supported; $\beta=0.505$). Compensation practices also positively influenced motivation (H2 supported; $\beta=0.282$). Employee motivation strongly predicted performance (H3 supported; $\beta=0.708$). However, neither leadership style (H4) nor compensation practices (H5) had significant direct effects on performance. Critically, employee motivation fully mediated both the leadership–performance relationship (H6) and the compensation–performance relationship (H7).

Relating findings back to the literature, the strong motivation-to-performance link aligns with Self-Determination Theory and meta-analytic evidence (Van den Broeck et al., 2021; Good et al., 2022). The full mediation finding is consistent with Lai et al. (2020) and Chen et al. (2023), who showed that motivational states explain how leadership and rewards translate into performance. The non-significant direct effects of leadership and compensation on performance, while unexpected given some prior banking studies, are plausible in this context because Trust Bank employees may only convert supportive leadership or fair pay into performance when those inputs first elevate their motivation.

Managerially, bank managers should prioritize leadership training that fosters trust and support, and design transparent, equitable compensation systems that strengthen motivation rather than relying solely on direct performance controls.

The study's main limitations are its cross-sectional design, which precludes causal inference (Ray, 2020); single-source self-reported data, which risks common method bias; and focus on one organization, limiting generalizability.

Future research should adopt longitudinal designs include supervisor-rated performance, and test other potential mediators or moderators such as organizational justice or work engagement across multiple banks in The Gambia.

To the researchers, this study emphasizes the importance of testing mediation as opposed to assuming the presence of direct effects. The entire observed mediation would suggest that some previous mixed evidence of the relationships between leadership and performance and compensation and performance would be resolved by adding motivational variables.

REFERENCES

Adil A. A., & Devesh, S. (2023). Employees motivation for better job performance: importance of financial and non-financial incentives in banking systems? Case of Oman. *QScience Connect*, *2023*(1). https://doi.org/10.5339/connect.2023.spt.5

Bakker, A. B., Demerouti, E., & Sanz-Vergel, A. (2023). Job demands–resources theory: Ten years later. *Annual Review of Organizational Psychology and Organizational Behavior*, 10, 25–53. https://doi.org/10.1146/annurev-orgpsych-120920-053933

Bass, B. M., & Avolio, B. J. (1995). *MLQ: Multifactor leadership questionnaire* (2nd ed.). Mind Garden.

Chen, Y., Zhang, Z., Zhou, J., Liu, C., Zhang, X., & Yu, T. (2023). A cognitive evaluation and equity-based perspective of pay for performance on job performance: A meta-analysis and path model. In *Frontiers in Psychology* (Vol. 13). https://doi.org/10.3389/fpsyg.2022.1039375

Coxen, L., van der Vaart, L., Van den Broeck, A., & Rothmann, S. (2021). Basic Psychological Needs in the Work Context: A Systematic Literature Review of Diary Studies. In *Frontiers in Psychology* (Vol. 12). https://doi.org/10.3389/fpsyg.2021.698526

Djennad, B., & Djellouli, M. (2025). Probabilistic Sampling in Media and Communication Studies: Concept, Procedures, and Applications. *EON*, *6*(1). https://doi.org/10.56177/eon.6.1.2025.art.9

Elrayah, M., & Semlali, Y. (2023). Sustainable Total Reward Strategies for Talented Employees' Sustainable Performance, Satisfaction, and Motivation: Evidence from the Educational Sector. *Sustainability (Switzerland)*, *15*(2). https://doi.org/10.3390/su15021605

Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50. https://doi.org/10.1177/002224378101800104

Gagné, M., & Deci, E. L. (2005). Self-determination theory and work motivation. *Journal of Organizational Behavior*, *26*(4). https://doi.org/10.1002/job.322

Gagné, M., Forest, J., Vansteenkiste, M., Crevier-Braud, L., Van den Broeck, A., Aspeli, A. K., Bellerose, J., Benabou, C., Chemolli, E., Güntert, S. T., Halvari, H., Indiyastuti, D. L., Johnson, P. A., Molstad, M. H., Naudin, M., Ndao, A., Olafsen, A. H., Roussel, P., Wang, Z., & Westbye, C. (2015). The Multidimensional Work Motivation Scale: Validation evidence in seven languages and nine countries. *European Journal of Work and Organizational Psychology*, 24(2), 178–196. https://doi.org/10.1080/1359432X.2013.877892

Geisser, S. (1974). A predictive approach to the random effect model. *Biometrika*, 61(1), 101–107. https://doi.org/10.1093/biomet/61.1.101

Good, V., Hughes, D. E., Kirca, A. H., & McGrath, S. (2022). A self-determination theory-based meta-analysis on the differential effects of intrinsic and extrinsic motivation on salesperson performance. *Journal of the Academy of Marketing Science*, 50(3), 586–614. https://doi.org/10.1007/s11747-021-00827-6

Gunasekare, U. L. T. P. (2021). Leaders for the banking industry: An investigation on effective leadership. *KINERJA*, 25(1). https://doi.org/10.24002/kinerja.v25i1.4048

Hair, J. F., Ringle, C. M., & Sarstedt, M. (2011). PLS-SEM: Indeed a silver bullet. *Journal of Marketing Theory and Practice*, 19(2), 139–152. https://doi.org/10.2753/MTP1069-6679190202

Hair, J. F., Risher, J. J., Sarstedt, M., & Ringle, C. M. (2019). When to use and how to report the results of PLS-SEM. *European Business Review*, 31(1), 2–24. https://doi.org/10.1108/EBR-11-2018-0203

Hameed, A., Ramzan, M., Zubair, H. M. K., Ali, G., & Arslan, M. (2014). Impact of Compensation on Employee Performance (Empirical Evidence from Banking Sector of Pakistan). *International Journal of Business and Social Science*, *5*(2).

Heneman, H. G., III, & Schwab, D. P. (1985). Pay satisfaction: Its multidimensional nature and measurement. *International Journal of Psychology*, 20(1), 129–141. https://doi.org/10.1080/00207598508247727

Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing Science*, 43(1), 115–135. https://doi.org/10.1007/s11747-014-0403-8

Hoch, J. E., Bommer, W. H., Dulebohn, J. H., & Wu, D. (2018). Do ethical, authentic, and servant leadership explain variance above and beyond transformational leadership? A meta-analysis. *Journal of Management*, 44(2), 501–529. https://doi.org/10.1177/0149206316665461

Holtan, K. H., Halvari, A. E. M., Olafsen, A. H., Øvergård, K. I., & Halvari, H. (2024). The role of leadership in nurses' wellbeing and performance: A cross-sectional survey using a dual motivational pathway model. *Journal of Advanced Nursing*, *80*(8). https://doi.org/10.1111/jan.16084

Hu, L., & Bentler, P. M. (1999). Cutoff criteria for fit indexes in covariance structure analysis: Conventional criteria versus new alternatives. *Structural Equation Modeling*, 6(1), 1–55. https://doi.org/10.1080/10705519909540118

Jhantasana, C. (2023). Should A Rule of Thumb be used to Calculate PLS-SEM Sample Size. *Asia Social Issues*, *16*(5). https://doi.org/10.48048/asi.2023.254658

Khan, M. S., & Dash, S. (2014). A Study of Impact of Motivation on Productivity of Employee. *The International Journal Of Business & Management*, *3*(8).

Kock, N., & Hadaya, P. (2018). Minimum sample size estimation in PLS-SEM: The inverse square root and gamma-exponential methods. *Information Systems Journal*, *28*(1). https://doi.org/10.1111/isj.12131

Lai, F. Y., Tang, H. C., Lu, S. C., Lee, Y. C., & Lin, C. C. (2020). Transformational Leadership and Job Performance: The Mediating Role of Work Engagement. *SAGE Open*, *10*(1). https://doi.org/10.1177/2158244019899085

Mahato, S., & Kaur, J. (2023). The Impact of Compensation and Reward System on the Performance of Employees. *Shanlax International Journal of Management*, *10*(4). https://doi.org/10.34293/management.v10i4.6177

Mahendra, M. R., & Faroman Syarief. (2022). Effect of Leadership Style, Reward and Punishment and Compensation Against Employee Motivation. *Journal of Accounting and Finance Management*, *2*(6).

https://doi.org/10.38035/jafm.v2i6.147

Martin, R., Guillaume, Y., Thomas, G., Lee, A., & Epitropaki, O. (2016). Leader–member exchange (LMX) and performance: A meta-analytic review. *Personnel Psychology*, 69(1), 67–121. https://doi.org/10.1111/peps.12100

Ng, C., Wider, W., Yang, C., Jiang, L., Vasudevan, A., Bhandari, P., & Lee, H. P. T. (2024). Keys factor affecting employee performance in the banking sector: a Delphi study. *Cogent Business and Management*, *11*(1). https://doi.org/10.1080/23311975.2024.2409942

Nyakundi, W., Nyoni, J., Dandira, M., Chufama, M., Kandjinga, E., & Jeremiah, A. (2021). Achieving High Employee Performance Through Transformational Leadership In The Banking Sector. *International Journal of Research and Innovation in Social Science*, (I).

Olafsen, A. H. (2024). Self-determination theory. In *Elgar Encyclopedia of Organizational Psychology* (pp. 641–646). https://doi.org/10.4337/9781803921761.00125

Oroh, O., Yusuf Ariyadi, M., & Fauzan Fadlan, A. (2024). The Influence of Transformational Leadership on Employee Motivation and Performance in the Banking Industry. *International Journal of Management Science and Information Technology*, *4*(2). https://doi.org/10.35870/ijmsit.v4i2.3098

Pletzer, J. L., Breevaart, K., & Bakker, A. B. (2024). Constructive and destructive leadership in job demands-resources theory: A meta-analytic test of the motivational and health-impairment pathways. *Organizational Psychology Review*, *14*(1). https://doi.org/10.1177/20413866231197519

Putra, M. F., Ahadiyat, A., & Keumalahayati, K. (2023). The influence of leadership style on performance with motivation as mediation (Study on employees of Metro City trade services during pandemi). *Journal of Multidisciplinary Academic and Practice Studies*, *1*(1). https://doi.org/10.35912/jomaps.v1i1.1536

Putri, N., Sarmigi, E., & Desiana, D. (2024). Improving Employee Performance and Work Motivation Through Compensation and Leadership Style. *KINERJA*, *28*(2). https://doi.org/10.24002/kinerja.v28i2.8678

Ray, J. V. (2020). Cross-Sectional Research Designs in Criminology and Criminal Justice. In *Criminology*. https://doi.org/10.1093/obo/9780195396607-0281

Riatmaja, D. S., & Wibawanto, S. (2022). The Effect of Financial Compensation and Non-Financial Compensation on Employee Performance with Motivation as an Intervening Variable in Yogyakarta Startup Companies. *Fokus Bisnis Media Pengkajian Manajemen Dan Akuntansi*, *21*(1). https://doi.org/10.32639/fokbis.v21i1.99

Sah, P. (2025). Influence of Leadership Style on Employee Motivation and Performance in Nepalese Commercial Banks. *Nepalese Journal of Management*, *12*(3). https://doi.org/10.3126/njm.v12i3.86096

Sobral, F., & Furtado, L. (2024). Leader–member exchange (LMX). In *Elgar Encyclopedia of Organizational Psychology* (pp. 377–381). Edward Elgar Publishing. https://doi.org/10.4337/9781803921761.00080

Stone, M. (1974). Cross-validatory choice and assessment of statistical predictions. *Journal of the Royal Statistical Society: Series B*, 36(2), 111–147. https://doi.org/10.1111/j.2517-6161.1974.tb00994.x

Stringer, L. (2006). The link between the quality of the supervisor–employee relationship and the level of the employee's job satisfaction. *Public Organization Review*, 6(2), 125–142. https://doi.org/10.1007/s11115-006-0005-0

Susanto, Y., & Haryono, S. (2020). The Effect of Leadership and Compensation on Employee Performance: Evaluating the Role of Work Motivation. *International Research Association for Talent Development and Excellence*, *12*(2s).

Thu, H. L., & Van, H. N. (2024). Applying Vroom expectancy theory to analyse employee motivation: A study of commercial banks in Vietnam. *Humanities and Social Sciences Letters*, 12(4), 792–810. https://doi.org/10.18488/73.v12i4.3902

Van den Broeck, A., Howard, J. L., Van Vaerenbergh, Y., Leroy, H., & Gagné, M. (2021). Beyond intrinsic and extrinsic motivation: A meta-analysis on self-determination theory's multidimensional conceptualization of work motivation. *Organizational Psychology Review*, *11*(3). https://doi.org/10.1177/20413866211006173

Van Eerde, W., & Thierry, H. (1996). Vroom's expectancy models and work-related criteria: A meta-analysis. *Journal of Applied Psychology*, *81*(5). https://doi.org/10.1037/0021-9010.81.5.575

Vo, T. T. D., Tuliao, K. V., & Chen, C. W. (2022). Work Motivation: The Roles of Individual Needs and Social Conditions. *Behavioral Sciences*, *12*(2). https://doi.org/10.3390/bs12020049

Vroom, V. H. (1964). *Work and motivation*. Wiley.

Williams, L. J., & Anderson, S. E. (1991). Job satisfaction and organizational commitment as predictors of organizational citizenship and in-role behaviors. *Journal of Management*, 17(3), 601–617. https://doi.org/10.1177/014920639101700305

Yang, T., Jiang, X., & Cheng, H. (2022). Employee recognition, task performance, and OCB: Mediated and moderated by pride. *Sustainability*, 14(3), 1631. https://doi.org/10.3390/su14031631

Zafar, S., Raziq, M. M., Igoe, J., Moazzam, M., & Ozturk, I. (2024). Inclusive leadership and innovative work behavior: Roles of autonomous motivation and horizontal and vertical trust. *Current Psychology*, 43(14), 12680–12695. https://doi.org/10.1007/s12144-023-05386-3