

TOXIC LEADERSHIP, EMPLOYEE WELLBEING, AND TURNOVER UMKM EMPLOYEE INTENTIONS IN TANJUNGPINANG CITY: THE MODERATION ROLE OF PSYCHOLOGICAL CAPITAL

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ABSTRACT

Purpose: This study aims to analyse the effect of toxic leadership on employee wellbeing and turnover intention among Micro, Small and Medium Enterprise (MSME) employees in Tanjungpinang City, and to examine the moderating role of psychological capital (PsyCap) in both relationships. The MSME context in Tanjungpinang is significant given its highly personal owner-employee leadership dynamics, minimal formal employment protection, and competitive market conditions in a border island city. **Methods:** The study employs a quantitative explanatory approach with structured surveys administered to 194 permanent employees from four MSME sectors (culinary, trade, services, and maritime/fisheries) in Tanjungpinang City using proportionate stratified random sampling. Analysis uses Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.0.

Findings: toxic leadership negatively and significantly affects employee wellbeing ($\beta = -0.494$; $p < 0.001$); toxic leadership positively and significantly affects turnover intention ($\beta = 0.518$; $p < 0.001$); employee wellbeing negatively and significantly affects turnover intention ($\beta = -0.306$; $p = 0.003$); PsyCap significantly moderates the effect of toxic leadership on employee wellbeing ($\beta = 0.228$; $p = 0.009$); and PsyCap significantly moderates the effect of toxic leadership on turnover intention ($\beta = -0.184$; $p = 0.028$).

Originality/value: The model explains 72.8% of employee wellbeing variance and 70.1% of turnover intention variance. Findings confirm PsyCap as a psychological buffer that attenuates the destructive impact of toxic leadership within the MSME ecosystem. Practical implications point to the urgency of structured PsyCap enhancement programs as employee retention strategies by MSME associations and the Tanjungpinang City government.

Keywords: Toxic Leadership; Employee Wellbeing; Turnover Intention; Psychological Capital

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1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy, contributing more than 60% of the Gross Domestic Product (GDP) and absorbing around 97% of the national workforce (Ministry of Cooperatives and SMEs, 2023). In Tanjungpinang City, the capital of Riau Islands Province, MSMEs play a strategic role in driving the local economy, particularly in the culinary, trade, tourism services, and marine/fisheries sectors, leveraging the city's geographic position as a gateway for tourists from Singapore and Malaysia. However, the

quantitative growth of MSMEs in Tanjungpinang is not always accompanied by adequate quality in human resource (HR) management, especially in aspects of leadership and employee well-being.

Within the typically flat and informal organizational structures of MSMEs, business owners simultaneously act as direct leaders (owner-manager duality; Cardon & Kirk, 2015). When leadership becomes toxic characterized by abusive, authoritarian, narcissistic, and unpredictable behavior the impact is felt directly and intensely by employees, as there is no middle management layer to buffer it. Unlike in large corporations where formal HR mechanisms and labor unions provide relative protection, MSME employees are in a far more vulnerable position: employment relationships are often not bound by formal contracts, complaints against leadership behavior rarely have safe channels, and economic dependence on a single owner creates significant power imbalances.

Employee wellbeing in MSMEs encompasses psychological conditions, job satisfaction, work-life balance, and a sense of security within an informal work environment that is heavily influenced by personal power relations. When toxic leadership undermines employee wellbeing, the consequences extend beyond individual productivity to the sustainability of the business itself given the small scale of MSMEs, the loss of even one experienced employee can be disproportionately damaging.

Employee turnover intention in Tanjungpinang's MSMEs has unique characteristics compared to other contexts. Beyond moving to other MSMEs or the formal sector, employees also have options to: (1) shift to the rapidly growing tourism sector post-pandemic; (2) become independent entrepreneurs by leveraging acquired skills; (3) relocate to Batam, only an hour away by ferry, with more competitive industrial job opportunities; or (4) utilize cross-border trade networks in the Riau Islands. This multiplicity of exit options makes MSMEs in Tanjungpinang highly vulnerable to turnover, especially when triggered by toxic leadership.

Psychological Capital (PsyCap) comprising Hope, Efficacy, Resilience, and Optimism (HERO; Luthans et al., 2007) – is positioned in this study as a protective psychological resource that can weaken the impact of toxic leadership on employee wellbeing and turnover intention. Through mechanisms such as cognitive reappraisal, active behavioral coping, and constructive temporal framing, employees with high PsyCap can maintain psychological wellbeing and work commitment even when exposed to toxic leadership.

Research on toxic leadership in the context of Indonesian MSMEs remains very limited; most studies focus on large corporations, government institutions, or universities. This study seeks to fill that gap by integrating Conservation of Resources Theory (COR Theory, Hobfoll, 1989), the Job Demands-Resources Model (JD-R Model, Bakker & Demerouti, 2007), and the Positive Organizational Behavior Framework (Luthans, 2002) into a comprehensive model specifically contextualized for MSMEs in Tanjungpinang City.

2. LITERATURE REVIEW

2.1. TOXIC LEADERSHIP IN THE CONTEXT OF MSMEs

Toxic leadership is a construct that integrates various forms of destructive leadership. Reed (2004) defines a toxic leader as one who leaves the organization or followers in a worse condition through deliberate or incompetent actions combined with dysfunctional personality traits. Pelletier (2010) developed a five-dimensional typology: (1) authoritarianism – the repressive

use of power; (2) abusive supervision—persistent hostile behavior (Tepper, 2000); (3) toxic narcissism extreme self-serving behavior; (4) unpredictability inconsistency that creates chronic anxiety; and (5) self-promotion that sacrifices subordinates' contributions.

In the MSME context, toxic leadership has distinct characteristics compared to large corporate environments. The concept of owner-manager duality (Cardon & Kirk, 2015) explains that MSME owners simultaneously act as sole leaders without managerial buffers. This creates what is termed proximity toxicity: the toxic behavior of the owner is felt more intensely because the psychological and structural distance between leader and employees is minimal. Research by Hmieleski and Ensley (2007) shows that directive-narcissistic leadership by founders/owners strongly correlates negatively with employee performance and wellbeing in dynamic environments a condition highly relevant to MSMEs in Tanjungpinang, which face volatility in tourism and cross-border trade.

The primary theoretical foundation is Conservation of Resources (COR) Theory (Hobfoll, 2018), which argues that individuals are motivated to protect their psychological resources. When toxic leadership threatens employee resources—such as job autonomy, security, recognition, and social support—individuals experience stress that further depletes their resource reserves through a loss spiral, ultimately leading to diminished wellbeing and increased withdrawal behaviors.

H1: Toxic leadership has a negative and significant effect on the employee wellbeing of MSME workers in Tanjungpinang City.

2.2. TOXIC LEADERSHIP AND TURNOVER INTENTION IN MSMES

Turnover intention is defined as the conscious and deliberate desire to leave an organization (Tett & Meyer, 1993). In the MSME context, employee turnover produces disproportionate consequences: the loss of a single skilled worker often means the loss of critical tacit knowledge essential for operations, which is difficult to replace within the limited scale of MSMEs. The job embeddedness model (Mitchell et al., 2001) explains that employee attachment to work and the local community of Tanjungpinang serves as a factor that restrains turnover—yet toxic leadership systematically erodes this embeddedness by damaging relationships and undermining the meaning of work.

In Tanjungpinang, the pull factors that increase the likelihood of turnover intention materializing are diverse: proximity to Batam (only one hour by ferry) with its competitive industrial labor market, the growth of the tourism sector offering alternative employment opportunities, and the possibility of starting independent businesses by leveraging skills acquired in MSMEs. A study by Prabowo and Maharani (2023) in MSMEs across Riau Islands cities found that an unconducive leadership climate is the strongest predictor of employee turnover intention, surpassing compensation factors.

H2: Toxic leadership has a positive and significant effect on the turnover intention of MSME employees in Tanjungpinang City.

2.3. EMPLOYEE WELLBEING AND TURNOVER INTENTION

The Job Demands-Resources (JD-R) Model (Bakker & Demerouti, 2007) explains that when job demands exceed available job resources, employees experience burnout that gradually erodes wellbeing. In MSMEs, job demands stemming from toxic leadership such as irrational

pressure, inconsistent standards, and implicit threats are particularly high, while formal resources (HR procedures, conflict mediation, structured career development) are severely limited. This creates fragile wellbeing and heightened turnover intention.

A meta-analysis by Podsakoff et al. (2007) confirmed a consistent negative correlation ($r = -0.37$) between job satisfaction and turnover intention. For MSME employees who derive meaning from their work and maintain positive relationships with colleagues even under toxic leadership preserved wellbeing functions as an anchor that restrains the impulse to leave.

H3: Employee wellbeing has a negative and significant effect on the turnover intention of MSME employees in Tanjungpinang City.

2.4. THE MODERATING ROLE OF PSYCHOLOGICAL CAPITAL IN THE MSME CONTEXT

Psychological Capital (PsyCap) (Luthans et al., 2007) consists of four synergistic components (HERO): Hope the ability to find pathways and motivation to achieve goals; Efficacy confidence in one's own abilities; Resilience the capacity to recover from adversity; and Optimism positive causal attributions. In the MSME context, PsyCap has a distinctive moderating relevance: employees with high PsyCap are not only more resistant to the pressures of toxic leadership but are also better able to leverage the informal work autonomy available in MSME structures to build intrinsic satisfaction that sustains their wellbeing.

Three moderating mechanisms operate simultaneously. First, cognitive buffering: employees with high optimism and hope interpret toxic owner behavior as a personal issue of the leader rather than a validation of their own inadequacy, preventing destructive internalization. Second, active resource building: employees with high resilience and efficacy proactively develop alternative resources strengthening peer relationships, acquiring new skills, and building professional networks so they are not entirely dependent on leadership conditions to maintain wellbeing. Third, temporal framing: employees with strong hope perceive toxic conditions as temporary and reversible, reducing the urgency of turnover as an immediate response.

Avey et al. (2011), in a meta-analysis of 66 studies, confirmed that PsyCap is negatively correlated with turnover intention ($r = -0.24$) and positively correlated with wellbeing ($r = 0.34$). Bakker et al. (2023) further demonstrated that PsyCap moderates the relationship between job demands and burnout. In the Indonesian MSME context, Widyastuti and Pramudana (2023) found that PsyCap significantly weakened the impact of abusive leadership on turnover intention among MSME employees in Bali.

H4: Psychological capital significantly moderates the effect of toxic leadership on employee wellbeing, such that the negative impact of toxic leadership is weaker among MSME employees with high PsyCap.

3. METHOD

The study employed a quantitative explanatory approach with a cross-sectional survey design (Creswell & Creswell, 2018), conducted from October to December 2024 in Tanjungpinang, Riau Islands Province. The city was chosen due to its significant concentration of MSMEs with diverse informal leadership styles, unique labor market dynamics offering multiple exit options, and the scarcity of empirical research on toxic leadership in local MSMEs. The population consisted of 1,840 permanent employees from four main sectors registered with the Tanjungpinang

Office of Cooperatives and SMEs. Using proportionate stratified random sampling with sectors as strata, the sample size was determined through Slovin's formula ($n \geq 329$, 5% margin of error) and Hair et al.'s (2022) PLS-SEM guideline ($n \geq 140$). After eliminating 18 invalid responses, the final valid sample comprised 194 respondents.

4. RESULTS AND DISCUSSION

4.1. RESPONDENT PROFILE

From the 194 valid respondents, the majority were female (58.2%) and predominantly aged 21–30 years (46.4%), followed by 31–40 years (32.5%). Most had completed high school/vocational education (54.1%), with smaller proportions holding diplomas (26.3%) and bachelor's degrees (19.6%). Tenure in current MSMEs varied, with 41.2% working for 1–3 years, 32.5% for 3–7 years, 18.6% less than a year, and 7.7% more than seven years. Sector distribution showed culinary businesses as the largest group (34.0%), followed by trade (29.4%), services (23.2%), and marine/fisheries (13.4%). On average, employees worked 9.4 hours per day, and notably, 71.6% had no formal work contracts, underscoring the vulnerability typical of MSME employment.

4.2. OUTER MODEL EVALUATION

Table 1. Results of Outer Model Evaluation: Reliability and Convergent Validity

<i>Variable</i>	<i>AVE</i>	<i>CR</i>	<i>Cronbach's α</i>	<i>Loading Min.</i>	<i>Status</i>
Toxic Leadership (X)	0,648	0,908	0,879	0,721	✓
Employee Wellbeing (Y ₁)	0,724	0,931	0,904	0,738	✓
Turnover Intention (Y ₂)	0,761	0,944	0,921	0,751	✓
Psychological Capital (Z)	0,691	0,921	0,896	0,719	✓
Threshold	> 0,500	> 0,700	> 0,700	> 0,700	—

Source: SmartPLS 4.0 output (2026)

All constructs met the criteria for reliability and validity. Discriminant validity was confirmed, with all HTMT ratios below 0.85 (TL-WB: 0.618; TL-TI: 0.641; WB-TI: 0.573; TL-PsyCap: 0.514; PsyCap-WB: 0.601; PsyCap-TI: 0.563). Thus, the measurement foundation is established for hypothesis testing.

4.3. INNER MODEL EVALUATION AND HYPOTHESIS TESTING

Table 2. Results of the Inner Model: Path Coefficients, Significance Testing, and Hypothesis Decisions

<i>Hypotheses</i>	<i>Koef. (β)</i>	<i>Std. Err.</i>	<i>t-Stat</i>	<i>P-Value</i>	<i>f² (Effect)</i>	<i>Decision</i>
H1: Toxic Lead. → Wellbeing	−0,494	0,087	5,678***	< 0,001	0,318	Accepted

Hypotheses	Koef. (β)	Std. Err.	t-Stat	P-Value	f ² (Effect)	Decision
H2: Toxic Lead. $\rightarrow$ Turnover	0,518	0,081	6,395***	< 0,001	0,362	Accepted
H3: Wellbeing $\rightarrow$ Turnover	-0,306	0,099	3,091**	0,003	0,127	Accepted
H4: X $\times$ Z $\rightarrow$ Wellbeing (Mod.)	0,228	0,088	2,591**	0,009	0,087	Accepted
H5: X $\times$ Z $\rightarrow$ Turnover (Mod.)	-0,184	0,082	2,244*	0,028	0,069	Accepted
R² & Q² (WB / TI)	0,728 / 0,701	—	—	—	Q²: 0,601/0,572	SRMR=0,048

Source: SmartPLS 4.0 output (2026)

The inner model evaluation shows strong explanatory power and good model fit. The value of $R^2 = 0.728$ indicates that toxic leadership and psychological capital together explain 72.8% of the variance in employee wellbeing. Similarly, $R^2 = 0.701$ demonstrates that 70.1% of the variance in turnover intention is explained by the model. Predictive relevance is confirmed with $Q^2 > 0.50$, reflecting strong predictive capability. The SRMR = 0.048, which is below the threshold of 0.08, further indicates a good model fit. Overall, all five hypotheses are statistically supported.

4.4. MODERATION EFFECT ANALYSIS: SIMPLE SLOPE ANALYSIS

Table 3. Simple Slope Analysis: Moderating Effect of Psychological Capital

PsyCap Condition	Path: TL $\rightarrow$ Well-being (β)	Path: TL $\rightarrow$ Turn-over (β)	Interpretation
High PsyCap (+1 SD)	-0,302	0,382	The negative impact of toxic leadership is weakened, showing an active buffering effect.
Average PsyCap (Mean)	-0,494	0,518	The effects align with the main structural model.
Low PsyCap (-1 SD)	-0,686	0,654	The detrimental impact of toxic leadership is intensified, indicating employees are unprotected.

Source: SmartPLS 4.0 output (2026)

High Psychological Capital (PsyCap) reduces the impact of toxic leadership on wellbeing by 38.9% (from $\beta = -0.494$ to $\beta = -0.302$) and on turnover intention by 26.3% (from $\beta = 0.518$ to $\beta = 0.382$). Conversely, at low PsyCap levels, the toxic effect intensifies, with path coefficients reaching $\beta = -0.686$ for wellbeing and $\beta = 0.654$ for turnover intention. These results demonstrate that MSME employees without sufficient PsyCap reserves are significantly more vulnerable, while those with high PsyCap benefit from a strong buffering effect that protects their wellbeing and reduces turnover tendencies.

4.5. PATH DIAGRAM

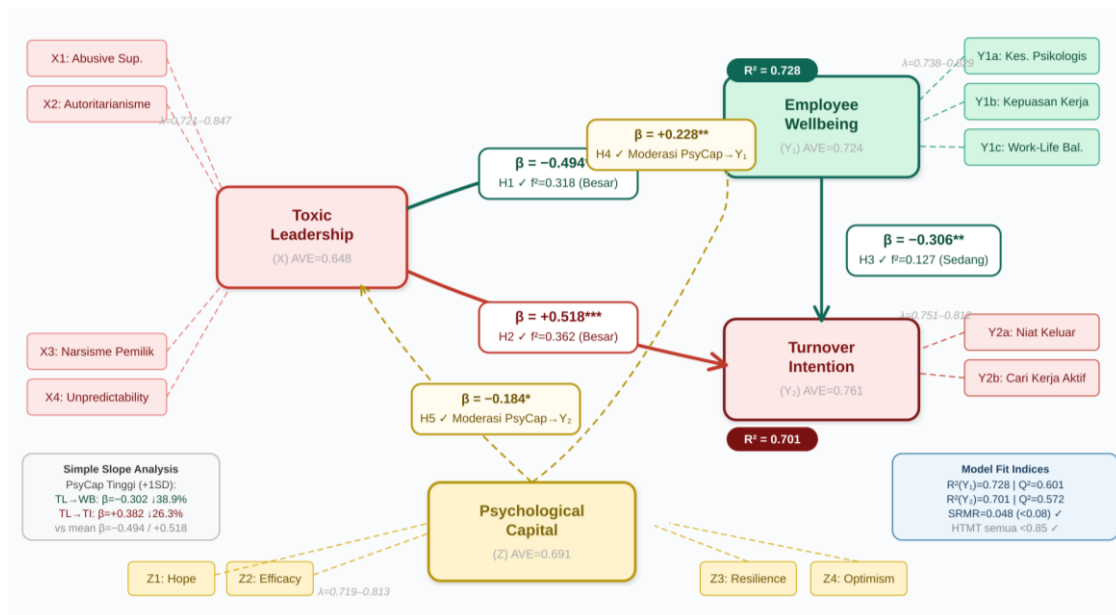


Figure 1. Path Diagram: Test Results of the Structural Model of Tanjungpinang MSME Employees

Figure 1 presents the full structural model estimated using SmartPLS 4.0 for MSME employees in Tanjungpinang City. The main boxes represent latent constructs: Toxic Leadership (X), Employee Wellbeing (Y_1), Turnover Intention (Y_2), and Psychological Capital (Z). The smaller boxes at the edges are manifest variables (indicators) forming the reflective outer model, connected by dashed lines with their respective loading factor values (λ). Thick solid lines depict the structural paths of the inner model along with path coefficients (β), while amber dashed lines represent the moderation paths (interaction term $X \times Z$). The ****R² badges**** indicate the model's explanatory power ($Y_1 = 72.8\%$; $Y_2 = 70.1\%$). All five hypotheses (H1–H5) were statistically confirmed as significant.

4.6. INDIRECT PATH ANALYSIS (PARTIAL MEDIATION)

Table 4. Indirect Effect Analysis (Partial Mediation)

Path Relationship	Coefficient (β)	Significance (p)	Effect Type	Notes
TL → Wellbeing	-0.494	< 0.001	Direct	Toxic leadership reduces employee wellbeing.
Wellbeing → Turnover Intention	-0.306	< 0.001	Direct	Lower wellbeing increases turnover intention.
TL → Wellbeing → Turnover Intention	0.151	p = 0.019	Indirect	Significant mediation effect via wellbeing.

TL → Turnover Intention (Direct)	0.518	< 0.001	Direct	Toxic leadership directly increases turnover intention.
Total Effect TL → Turnover Intention	0.669	—	Total	Combined direct and indirect effects.
VAF (Variance Accounted For)	22.6%	—	Mediation Strength	Indicates partial mediation.

Source: SmartPLS 4.0 output (2026)

The analysis shows that toxic leadership affects turnover intention both directly and indirectly through employee wellbeing. The indirect effect ($\beta = 0.151$, $p = 0.019$) is statistically significant, but since the direct effect ($\beta = 0.518$) remains strong, the mediation is partial. The Variance Accounted For (VAF) of 22.6% confirms that only part of the toxic leadership effect on turnover intention is transmitted via wellbeing.

The Effect of Toxic Leadership on Employee Wellbeing (H1)

H1 is confirmed ($\beta = -0.494$; $f^2 = 0.318$) with a large effect size, establishing toxic leadership as a major threat to the wellbeing of MSME employees in Tanjungpinang. This magnitude is slightly higher than the meta-analysis by Schyns and Schilling (2013) in corporate contexts ($r = -0.49$), supporting the argument that proximity toxicity in MSMEs where toxic owners interact directly and daily with employees without managerial buffers produces more intense impacts compared to corporate hierarchies.

The JD-R Model mechanism operates simultaneously: toxic leadership increases job demands (irrational pressure, inconsistent standards, climate of fear) while degrading job resources (work autonomy, recognition, social support). This imbalance leads to burnout, gradually eroding wellbeing dimensions, especially psychological wellbeing (sense of safety and meaning), which is most vulnerable to direct verbal attacks from toxic owners. Contextually, MSME employees in Tanjungpinang who often lack formal contracts and face immediate income loss risks experience layered pressures: psychological strain from toxic behavior combined with employment uncertainty, further depleting wellbeing.

The Effect of Toxic Leadership on Turnover Intention (H2)

H2 is confirmed ($\beta = 0.518$; $f^2 = 0.362$), representing the largest effect size in the model. In the MSME context of Tanjungpinang, three causal routes operate simultaneously:

1. **Intolerance of working conditions** toxic leadership creates unbearable conditions (public humiliation, arbitrary dismissal threats, exhausting inconsistency), pushing employees to exit as self-protection.
2. **Psychological contract violation** (Rousseau, 1989) employees join MSMEs with expectations of fair treatment, recognition, and respectful relationships. Systematic violations by toxic owners sever the psychological bond that sustains retention.
3. **Activation of pull factors in Tanjungpinang** toxic leadership lowers tolerance thresholds, making employees more responsive to opportunities in Batam, the tourism sector, or independent entrepreneurship.

The Effect of Employee Wellbeing on Turnover Intention (H3)

H3 is confirmed ($\beta = -0.306$; $f^2 = 0.127$), with wellbeing acting as a significant partial mediator. The two wellbeing dimensions most predictive of turnover intention are **psychological wellbeing** (sense of safety and meaning; $\beta = -0.449$) and **work-life balance** ($\beta = -0.318$). For MSME employees in Tanjungpinang, work is not only a source of income but also part of social identity and community belonging. When wellbeing is preserved despite toxic leadership, communal ties provide additional motivation to stay.

The indirect effect (0.151; $p = 0.019$) confirms that part of the toxic leadership impact on turnover operates through wellbeing degradation, reinforcing the argument that interventions enhancing wellbeing can provide protective effects against turnover.

The Moderating Role of Psychological Capital (H4 & H5)

Dual moderation of PsyCap is confirmed (H4: $\beta = 0.228$; H5: $\beta = -0.184$). Simple slope analysis shows toxic effects reduced by **38.9%** on the wellbeing path and **26.3%** on the turnover intention path under high PsyCap conditions. In MSMEs, moderation operates through two distinctive mechanisms:

1. **Autonomous coping** MSME employees with high PsyCap, unlike corporate employees who rely on formal support structures, develop independent and creative coping strategies: building solidarity with peers, finding intrinsic satisfaction in aspects of work not dependent on owner recognition (e.g., serving customers, producing quality goods), and forming informal networks for alternative social support.
2. **Identity-based resilience** for many MSME employees in Tanjungpinang, identity is closely tied to local communities and specific MSME sectors. Employees with high hope and optimism maintain a positive professional identity despite toxic owners' attempts to undermine confidence, preventing turnover intention escalation as an identity response.

These findings are consistent with Avey et al. (2011), Bakker et al. (2023), and Widyastuti & Pramudana (2023) in the MSME context of Bali. The original contribution of this study is the simultaneous confirmation of dual moderation in the border-island MSME context (Tanjungpinang), characterized by proximity toxicity, employment informality, and multiple exit options – distinct from previous research contexts. The small-to-medium moderation effect sizes ($f^2 = 0.087$ and 0.069) indicate PsyCap as an effective mitigator but not a perfect shield. Under very high toxic leadership intensity, PsyCap is gradually depleted (COR Theory: loss spiral), making systemic interventions to improve MSME owners' leadership quality essential as a long-term solution.

5. CONCLUSIONS

This study provides five key findings. First, toxic leadership has a significant negative effect on employee wellbeing among MSME employees in Tanjungpinang ($\beta = -0.494$; $f^2 = 0.318$ /large), with proximity toxicity intensifying the impact beyond what corporate literature predicts. Second, toxic leadership exerts a significant positive effect on turnover intention ($\beta = 0.518$; $f^2 = 0.362$ /large), representing the strongest effect in the model and highlighting toxic leadership as a critical retention threat, exacerbated by multiple exit options typical of Tanjungpinang (Batam, tourism, self-employment). Third, employee wellbeing significantly

reduces turnover intention ($\beta = -0.306$; $f^2 = 0.127$ /medium), with partial mediation confirmed (indirect effect = 0.151; VAF = 22.6%), underscoring wellbeing as an actionable retention mechanism. Fourth, psychological capital significantly moderates the effect of toxic leadership on employee wellbeing (H4: $\beta = 0.228$; $p = 0.009$), reducing destructive impacts by up to 38.9% under high PsyCap conditions, confirming PsyCap as an effective cognitive-behavioral buffer in MSMEs. Fifth, psychological capital also moderates the effect of toxic leadership on turnover intention (H5: $\beta = -0.184$; $p = 0.028$), reducing the impact by 26.3% at high PsyCap levels, confirming its dual role as both a wellbeing protector and a turnover deterrent.

This research makes three theoretical contributions: (1) extending COR Theory to the Indonesian MSME island context by describing the unique mechanism of proximity toxicity; (2) confirming the dual moderation model of PsyCap simultaneously across two outcome paths within a single MSME sample; and (3) adding the owner-manager duality (Cardon & Kirk, 2015) as a critical institutional context that amplifies toxic leadership effects beyond corporate theory predictions.

For MSME associations (HIPMI, KADIN, Dekranasda Tanjungpinang) and the Department of Cooperatives and MSMEs, three programmatic interventions are recommended. First, healthy leadership literacy programs for MSME owners through coaching-based training that integrates awareness of abusive leadership and its impact on retention and productivity. Second, PsyCap intervention programs for MSME employees adapting the Psychological Capital Intervention (PCI; Luthans et al., 2010) into 3–4 hour modules delivered via MSME training centers or digital platforms—covering hope pathway thinking, efficacy modeling, resilience micro-interventions, and attributional retraining. Third, early warning mechanisms and conflict mediation at the sectoral MSME association level, providing employees with safe complaint channels without direct retaliation risks from owners.

In sum, the study confirms toxic leadership as a critical determinant of wellbeing and turnover in MSMEs, while highlighting psychological capital as a partial but meaningful buffer. Long-term solutions require systemic leadership quality improvements alongside employee resource-building interventions..

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