



## Ethical leadership and turnover intention among MSME employees in Central Java: The mediating role of job satisfaction and the moderating role of organizational justice

 Dwita Setiyani<sup>1+</sup>

 Agus Suroso<sup>2</sup>

 Ratno Purnomo<sup>3</sup>

<sup>1,2,3</sup>Faculty of Economics and Business, Jenderal Soedirman University, Indonesia.

<sup>1</sup>Email: [dwita.setiyani@gmail.com](mailto:dwita.setiyani@gmail.com)

<sup>2</sup>Email: [roso.fe2014@gmail.com](mailto:roso.fe2014@gmail.com)

<sup>3</sup>Email: [ano.purnomo@gmail.com](mailto:ano.purnomo@gmail.com)



(+ Corresponding author)

### ABSTRACT

#### Article History

Received: 10 October 2025

Revised: 20 January 2026

Accepted: 9 March 2026

Published: 27 March 2026

#### Keywords

Ethical leadership  
Job satisfaction  
Organizational justice  
Perceived justice  
Turnover intention.

This study examines the effect of ethical leadership on turnover intention among Micro, Small, and Medium Enterprise (MSME) employees in Central Java, Indonesia, with job satisfaction as a mediating variable and perceived organizational justice as a moderating variable. A quantitative, cross-sectional survey was conducted with data collected from 150 MSME employees. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) based on Social Exchange Theory. The results show that ethical leadership significantly increases job satisfaction and directly reduces turnover intention. Job satisfaction significantly mediates the relationship between ethical leadership and turnover intention, indicating that ethical leadership lowers employees' intention to leave by improving psychological satisfaction. However, job satisfaction does not have a significant direct effect on turnover intention, suggesting that satisfaction alone may not be sufficient to retain employees in MSMEs. In addition, perceived organizational justice does not significantly moderate the relationship between ethical leadership and turnover intention, implying that ethical leadership already reflects fairness perceptions in small and closely managed organizations. These findings highlight the importance of ethical leadership in strengthening employee satisfaction and reducing turnover intention. MSME owners and policymakers are encouraged to promote ethical leadership development through practical training programs to support employee retention in resource-constrained business environments.

**Contribution/Originality:** This study contributes to the existing literature by integrating ethical leadership, job satisfaction, and perceived organizational justice within MSMEs in a developing economy. It investigates these relationships simultaneously, documenting job satisfaction as a key psychological mediator and revealing the non-significant moderating role of organizational justice in MSMEs.

## 1. INTRODUCTION

High employee turnover remains a key issue in organizational behavior due to its detrimental consequences for organizational performance. This situation is particularly challenging for Micro, Small, and Medium Enterprises (MSMEs) due to limited resources. Turnover intention is especially evident among MSMEs in Central Java, Indonesia, where employee turnover exceeds 40% annually, driven primarily by dissatisfaction with leadership behavior and perceived unfairness (Adamovic, 2023; Aggarwal & Mittal, 2021; Al Shbail, Alshurafat, Ensour, Al Amosh, & Al-Hazaima, 2025). This suggests that leadership quality, especially ethical leadership, plays a significant role in reducing employee turnover intentions.

Over the past few years, ethical leadership has been viewed as a key predictor of employee retention behavior. Ethical leadership, reflected in fairness, integrity, and caring, fosters employee trust in the organization (Abuzaid, Ghadi, Madadha, & Alateeq, 2024; Brown & Treviño, 2006). This proves that with a supportive and moral work environment, employees are reluctant to leave their jobs (Elçi, Karabay, Alpkan, & Şener, 2014). However, this finding has mainly been observed in large companies or public agencies, with limited research on small companies.

Scholars have long emphasized that ethical leadership can create employee satisfaction, thereby reducing turnover intentions (Ahmad & Gao, 2018; Kim, Tam, Kim, & Rhee, 2017). Similarly, perceptions of organizational justice can strengthen or enhance leadership influence (Afsar, Badir, & Bin Saeed, 2014; Javed, Tučková, & Jibril, 2020). However, these findings remain inconsistent depending on the context being tested. In MSMEs, as resource-constrained organizations, job satisfaction is not a major factor in preventing employee turnover, while perceptions of fairness overlap with ethical leadership, making its role and moderation less influential.

This incoherence indicates several research flaws. First, leadership has rarely been studied in MSMEs in developing countries. Second, the mediating role of job satisfaction remains questionable, especially in MSMEs, as satisfaction does not always hinder employee satisfaction. Third, the moderating role of perceived organizational justice remains sporadic, requiring further testing. Finally, research to date has limited its ability to integrate ethical leadership, job satisfaction, and perceived organizational justice based on Social Exchange Theory in the context of MSMEs.

This study addresses gaps by examining the influence of ethical leadership on turnover intention in Central Java MSMEs, using job satisfaction as a mediator and perceived organizational justice as a moderator. The integration of these three constructs into one framework is a novelty that addresses previous research limitations. Theoretically, this research contributes to explaining the role of ethical leadership on turnover intention and offers guidance for MSME leaders seeking to reduce turnover rates through ethical and fairness-oriented work practices.

## 2. LITERATURE REVIEW

### 2.1. Social Exchange Theory (SET)

Social Exchange Theory (SET) serves as the primary basis for this research (Blau, 1964). This theory posits that social relationships within organizations arise from reciprocal interactions between employees and their superiors, grounded in trust, fairness, and moral obligation. Positive and ethical leadership makes employees feel valued, increasing job satisfaction and reducing turnover intentions. The same applies vice versa. Thus, the roles of leadership, perceived organizational justice, and job satisfaction in the intention to quit can be explained logically within SET.

### 2.2. Ethical Leadership

Ethical leadership is defined as a concept that emphasizes leader behavior consistent with moral standards, integrity, honesty, and fairness (Brown & Treviño, 2006). Ethical leaders, in addition to serving as role models, function as moral guides and enforcers of ethical behavior through communication and value reinforcement. Interactions between leaders and employees in MSMEs tend to be more personal, so ethical behavior directly impacts employee trust and loyalty. Ethical leadership behavior is reflected in fairness, ethical guidance, integrity, and concern for employees (Kalshoven, Den Hartog, & De Hoogh, 2011). Previous studies have empirically demonstrated that ethical leadership can strengthen employees' positive attitudes and reduce turnover intentions Kim and Brymer (2011). Ethical leadership can increase job satisfaction and reduce turnover intention. Other studies by Elçi, Şener, Aksoy, and Alpkan (2012) and Abuzaid et al. (2024) also show that ethical leader behavior can strengthen emotional attachment and reduce withdrawal behavior.

*H<sub>1</sub>: Ethical leadership negatively influences turnover intention among employees in MSMEs.*

### 2.3. Job Satisfaction

Job satisfaction is understood as a positive emotional response to work, determined by the extent to which the job meets an individual's needs, values, and expectations (Locke & Latham, 2002; Spector, 1985). In a widely used model, Spector (1985) identified five main dimensions: nature of work, supervision, pay, promotion, and coworkers. From the SET perspective, job satisfaction arises when leaders provide positive social exchanges through ethical attitudes and fair treatment. Research shows that job satisfaction mediates the influence of ethical leadership on turnover intention. Kim et al. (2017) and Ahmad and Gao (2018) revealed that ethical leadership is associated with employee satisfaction, thereby reducing turnover intention. A series of studies illustrates the importance of this mediating role. A study from Kim et al. (2017) in Korea confirmed the mediating role of job satisfaction in the influence of ethical leadership on turnover intention. Ahmad and Gao (2018) found that the same phenomenon occurs in SMEs in Malaysia. Sung and Choi (2014) revealed that employee job satisfaction fosters commitment, even with limited organizational resources. Therefore, the second hypothesis in this research can be formulated accordingly.

*H<sub>2</sub>: Ethical leadership has a positive effect on job satisfaction.*

*H<sub>3</sub>: Job satisfaction has a negative effect on turnover intention.*

*H<sub>4</sub>: Job satisfaction mediates the relationship between ethical leadership and turnover intention.*

### 2.4. Perceived Organizational Justice

Perception of organizational justice is an employee's assessment of the organization's treatment of being fair in terms of distribution of results, procedures, and personal interactions (Colquitt, Conlon, Wesson, Porter, & Ng, 2001). In the MSME environment, which generally does not have a formal structure, perceptions of justice are largely determined by the leader's behavior. Various studies reveal that fairness plays an important role in reducing turnover intention. Afsar et al. (2014) revealed that by strengthening commitment and trust, perceived organizational justice can reduce turnover intention. A similar point was also mentioned in the research of Javed et al. (2020), which states that perceived justice plays an important role in the influence of leadership on various work outcomes. Thus, in this research, the third hypothesis can be formulated, namely.

*H<sub>5</sub>: The perception of organizational justice will positively impact the moderating relationship between ethical leadership and job satisfaction, where higher organizational justice results in a greater decrease in job satisfaction.*

### 2.5. Turnover Intention

Turnover intention is an employee's tendency to leave an organization. This tendency is often determined by job satisfaction, perceptions of justice, and the condition of organizational leadership (Mobley, 1977). The main indicators of turnover intention are thoughts of leaving a job, looking for another job, and intentions to resign from the current job. A series of studies indicates that a combination of psychological and structural factors determines turnover intention. Studies by Kuuyelleh, Akanpaadgi, and Ansoglenang (2025) and Vuong, Hieu, Lien and Huyen (2025) show that unfairness, unethical leadership, and low job satisfaction increase employee turnover intention. Therefore, ethical leadership is necessary, as it has been proven to prevent turnover intention by enhancing emotional attachment and commitment.

Figure 1 illustrates the proposed research model, which examines the direct effect of ethical leadership on turnover intention, the mediating role of job satisfaction, and the moderating role of perceived organizational justice among MSME employees.

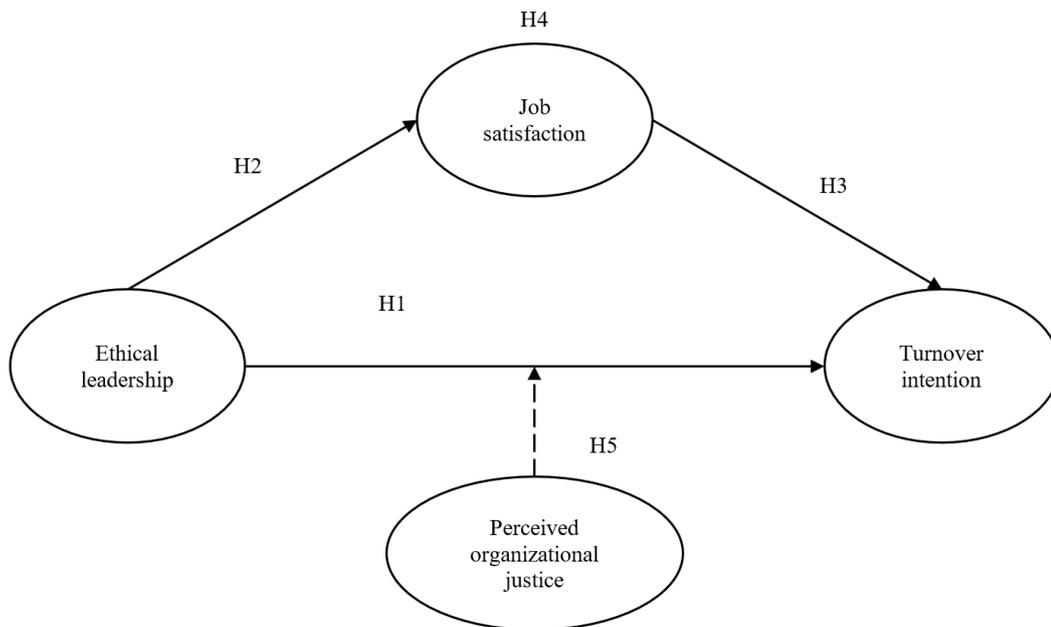


Figure 1. Hypothesized research model.

### 3. METHOD

The approach used in this research is quantitative, with a cross-sectional, survey-based study. This design assesses the influence of ethical leadership, organizational justice, and job satisfaction on turnover intention in MSMEs. The population was defined as all registered MSME workers in Central Java Province. Based on data from the Central Java Department of Cooperatives and MSME (2023) there are around 4.2 million MSME workers in the manufacturing, service, and creative industries (RRI, 2024). According to Hair, Sarstedt, Hopkins, and Kuppelwieser (2014), the minimum sample size for SEM-PLS should be 5-10 times the number of instructions in the model. Considering there are 15 indicators in this study, 150 respondents are sufficient to ensure appropriate statistical power and parameter assessment.

Purposive sampling means focusing on respondents who meet specific criteria. I established inclusion requirements: (1) those who had worked at least one year in their MSME, (2) those in direct operational or administrative roles, and (3) those with a basic understanding of workplace leadership, fairness, and satisfaction. This approach allows me to gather relevant insights into how MSMEs operate in Central Java, providing a focused perspective on the subject.

Each research construct is operationalized based on established scales from prior studies. Ethical leadership is measured through four indicators: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Brown & Treviño, 2006; Kalshoven et al., 2011). Organizational justice comprises distributive, procedural, and interactional justice (Colquitt et al., 2001). Job satisfaction includes five dimensions: the nature of work, supervision, pay, promotion, and coworkers (Spector, 1985). Turnover intention is assessed through three indicators: thoughts of quitting, job search behavior, and intention to leave (Mobley, 1977). All indicators have been validated for construct validity and reliability.

Data collection was conducted from January to July 2025 using both printed and digital questionnaires. The Likert scale used in this questionnaire design, with a score of 1 representing strongly disagree and 5 representing strongly agree. Data collection involved recruiting 30 MSME employees, who conducted a pilot test before the full deployment of the questionnaire. Data collection was voluntary, with respondents' consent obtained to ensure ethical standards and trustworthiness, maintaining anonymity throughout the process.

Data were analyzed using PLS-SEM with SmartPLS software. The choice of analysis technique is guided by the specific circumstances of the data: complex relationships as described in the hypothesis, and the distribution of non-

normal data and small to modest sample sizes typical in behavioral investigations of MSMEs. The analysis was conducted in two phases: the first (1) involved a measurement model testing indicative reliability, composite reliability, and discriminant validity; the second (2) involved a structural model testing the weight and importance of the hypothesized relationships between constructs. This analytical technique offers a powerful and predictive analysis of the proposed theoretical framework, specifically in explaining worker turnover intentions in MSMEs from Central Java.

## 4. RESULTS AND DISCUSSION

### 4.1. Result

The results of the measurement model assessment are detailed in Table 1, along with external loadings for each indicator related to the constructs of Ethical Leadership, Job Satisfaction, Perceived Organizational Justice, and Turnover Intentions, including their moderating interactions. The trustworthiness and validity of the measurement items are evaluated before structural model analysis. A loading is the level estimate at which the indicator aligns with each construct. The higher the loading value, the better the fit for a given theoretical dimension. Regarding convergent validity, loadings exceeding 0.70 are justifiable, which strengthens the reliability of the indicators and internal consistency.

**Table 1.** Outer loadings.

Indicator	Ethical leadership	Job satisfaction	Perceived organizational justice	Turnover intention
EL1	0.800			
EL2	0.915			
EL3	0.910			
EL4	0.884			
JS1		0.856		
JS2		0.854		
JS3		0.875		
JS4		0.831		
JS5		0.800		
OJ1			0.857	
OJ2			0.922	
OJ3			0.849	
TOI1				0.902
TOI2				0.926
TOI3				0.864

Source: At Work, 2025.

The measurement model demonstrates adequate convergent validity across all constructs, as indicated by standardized loadings exceeding the recommended threshold of 0.70. Indicators related to Ethical Leadership effectively capture leaders' actions and moral direction, supported by high factor loadings ranging from 0.800 to 0.915. The five subdimensions of job satisfaction, namely the nature of work, supervision, compensation, opportunities for advancement, and peers, corroborate each other with confirmatory factor loadings between 0.800 and 0.875. The Perceived Organizational Justice indicator shows factor loadings from 0.849 to 0.922, reinforcing the perception among employees that the organization is fair. The Turnover Intention construct also exhibits strong loadings, ranging from 0.864 to 0.926. Consequently, these findings support the use of structural equation modeling for a more comprehensive evaluation of the latent variables.

Validity and reliability testing are a crucial step before testing the structural model. In this research, validity and reliability were assessed using Composite Reliability, Cronbach's Alpha, and Average Variance Extracted (AVE). In

PLS-SEM analysis, Cronbach's Alpha and Composite Reliability indicate internal consistency, while AVE reflects convergent validity. These values demonstrate the correlation between variance and the construct, as well as measurement error. When all specified criteria and thresholds are met, the measurement model is considered robust and accurately represents the underlying construct. Typically, confidence values and AVE values are above 0.70 and 0.50, respectively. The results of this analysis are presented in Table 2.

**Table 2.** Reliability and validity.

Variables	Cronbach's alpha	rho_A	Composite reliability	Average variance extracted (AVE)
Ethical leadership	0.900	0.906	0.931	0.771
Job satisfaction	0.898	0.899	0.925	0.712
Perceived organizational justice	0.848	0.854	0.908	0.768
Turnover intention	0.879	0.880	0.925	0.806

Source: At Work, 2025

The reliability and validity of constructs and all latent variables used in the study are shown in Table 2. All constructs scored above 0.70 on Composite Reliability and Cronbach's Alpha, indicating high consistency in the measurement items. The assessment of leaders' ethical actions is highly reliable, with Ethical Leadership Composite Reliability at 0.931. Similarly, the measurements for Job Satisfaction (reliability = 0.925) and Turnover Intention (reliability = 0.925) support this. The AVE values demonstrate excellent convergent validity, with each construct explaining over 70% of the variance of its indicators. Perceived Organizational Justice, with an AVE of 0.768, effectively represents perceptions of justice at work.

With the completion of the reliability analysis, construct validity, and convergence and divergence of the variables, determining discriminant validity is next. The construct model can only be unique and specific with empirical validation.

The validity gap in constructs may destroy the model's structural relationships. In this paper, the Fornell-Larcker criterion, a widely used method for assessing discriminant validity in PLS-SEM analysis, was employed. According to this criterion, the square root of each construct's Average Variance Extracted (AVE) must be greater than the correlation between the construct and other constructs. Thus, the construct will exhibit a higher indicator-dependent variation than the other model constructs. The outcomes of this analysis are presented in Table 3.

**Table 3.** Discriminant validity.

Variables	Ethical leadership	Job satisfaction	Perceived organizational justice	Turnover intention
Ethical leadership	0.878			
Job satisfaction	0.838	0.844		
Perceived organizational justice	0.799	0.831	0.876	
Turnover intention	0.773	0.767	0.803	0.898

Source: At Work, 2025.

The results of the discriminant validity assessment using the Fornell-Larcker criteria are presented in Table 3. For discriminant validity, one must empirically confirm that each model construct is distinct and measures a uniquely different dimension within the full set of other constructs. According to the standard, for each construct, the square root of each construct's Average Variance Extracted (AVE) must exceed the correlations with other constructs. As illustrated in the table, each latent variable, Ethical Leadership, Job Satisfaction, Perceived Organizational Justice, and Turnover Intention, does possess discriminant validity, as all the diagonal entries (from 0.844 to 0.898) exceed

the corresponding inter-construct correlations. All these findings point to clearly distinct constructs; therefore, the structural model estimates the predicted relationships without issues of multicollinearity or overlapping constructs.

The next step in assessing the structural model involves determining the coefficient of determination (R-Square). It describes the extent to which the model can account for the variation in an endogenous variable. The R-Square value determines how much of the variation can be explained by the exogenous predictors. The R-Square value in PLS-SEM reflects predictive power.

However, a research context should define what the value indicates. To avoid an inflated view of the explanatory power, the use of the Adjusted R-Square is highly recommended, as it is a more conservative estimate by factoring in the number of predictors in the model. The R-Square and Adjusted R-Square values for the study are included in Table 4.

**Table 4.** R-Square.

Variable	R square	R square adjusted
Job satisfaction	0.703	0.701
Turnover intention	0.703	0.695

Source: At Work, 2025.

Table 4 R-Square and Adjusted R-Square values describe how well the independent and mediating variables account for the dependent variables. The R-Square for job satisfaction is 0.703, meaning ethical leadership and perceived organizational justice explain 70.3% of the variation in job satisfaction. R-Square of 0.703 for turnover intention shows a moderate relationship between job satisfaction, ethical leadership, and perceived organizational justice, accounting for 70.3% of the variation in employees' turnover intention. Regarding all the predictors, the model is further confirmed by Adjusted R-Square values of 0.695 and 0.701.

Considering the R-Square in behavioral research is accepted to be large when it exceeds 0.67, the explanatory power is thus considerable, according to Chin (1998). The model describes the psychological and organizational constructs that employees of MSMEs in Central Java consider when deciding whether to resign. The model can be said to have considerable predictive relevance.

After assessing a model's reliability, validity, and explanatory capacity, one can proceed to the final step of the analysis: hypothesis testing to understand the significance of the proposed relationships between the variables. To assess the hypotheses, we rely on the bootstrapping technique in Smart PLS, which is valuable for deriving various path coefficient estimates and assessing their significance. This approach is beneficial when dealing with non-normally distributed data, which poses challenges in analyses of the direct, mediating, and moderating influences simultaneously.

The analysis to estimate the anticipated relationships includes the path coefficients and their directional, relational strength, the T-statistics, and the significance of the p-values. In this analysis, a threshold of  $p < 0.05$  is used to establish significance. A summary of the results from the hypothesis testing is presented in Table 5.

Figure 2 illustrates that ethical leadership strongly positively influences job satisfaction and directly affects turnover intention. Job satisfaction partially mediates the relationship between ethical leadership and turnover intention. The moderating effect of perceived organizational justice on this relationship is not statistically significant. The figure also confirms that all measurement indicators load significantly on their respective constructs.

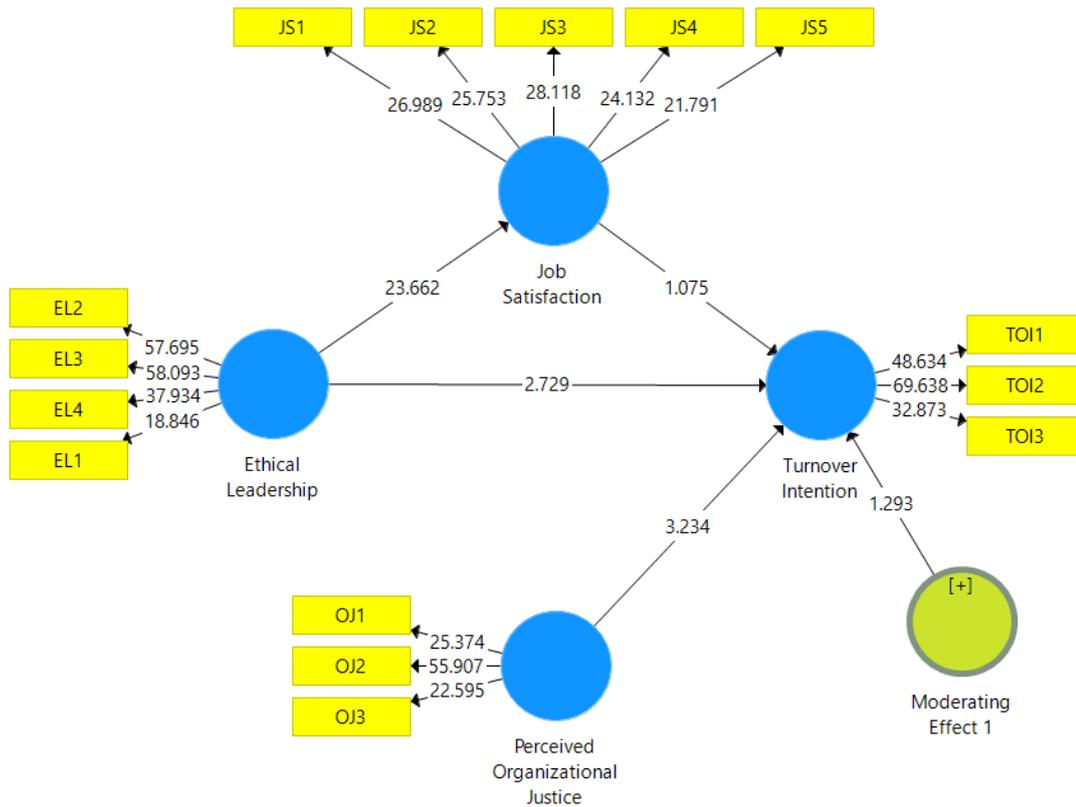


Figure 2. Full research model.

Table 5. Hypothesis test.

Hypothesis	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Ethical leadership to job satisfaction	0.035	23.662	0.000
Ethical leadership to reduce turnover intention	0.107	2.729	0.007
Job Satisfaction to Turnover Intention	0.146	1.075	0.283
Perceived Organizational Justice Moderates Ethical Leadership to Turnover Intention	0.050	1.293	0.197
Job Satisfaction Mediates Ethical Leadership to Turnover Intention	0.141	3.234	0.001

Source: At Work, 2025.

Presented in Table 5 are the findings of the hypothesis testing in SmartPLS after executing the bootstrapping procedure. The findings highlight the impact of Ethical Leadership on Job Satisfaction, which is considerable ( $T = 23.662$ ;  $p < 0.001$ ), implying that the ethical behavior of leaders positively influences employees' satisfaction in MSMEs in Central Java. Likewise, turnover intention is better explained by ethical leadership ( $T = 2.729$ ;  $p = 0.007$ ), showing that leaders who practice honesty, fairness, and transparency can reduce employees' ultimate intention to leave the organization. The relationship between job satisfaction and turnover intention is not statistically significant ( $T = 1.075$ ;  $p = 0.283$ ), implying that satisfaction alone is insufficient to predict the intention to leave. Perceptions of fairness do not appear to influence the relationship between ethical leadership and turnover intention, indicating that the moderating effect of perceived organizational justice on this relationship is minimal ( $T = 1.293$ ;  $p = 0.197$ ). It is confirmed that job satisfaction has a significant mediating effect on the link between ethical leadership and turnover intention ( $T = 3.234$ ;  $p = 0.001$ ), suggesting that this variable partially mediates the relationship. These findings

suggest that MSMEs do not always experience the benefits of organizational justice, even when ethical leadership influences employees' intentions to leave.

#### 4.2. Discussion

Based on the evidence provided, this study identified the influence of ethical leadership on job satisfaction, organizational justice, equity, and turnover intention of employees, particularly at MSMEs and in the Central Java region. Positive implications of ethical leadership on job satisfaction align with the principles of Social Exchange Theory (SET) and the ethical leadership framework. An ethical leader is responsible for cultivating compassion, fairness, and emotional integrity, which collectively foster familiarity and trust, thereby increasing employees' emotional bonds with their jobs. This finding supports previous empirical studies emphasizing the value of leaders' ethical behavior in promoting feelings of inclusion, psychological, and social-emotional stability, which enhance job satisfaction in environments with high relational content. This is especially relevant in small businesses where interactions are close and personal.

The employees' intention to leave the company correlates negatively with the retention of ethical leadership. Therefore, transparent ethical leadership fosters employees' feelings of belonging to the company, partially alleviating burnout associated with feelings of isolation. This finding aligns with previous studies, which posit that ethical leadership reduces withdrawal behaviors through heightened trust and commitment to the organization. Due to the closer relationships that leadership and employees develop within MSMEs, as opposed to large corporations, ethical leadership assumes a more fundamental role in stabilizing retention and attrition rates.

The observed minimal impact of job satisfaction on turnover intentions contradicts existing literature. Job satisfaction is usually among the strongest predictors of turnover intentions, but in this case, satisfaction alone does not seem to prevent turnover, even within the job context. This could relate to issues in MSMEs, such as limited opportunities for advancement, scarce resources, and structural inequities, including significant wage gaps, which likely outweigh affective attachments to work. Therefore, in the MSME context, liquidating work structures of even satisfied employees may reflect external constraints and structural gaps that are crucial to assess in small enterprises.

The lack of a significant moderating effect of perceived organizational justice on the relationship between ethical leadership and turnover intention is noteworthy. It indicates that perceptions of fairness are somewhat irrelevant to the strengthening or weakening of the connection between ethical leadership and turnover intention. One explanation is that the concepts of ethical leadership and organizational justice are so closely tied to one another that an ethical leader may diffuse the extra effect should organizational justice be perceived. In this sense, the contribution to the theory would indicate that in a strong ethical leadership organizational context, perceptions of justice may not be lacking as a result of the very leadership behavior being displayed.

The mediating effect of job satisfaction on the relationship between ethical leadership and turnover intention was significant. This indicates that ethical leadership reduces turnover intention as a direct result of satisfying employees. Ethical leaders foster trust and alignment of values, leading employees to work more favorably and become less likely to withdraw. This mediating effect exhausts the psychological pathway offered by the SET, whereby encouraging behavior from leaders results in positive attitudes from employees. Additionally, this mediation effect clarifies that job satisfaction does not exert a direct influence on turnover intention but instead plays an important mediating role in the ethical leadership-turnover chain.

The impact of ethical leadership on the morale and loyalty of employees in micro, small, and medium-sized enterprises (MSMEs) is profound. The retention aspect of leadership is also explained by ethical leadership due to its impact on satisfaction and turnover intention. The complex nature of employee behavior in small businesses is evident in the indirect mediation of work satisfaction and the non-significant moderating impact of perceived organizational justice. Within the theoretical and contextual framework of ethical leadership and employee retention in emerging markets, this stands as considerable progress.

## 5. CONCLUSION

This study examines how ethical leadership influences turnover intention among MSME employees in Central Java through the mediating role of job satisfaction and the moderating role of perceived organizational justice. The findings confirm that ethical leadership plays a critical role in shaping positive employee attitudes. Ethical leadership significantly enhances job satisfaction and directly reduces turnover intention, demonstrating that ethical behavior from leaders fosters trust, fairness, and emotional attachment within small organizational settings. Although job satisfaction does not significantly predict turnover intention as a direct effect, it operates as a meaningful mediator between ethical leadership and turnover intention. This suggests that employees perceive ethical leadership as a source of psychological support that enhances their satisfaction, which in turn helps reduce their likelihood of leaving the organization.

The mediation effect aligns with Social Exchange Theory, which posits that employees reciprocate fair and ethical treatment with positive organizational attitudes. Contrary to expectations, perceived organizational justice does not significantly moderate the relationship between ethical leadership and turnover intention. This indicates that in MSMEs where leaders interact more directly and personally with employees, the ethical conduct of leaders may be sufficient to establish a sense of fairness, making additional perceptions of organizational justice less influential. Overall, this study contributes to the literature by clarifying the mechanisms through which ethical leadership affects turnover intention, particularly in resource-constrained and relationally intensive MSME environments.

Based on the findings, several policy recommendations can be implemented by MSME owners, organizational leaders, and policymakers to effectively reduce turnover intention and strengthen workforce stability. First, MSME leaders should prioritize the development of ethical leadership as a core managerial competency. The results show that ethical leadership significantly enhances job satisfaction and directly reduces turnover intention. Therefore, policy frameworks at both the organizational and regional government levels should incorporate ethical leadership training modules focusing on integrity, fairness, transparent communication, and value-based decision-making. Local government agencies or cooperative development offices could design standardized leadership certification programs to ensure MSME leaders adopt ethical and people-oriented management practices. Second, policies should emphasize the enhancement of job satisfaction as an indirect but meaningful mechanism for reducing turnover. Even though job satisfaction did not independently predict turnover intention, it played a significant mediating role in strengthening the influence of ethical leadership.

MSMEs should be encouraged to implement satisfaction-driven policies such as fair recognition systems, supportive supervision, clearer job roles, and structured feedback mechanisms. Policymakers should also provide assistance programs that help MSMEs design low-cost but effective employee satisfaction strategies appropriate for small enterprises with limited resources. Third, although perceived organizational justice did not moderate the relationship between ethical leadership and turnover intention, fairness remains an essential foundation for employee trust and psychological well-being.

MSME leaders are therefore advised to institutionalize fair procedures, even in informal settings. Policymakers can support this by offering templates or toolkits for simple and transparent decision-making processes, performance appraisal guidelines, and complaint-handling procedures that fit MSME characteristics. Fourth, regional or national policymakers should recognize that high turnover in MSMEs has broader economic consequences, including reduced productivity, weakened business continuity, and higher labor replacement costs. Thus, public policy should focus on supporting MSMEs through leadership development grants, subsidized training, and capacity-building initiatives aimed at strengthening ethical managerial behavior. This support will help create a more stable workforce and mitigate systemic risks arising from continual employee turnover.

**Funding:** This research was funded by Indonesia Endowment Funds for Education (Lembaga Pengelola Dana Pendidikan—LPDP), Ministry of Finance, Republic of Indonesia (Grant number: BIB Number: BU04-231-0000684).

**Institutional Review Board Statement:** This study was approved by the Institutional Review Board of Research Ethics Committee (KEP) of the Institute for Research and Community Service (LPPM) Jenderal Soedirman University, under protocol number (IRB No. 01.071/KEP-SOSHUM/XII/2025), dated 15 January 2025. Informed verbal consent was obtained from all participants, and all data were anonymized to protect participant confidentiality.

**Transparency:** The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.

**Competing Interests:** The authors declare that they have no competing interests.

**Authors' Contributions:** All authors contributed equally to the conception and design of the study. All authors have read and agreed to the published version of the manuscript.

## REFERENCES

- Abuzaid, A. N., Ghadi, M. Y., Madadha, S.-A. M., & Alateeq, M. M. (2024). The effect of ethical leadership on innovative work behaviors: A mediating–moderating model of psychological empowerment, job crafting, proactive personality, and person–organization fit. *Administrative Sciences*, 14(9), 191. <https://doi.org/10.3390/admsci14090191>
- Adamovic, M. (2023). Organizational justice research: A review, synthesis, and research agenda. *European Management Review*, 20(4), 762-782. <https://doi.org/10.1111/emre.12564>
- Afsar, B., Badir, Y. F., & Bin Saeed, B. (2014). Transformational leadership and innovative work behavior. *Industrial Management & Data Systems*, 114(8), 1270-1300. <https://doi.org/10.1108/IMDS-05-2014-0152>
- Aggarwal, A., & Mittal, A. (2021). Modeling the effect of organizational justice on employee's well-being, organizational citizenship behavior and turnover intentions through employee engagement. *The Open Psychology Journal*, 14(1), 238-248. <https://doi.org/10.2174/1874350102114010238>
- Ahmad, I., & Gao, Y. (2018). Ethical leadership and work engagement: The roles of psychological empowerment and power distance orientation. *Management Decision*, 56(9), 1991-2005. <https://doi.org/10.1108/MD-02-2017-0107>
- Al Shbail, M. O., Alshurafat, H., Ensour, W., Al Amosh, H., & Al-Hazaima, H. (2025). Exploring the impact of internal CSR on auditor turnover intentions: The mediating and moderating roles of job satisfaction, organisational commitment, and job complexity. *Acta Psychologica*, 256, 105012. <https://doi.org/10.1016/j.actpsy.2025.105012>
- Blau, P. M. (1964). Justice in social exchange. *Sociological Inquiry*, 34(2), 193-206. <https://doi.org/10.1111/j.1475-682X.1964.tb00583.x>
- Brown, M. E., & Treviño, L. K. (2006). Ethical leadership: A review and future directions. *The Leadership Quarterly*, 17(6), 595-616. <https://doi.org/10.1016/j.leaqua.2006.10.004>
- Central Java Department of Cooperatives and MSME. (2023). *Data on MSME workers in Central Java Province*. Indonesia: Central Java Department of Cooperatives and MSME.
- Chin, W. W. (1998). The partial least squares approach to structural equation modeling. In G. A. Marcoulides (Ed.), *Modern methods for business research*. In (pp. 295-336). United States: Lawrence Erlbaum Associates.
- Colquitt, J. A., Conlon, D. E., Wesson, M. J., Porter, C. O. L. H., & Ng, K. Y. (2001). Justice at the millennium: A meta-analytic review of 25 years of organizational justice research. *Journal of Applied Psychology*, 86(3), 425-445. <https://doi.org/10.1037/0021-9010.86.3.425>
- Elçi, M., Karabay, M. E., Alpkın, L., & Şener, İ. (2014). The mediating role of mobbing on the relationship between organizational silence and turnover intention. *Procedia-Social and Behavioral Sciences*, 150, 1298-1309. <https://doi.org/10.1016/j.sbspro.2015.01.110>
- Elci, M., Şener, İ., Aksoy, S., & Alpkın, L. (2012). The impact of ethical leadership and leadership effectiveness on employees' turnover intention: The mediating role of work related stress. *Procedia-Social and Behavioral Sciences*, 58, 289-297. <https://doi.org/10.1016/j.sbspro.2012.09.1003>

- Hair, J. J. F., Sarstedt, M., Hopkins, L., & Kuppelwieser, V. G. (2014). Partial least squares structural equation modeling (PLS-SEM): An emerging tool in business research. *European Business Review*, 26(2), 106-121. <https://doi.org/10.1108/EBR-10-2013-0128>
- Javed, M., Tučková, Z., & Jibril, A. B. (2020). The role of social media on tourists' behavior: An empirical analysis of millennials from the Czech Republic. *Sustainability*, 12(18), 7735. <https://doi.org/10.3390/su12187735>
- Kalshoven, K., Den Hartog, D. N., & De Hoogh, A. H. B. (2011). Ethical leadership at work questionnaire (ELW): Development and validation of a multidimensional measure. *The Leadership Quarterly*, 22(1), 51-69. <https://doi.org/10.1016/j.leaqua.2010.12.007>
- Kim, S., Tam, L., Kim, J.-N., & Rhee, Y. (2017). Determinants of employee turnover intention: Understanding the roles of organizational justice, supervisory justice, authoritarian organizational culture and organization-employee relationship quality. *Corporate Communications: An International Journal*, 22(3), 308-328. <https://doi.org/10.1108/CCIJ-11-2016-0074>
- Kim, W. G., & Brymer, R. A. (2011). The effects of ethical leadership on manager job satisfaction, commitment, behavioral outcomes, and firm performance. *International Journal of Hospitality Management*, 30(4), 1020-1026. <https://doi.org/10.1016/j.ijhm.2011.03.008>
- Kuuyelleh, E. N., Akanpaadgi, E., & Ansoglenang, G. (2025). Perceived organisational injustices and academic staff turnover intentions in Ghanaian technical universities. *Social Sciences & Humanities Open*, 11, 101278. <https://doi.org/10.1016/j.ssaho.2025.101278>
- Locke, E. A., & Latham, G. P. (2002). Building a practically useful theory of goal setting and task motivation: A 35-year odyssey. *American Psychologist*, 57(9), 705-717. <https://doi.org/10.1037/0003-066X.57.9.705>
- Mobley, W. H. (1977). Intermediate linkages in the relationship between job satisfaction and employee turnover. *Journal of Applied Psychology*, 62(2), 237-240. <https://doi.org/10.1037/0021-9010.62.2.237>
- RRI. (2024). *Central Java MSME Data: 4.2 Million, mostly women-owned*. Indonesia: RRI.
- Spector, P. E. (1985). Measurement of human service staff satisfaction: Development of the job satisfaction survey. *American Journal of Community Psychology*, 13(6), 693-713. <https://doi.org/10.1007/BF00929796>
- Sung, S. Y., & Choi, J. N. (2014). Do organizations spend wisely on employees? Effects of training and development investments on learning and innovation in organizations. *Journal of Organizational Behavior*, 35(3), 393-412. <https://doi.org/10.1002/job.1897>
- Vuong, B. N., Hieu, V. T., Lien, L. T. P., & Huyen, N. T. T. (2025). How customer orientation reduces job burnout through emotional labor and its impact on turnover intention: Does perceived organizational support matter? *Acta Psychologica*, 259, 105331. <https://doi.org/10.1016/j.actpsy.2025.105331>

*Views and opinions expressed in this article are the views and opinions of the author(s), Humanities and Social Sciences Letters shall not be responsible or answerable for any loss, damage or liability etc. caused in relation to/arising out of the use of the content.*