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UNLOCKING CREATIVITY IN CHINESE SMES: THE ROLE OF GENERATION Y LEADERSHIP AND TEAM DYNAMICS

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Abstract

This study explores the influence of leadership role efficacy, team identification, team trust, and team entrepreneurial orientation on the team creativity of Generation Y entrepreneurs in Chinese SMEs. Analyzing responses from 604 SME entrepreneurs across various sectors using PLS-SEM, the results indicate that team entrepreneurial orientation, identification, leadership role efficacy, and trust significantly impact team creativity. Team entrepreneurial orientation exerted the most decisive influence, followed by team identification, leadership role efficacy, and team trust. Therefore, SME managers should foster entrepreneurial team dynamics by cultivating a shared vision, aligning team goals, and creating an open space. The leadership skills of team leaders should be improved to increase self-confidence in their role and foster a culture of trust. These findings contribute to understanding leadership and team dynamics in promoting creativity within Chinese SMEs, providing implications for policy initiatives and management practices.

Keywords: Generation Y, Leadership, Team Dynamics, Team Creativity, Chinese SMEs

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Introduction

China's economy has experienced remarkable growth in recent decades and has become the second-largest economy in the world. Looking at the economic size within the Asia-Pacific region, forecasts indicate that developing Asia will grow by 5.0% in 2024 and 4.9% in 2025, supported by strong domestic demand and high demand for technology exports (Asian Development Bank, 2024). This economic momentum has contributed to the proliferation of SMEs that focus on providing innovative solutions and creative products, particularly in response to new consumer demands and technological advances. Many modern SME entrepreneurs belong to Generation Y, known for their digital literacy, openness to innovation, and collaborative working style (Cui & Song, 2022). SME leaders, especially those belonging to Generation Y, born between 1980 and 2000, play a crucial role as strategic navigators and the heart of the team. They are responsible for cultivating a positive work environment that enables team members to discover the actual value and meaning of their work. A significant challenge for modern leaders is to foster the psychological stability of team members in the face of constant organizational and external change, while combating declining levels of hope, positivity, and self-confidence.

In the context of market liberalization, globalization, and the international expansion of Chinese companies, competition in the market has intensified considerably. While large enterprises face increasing pressure from domestic and international competitors, small and medium-sized enterprises (SMEs) are similarly challenged by large corporations, similar SMEs, and new market entrants. According to the National Bureau of Statistics of China (2023), SMEs account for over 99% of all registered enterprises, highlighting their crucial role in job creation, economic growth, and maintaining social stability. Due to their relatively small scale, SMEs benefit from their organizational agility, which enables them to make quick decisions and respond to changing market demands. In addition, SMEs are active in various industries and contribute to industrial diversification and structural change in the national economy (Yu et al., 2020). In recent years, digitalization, innovation, and policy support have driven economic dynamism in the Asia-Pacific region, including China. This environment has fostered the emergence of SMEs increasingly focused on innovation and creative problem-solving. The Chinese government has actively supported this transformation through strategic policies and investment in digital infrastructure, creating a favorable environment for innovation-driven growth (Fan et al., 2022). However, in addition to financial capital, SMEs' long-term sustainability and growth depend heavily on the creativity, adaptability, and leadership skills of their managers and employees. Of particular importance is the rise of Generation Y entrepreneurs, who now lead a significant proportion of Chinese SMEs. This generation is known for its technological dexterity, openness to change, and preference for collaborative leadership. These traits foster improved team dynamics, increase innovation, and encourage creative solutions in complex and uncertain market environments.

Leadership role efficacy is central to creating a psychologically safe environment that allows team members to express their ideas freely, thereby fostering the whole team's creativity. Transformational leadership, characterized by a clear vision and the ability to inspire, has positively influenced employee creativity in Chinese manufacturing SMEs, with creative self-efficacy as a significant mediating factor. In addition, the team's entrepreneurial orientation, which includes innovation, proactivity, and willingness to take calculated risks, has been identified as an important driver of team creativity. This relationship is also influenced by contextual variables such as the heterogeneity of the team and the presence of individual creative mindsets. In Chinese SMEs, Generation Y entrepreneurs play an increasingly important role in shaping the corporate culture. Their digital literacy, openness to innovation, and adaptable thinking contribute to a leadership style that encourages creativity and team-based problem solving. These generational characteristics align with the fundamentals of

entrepreneurial leadership, which have been empirically linked to increased team creative effectiveness and innovative output. Therefore, this study investigates the effects of leadership role efficacy, team identification, team trust, and team entrepreneurial orientation on team creativity in the context of Generation Y entrepreneurs leading SMEs in China. The findings are expected to inform policy initiatives and management practices that support leadership development, collaborative team dynamics, and innovation capabilities of SMEs in competitive and developing markets.

Literature Reviews

Team creativity is the dynamic and interactive process by which teams collaboratively develop, refine, and implement new and valuable ideas that contribute to their goals and performance (Paulus & Nijstad, 2003; Moirano et al., 2020; Shalley & Gilson, 2004). This process thrives on integrating different perspectives, domain-specific knowledge, and collaborative skills of the team members. It is characterized by the generation of original ideas and the ability to assess their feasibility and translate them into applicable results (Rosing et al., 2018). Given modern organizations' increasing complexity and interdependence, team creativity has become a critical capability to achieve sustainable innovation and competitiveness. Therefore, the following sections of this literature review examine these factors in depth and hypothesize their influence on team creativity.

Relationship between Leadership Role-Efficacy and Team Creativity

The concept of leadership role-efficacy, rooted in Bandura's (1977) self-efficacy theory, refers to a leader's belief in their capability to effectively guide, influence, and manage a team toward goal achievement. In leadership, this efficacy manifests through behavioral persistence, strategic decision-making, and adaptive emotional responses (Bass et al., 2003; Gjerde, 2015; Priyaadarshini & Jena, 2024). Leaders with high self-efficacy tend to demonstrate resilience, optimism, and the ability to manage adversity constructively, which fosters an environment conducive to innovation and team creativity (Bao et al., 2025; Jiang et al., 2024). Empirical studies have highlighted that trust in leadership directly increases the creative output of team members, especially when leaders exhibit empowering and entrepreneurial behaviors that promote autonomy and psychological safety (Newman et al., 2018; Liu et al., 2020). Furthermore, Hoch et al. (2016) emphasized that when accompanied by authentic and transformational qualities, leadership efficacy promotes intrinsic motivation and fosters a team climate of trust, openness, and shared vision - all fundamental prerequisites for fostering creativity in groups. Therefore, based on the theoretical foundations and empirical results, the following hypothesis is put forward:

H1: Leadership role-efficacy has a positive impact on team creativity.

Relationship between Team Identification and Team Creativity

Team identification arises from how team members perceive and internalize a sense of belonging. This concept is rooted in social identity theory (Tajfel, 1970), which assumes that individuals define themselves through group membership and internalize the values, behaviors, and goals of the group as their own (Mesmer-Magnus et al., 2018; Pratt, 1998; Lee et al., 2015). A high degree of identification with the team promotes emotional attachment and motivation to work for the good of the team. Previous studies by Gundlach et al. (2006) and Ruggieri & Abbate (2013) suggest that team identification serves as a bridge between members and team goals and promotes coordination, collaboration and the exchange of creative ideas (Burke et al., 2006; Lembke & Wilson, 1998; Janssen & Huang, 2007). More recent research supports this relationship. For example, Keem et al. (2022) found that collective team identification mediates the positive effect of ethical leadership on team creativity, highlighting the role of shared identity in fostering innovative outcomes. In addition, Hong et al. (2020) showed that team identification interacts with perceived expertise and dyadic gender composition to

promote task-related helping behavior, which is essential for creative collaboration. Therefore, the research hypothesis can be formulated as follows:

H2: Team identification has a positive impact on team creativity.

Relationship between Team Trust and Team Creativity

Team trust refers to the positive expectations that team members have regarding the behavior of their colleagues without the need for direct supervision or control (Mayer et al., 1995; Ahmed et al., 2019). A high level of trust within a team contributes to a psychologically safe climate and forms the basis for constructive collaboration (Bligh, 2017; Costa et al., 2018; Weiss et al., 2021). Teams with high trust are likelier to show openness, share information, and dare to express their ideas (Breuer et al., 2019; Meneghel et al., 2016; Sottilare et al., 2018). Trust also acts as an emotional motor that mitigates conflicts and promotes participation in creative processes. Recent empirical studies have shed further light on this relationship. For example, Feitosa et al. (2020) conducted a meta-analytic investigation in which they highlighted that trust in the team significantly predicts team creativity by promoting open communication and reducing interpersonal risks. In addition, Sacramento et al. (2024) found that teams with higher average openness to experience tended to develop greater psychological safety, which mediates the positive effect of trust on team creativity. These findings emphasize the central role of trust in creating an environment conducive to innovation. Therefore, the research hypothesis can be formulated as follows:

H3: Team trust has a positive impact on team creativity.

Relationship between Team Entrepreneurial Orientation and Team Creativity

Team entrepreneurial orientation refers to team members' collective passion, commitment, and proactive efforts to drive innovative activities and create new value within the organization (Cardon et al., 2017). Entrepreneurial passion at the team level can promote shared learning, full investment of resources and mutual support through a common team identity (Zhu & Wang, 2019). Such dynamic improves the team's ability to overcome challenges and develop innovative solutions effectively. Recent empirical studies have shed further light on this relationship. For example, Tkacz et al. (2023) found that while team entrepreneurial orientation (TEO) significantly improves the quality of business ideas, its impact on novelty is less pronounced, suggesting that TEO promotes the refinement of existing concepts rather than the development of entirely new concepts. Furthermore, Yi et al. (2021) have shown that entrepreneurial orientation positively influences novelty and new product meaningfulness, contributing to competitive advantage and better performance in small and medium-sized enterprises. Therefore, the research hypothesis can be formulated as follows:

H4: Team entrepreneurial orientation has a positive impact on team creativity.

The conceptual framework can be drawn from the literature review, as shown in Figure 1.

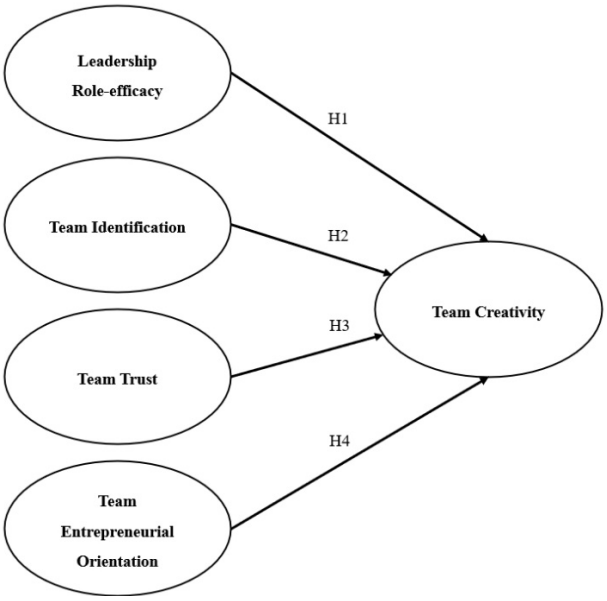

Figure 1 Conceptual Framework

Research Methodology

This study used a quantitative research methodology to analyze the influence of leadership role-efficacy, team identification, team trust, and team entrepreneurial orientation on team creativity among Generation Y entrepreneurs operating small and medium-sized enterprises (SMEs) in China. The target population comprised 6,806,551 SME entrepreneurs divided into four business sectors: professional services (including internet and technology), retail and manufacturing, wholesale and logistics, and others. The sample size was determined based on the recommendations of Hair et al. (2018), who recommend a minimum sample size of at least twenty times the number of observed variables. As this study comprised 37 observed variables, a minimum of 740 respondents was required. To account for possible incomplete responses, 740 questionnaires were distributed using a stratified random sample based on the proportional representation of each industry group. The SME entrepreneurs were divided into four business areas for stratification: Professional services (including internet and technology) accounted for 43.12%, retail and manufacturing 23.75%, wholesale and logistics 14.68%, and other categories 18.45%. However, despite the use of a proportional stratified sampling, there is a possibility that the returned questionnaires may not fully reflect the exact proportions due to non-response or incomplete submissions, which is a standard limitation of survey-based research. The research instrument consisted of a six-part structured questionnaire covering general information, leadership role-efficacy, team identification, team trust, team entrepreneurial orientation, and team creativity. Content validity was assessed using the Index of Item-Objective Congruence (IOC), with all items scoring above .50 (Turner & Carlson, 2003). The reliability of the individual constructs was tested using Cronbach's alpha coefficients, which ranged between .762 and .945; it was greater than 0.70, indicating adequate reliability (Heo et al., 2015). Descriptive statistics, including frequency, percentage, mean, and standard deviation, were used for the initial data analysis. Hypothesis testing was performed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The measurement model was assessed using reliability and validity indicators such as factor loadings (≥ .50), average variance extracted (AVE) (≥ .50), Dijkstra-Henseler's rho (ρA) (≥ .70), Jöreskog's rho or composite reliability (ρc) (≥ .70), and Cronbach's alpha (≥ .70). Discriminant validity was assessed using the Fornell-Larcker criterion (AVE > r) (Cheung et al., 2024). For the structural model, estimates of the path coefficients (β), t-values, p-values, Cohen's f2, and R2 were analyzed to test the hypothesized relationships between the variables.

Research Results

With 310 people (51.32%), most respondents were male, followed by women with 294 people (48.68%). Most participants were between 23 and 43 years old, representing 508 people (84.10%). In terms of type of business, the most significant proportion of respondents came from the professional services sector (including internet and technical services) with 288 people (47.68%), followed by logistics and wholesale with 135 people (22.35%), others with 98 people (16.23%) and the smallest group from the retail and manufacturing sector with 83 people (13.74%). Six hundred four valid responses were received, corresponding to 81.62% of the 740 questionnaires distributed, which is a relatively high response rate (Holtom et al., 2022). Regarding company size, most participating companies had between 50 and 300 employees, with 297 companies (49.17%) falling within this range.

Leadership Role-Efficacy, Team Identification, Team Trust, Team Entrepreneurial Orientation, and Team Creativity

Table 1 shows the mean values and standard deviations resulting from the descriptive analysis of the individual variables. The mean values lie between 3.353 and 3.624, while the standard deviations range from 1.18 to 1.28. The detailed results are as follows:

Table 1 Mean and Standard Deviation

Leadership Role-Efficacy (LRE)	$\bar{X}$	**SD**
LRE1: As a leader, I feel that I have an excellent grasp of all aspects of leadership	3.614	1.191
LRE2: As a leader, I am well aware of my leadership qualities	3.568	1.225
LRE3: Whenever a problem is brought to my attention, I take immediate action to deal with it	3.624	1.235
LRE4: As a leader, I am very confident in making a decision	3.593	1.211
Team Identification (TID)	$\bar{X}$	**SD**
TID1: As a leader, you have an emotional attachment to your team	3.457	1.232
TID2: As a leader, you have a strong sense of belonging to your team	3.430	1.246
TID3: As a leader, you feel that your team's problems are your problems	3.406	1.246
TID4: As a leader, you feel like you are part of a team family	3.447	1.243
Team Trust (TMT)	$\bar{X}$	**SD**
TMT1: Your team members are willing to share and have nothing to hide	3.427	1.267
TMT2: Your team members can trust and rely on each other without worrying about being outdone or taken advantage of by others	3.490	1.252
TMT3: Your team members are committed to long-term cooperation and mutual consultation to solve problems together	3.474	1.257
TMT4: When your team members are project partners, they are willing to invest or contribute resources to the enterprise	3.450	1.264
Team Entrepreneurial Orientation (TEO)	$\bar{X}$	**SD**
TME1: Your team internally shares information and identifies with the team's goals	3.422	1.257
TME2: As a team leader, you have authority and trust	3.411	1.208
TME3: Work within your team in an innovative and positive atmosphere	3.434	1.235
TME4: It is possible to consult others and to understand and accept each other within your team	3.424	1.219
TME5: Your team members are recognized within the team	3.488	1.237
TME6: Your team members can make a difference within the team	3.429	1.232
TME7: Your team members are satisfied with the work environment	3.517	1.204

TME8: Your team members are satisfied with the relationships within the team	3.508	1.196
TME9: Your team members are happy with what they are getting	3.477	1.248
Team Creativity (TMC)	**$\bar{X}$**	**SD**
TMC1: I am trying to work in more creative	3.377	1.239
TMC2: It is my job to come up with new ideas for products or processes	3.353	1.280
TMC3: I regard innovation as an important goal in my work	3.406	1.221
TMC4: Have confidence in your professional competence	3.520	1.211
TMC5: Task creatively to solve complex problems	3.515	1.179
TMC6: Have the ability of learning, organization, and research	3.490	1.175
TMC7: Can achieve a high level of results	3.462	1.211
TMC8: Can deal with a lot of important tasks	3.525	1.186

Measurement Model, Composite Reliability, and Discriminant Validity

The measurement model was assessed by evaluating the loadings of the indicators for each latent variable to determine if the factor loading values exceeded the threshold of .50. In addition, the average variance extracted (AVE) was examined to ensure that the values were above .50. Composite reliability was assessed using several statistical measures, including Dijkstra-Henseler's rho (ρA), Jöreskog's rho (ρc), and Cronbach's alpha (α), with acceptable thresholds of greater than .70, indicating adequate reliability, as shown in Table 2. In addition, Table 3 shows the results of the discriminant validity test using the Fornell-Larcker criterion, which requires that the square root of the AVE for each construct must be greater than the correlation coefficients (r) between that construct and all other latent variables. If this condition is met, it can be concluded that the model has discriminant validity and no problem with multicollinearity within or between the latent constructs.

Table 2 Factor Loadings, Average Variance Extracted, and Composite Reliability

Variables	**Loading**	**AVE**	**Dijkstra-Henseler's rho (ρA)**	**Jöreskog's rho (ρc)**	**Cronbach's alpha (α)**
Leadership Role-Efficacy		.730	.880	.915	.877
- LRE1	.855				
- LRE2	.847				
- LRE3	.863				
- LRE4	.853				
Team Identification		.736	.918	.881	.882
- TID1	.857				
- TID2	.861				
- TID3	.852				
- TID4	.862				
Team Trust		.746	.894	.922	.887
- TMT1	.877				
- TMT2	.851				
- TMT3	.875				
- TMT4	.852				
Team Entrepreneurial Orientation		.560	.903	.920	.902
- TEO1	.721				
- TEO2	.725				
- TEO3	.707				

- TEO4	.705				
- TEO5	.750				
- TEO6	.762				
- TEO7	.764				
- TEO8	.788				
- TEO9	.807				
Team Creativity		.557	.886	.910	.886
- TMC1	.706				
- TMC2	.717				
- TMC3	.699				
- TMC4	.772				
- TMC5	.772				
- TMC6	.761				
- TMC7	.783				
- TMC8	.758				

Table 3 Discriminant Validity According to The Fornell-Larcker Criterion

Variables	LRE	TID	TMT	TEO	TMC
- Leadership Role-Efficacy (LRE)	**.854**				
- Team Identification (TID)	.065	**.858**			
- Team Trust (TMT)	.051	.255	**.864**		
- Team Entrepreneurial Orientation (TEO)	.125	.117	.157	**.748**	
- Team Creativity (TMC)	.108	.131	.107	.158	**.746**

Note: Bold values in the diagonal line display the square root of AVE

According to Table 2, the analysis of the measurement model in this study showed that all factor loadings exceeded the threshold value of .50 and ranged between .705 and .877. The AVE values for all constructs were also above .50, ranging from .557 to .746. Furthermore, the composite reliability assessment showed that all constructs achieved satisfactory reliability, with the Dijkstra-Henseler rho (ρA) ranging from .880 to .918, the Jöreskog rho (ρc) ranging from .881 to .922, and the Cronbach's alpha (α) ranging from .877 to .902. These results confirm that each latent construct of the model has adequate internal consistency and convergent validity. Table 3 also shows the results of the discriminant validity assessment using the Fornell-Larcker criterion. The analysis revealed that all constructs met the criterion, as the square root of the AVE for each construct was greater than the correlations between the latent variables. The inter-construct correlations (r) were between .051 and .255, indicating low to moderate associations and confirming the absence of multicollinearity problems within and between the latent constructs (Henseler et al., 2015).

Finalized Model and Hypothesis Testing

Following the evaluation of the measurement model, the structural model was tested to examine the effects of Leadership Role-Efficacy, Team Identification, Team Trust, and Team Entrepreneurial orientation on Team Creativity. The relationships between the variables were analyzed and illustrated in the structural model shown in Figure 2, with the results of the hypothesis tests summarized in Table 4. The table contains the standardized path coefficients (β) indicating the extent of influence of the independent variables on the dependent variable, t-values for statistical tests, p-values to assess statistical significance, Cohen's f^2 to assess effect size, and R^2 to represent predictive power or the proportion of variance in the dependent variable explained by the independent variables.

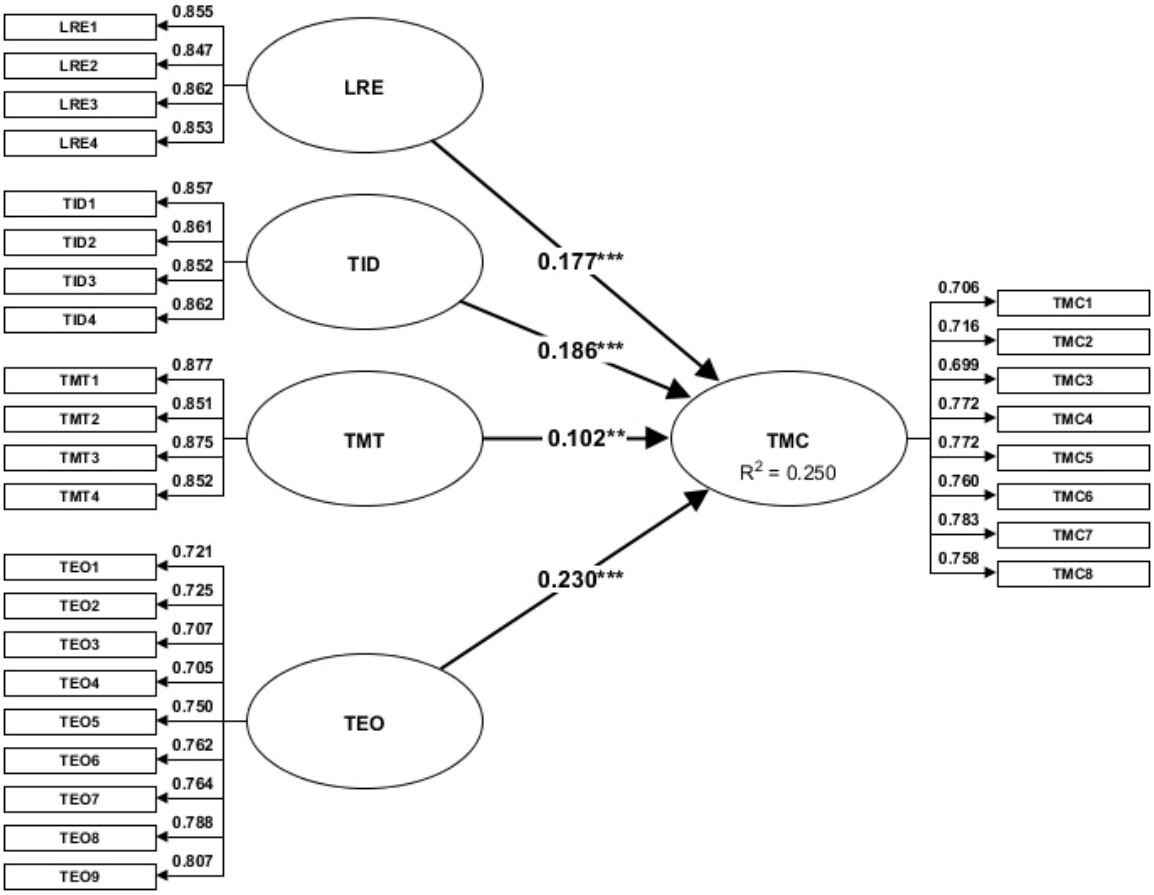

Figure 2 Finalized Model

Table 4 Standardized Estimate, t-value, p-value, and Cohen's F^2

Factors	**Team Creativity** (R^2 = .250)			
	β	**t-value**	**p-value**	**Cohen's F^2**
- Leadership Role-Efficacy (LRE)	.177	4.644***	.000	.036
- Team Identification (TID)	.186	4.345***	.000	.033
- Team Trust (TME)	.102	2.373**	.009	.010
- Team Entrepreneurial Orientation (TEO)	.230	5.500***	.000	.053

Note: β refers to standardized estimate, Confidence intervals level 95% (*p-value < .05, **p-value < .01, ***p-value < .001), Cohen's F^2 refers to effect size (small = .02, medium = .15, large = .35)

Table 4 shows the results of the hypothesis tests on the factors influencing the team creativity of Generation Y entrepreneurs in small and medium-sized enterprises (SMEs) in China. The results show that Team Entrepreneurial orientation (β = 0.230, t-value = 5.500, Cohen's F^2 = .053), Team Identification (β = 0.186, t-value = 4.345, Cohen's F^2 = .033), Leadership Role-Efficacy (β = 0.177, t-value = 4.644, Cohen's F^2 = .036), and Team Trust (β = 0.102, t-value = 2.373, Cohen's F^2 = .010) all had statistically significant effects on team creativity, with p-values ranging from .000 to .009. The model explains 25% of the variance in team creativity (R^2 = 0.250), indicating moderate predictive power. This reinforces the overall contribution of the model. These results are consistent with all proposed research hypotheses.

Conclusion and Discussion

This study aimed to analyze the influence of leadership role efficacy, team identification, team trust, and team entrepreneurial orientation on the creativity of Generation Y entrepreneurs in SMEs in China. The results of structural equation modeling showed that team entrepreneurial orientation had the strongest influence on team creativity, followed by team identification, leadership role efficacy, and team trust. All variables showed statistically significant effects, and the model explained 25% of the variance in team creativity, which is consistent with the proposed research hypotheses.

The salience of team entrepreneurial orientation underscores the critical role of shared entrepreneurial passion and collective drive in fostering innovation in organizations. This finding is consistent with Cardon et al.'s (2017) conceptualization of team entrepreneurial passion, which emphasizes the emergence of shared intense positive feelings among team members, facilitating communication, knowledge sharing, and systematic innovation development. The significant influence of team identification suggests that a strong sense of belonging and shared identity increases team members' motivation to solve problems creatively, consistent with social identity theory (Tajfel, 1970). Leadership role efficacy also showed a moderate but significant impact on team creativity, confirming that leaders who are confident in their abilities can inspire teams to pursue innovative ideas. This is consistent with the findings of Bass et al. (2003), who highlight the role of transformational leadership in fostering a creative organizational climate. Although team trust had the least influence among the variables studied, its positive and significant relationship with team creativity confirms the importance of a psychologically safe environment that encourages open expression and risk-taking (Breuer et al., 2019). The collectivist culture and Confucian values prevalent in Chinese society emphasize group harmony, respect for hierarchy, and collective achievement, which may enhance the effects of team identification and trust on creativity. In addition, the Chinese government's "mass entrepreneurship and innovation" policy has created a supportive ecosystem for SMEs and young entrepreneurs, providing resources and incentives that encourage innovation and entrepreneurial activities (Zhao et al., 2023).

From a practical perspective, SME leaders should cultivate entrepreneurial drive at the team level by fostering a shared vision, aligning collective goals, and creating an environment that values open expression and innovation. Strengthening team identity and trust through team-building and inclusive communication practices can improve emotional engagement and collaboration. Investing in leadership development programs that improve the effectiveness of their role and empower team leaders is also recommended. These strategies are critical in culturally complex and competitive environments such as China, where innovation must be balanced with group harmony and compliance. Theoretically, the findings support the notion that team creativity is a product of complex social interactions and shared cognitive processes rather than isolated individual traits. By embedding this study in the Chinese cultural and institutional context, it contributes to a more contextualized understanding of innovation at the team level. It provides a valuable conceptual basis for comparative research between Asian economies.

Limitations of the study include the specific focus on Generation Y entrepreneurs in Chinese SMEs, which may limit the generalizability of the results to other generational cohorts, industry sectors, or national contexts. Future research should expand the sample to include entrepreneurs from other age groups and industries, and apply comparative or cross-national designs to validate and extend the current model. In addition, using a purely quantitative approach may have limited the depth of insight into the team processes studied. Including qualitative methods such as semi-structured interviews, focus groups, or content analysis in future studies could offer a more nuanced understanding of the behavioral dynamics that drive team creativity. Furthermore, the relatively low explanatory power of the model suggests that

only 25% of the variance in team creativity can be explained by the current set of predictors. This suggests the presence of other influential variables that were not included in the model. Future studies could examine the role of organizational culture, leadership styles beyond role efficacy (e.g., transformational or servant leadership), external market conditions, or supportive government policies that may also influence team creativity in entrepreneurial firms. Including such variables could improve the predictive power of the model and provide a more holistic understanding of the antecedents of team creativity in the SME context.

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