

# How Can Leaders Build Reputation in Chinese SMEs

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How can leaders transform their SMEs from being unknown to being known and more competitive in the market?

Unlike large organizations such as Amazon and Microsoft, SMEs struggle to make themselves known in the market. How can they build up reputations to survive, grow and flourish in the long-term? We conducted interviews with leaders of fast-growing SMEs as well as senior internal and external stakeholders in the Shanghai logistics industry to find out their strategies for reputation building.

We found that Chinese ancient thoughts and teachings are relevant today. Contemporary Chinese leaders still draw on classic, indigenous philosophy to enhance their reputation and reduce uncertainties. Leadership today is often characterized as being directional, functional and performance-oriented. In contrast, Daoist nothingness proposes leaders should follow a natural way: focusing on doing one's best and keeping openness to let the best arrive by itself.

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We found SME leaders follow Daoist nothingness to build up local reputation within their firms in three ways. First, they use the strategy of locating by putting themselves in the place of their staff, and drawing on soft skills such as creating a flat culture and showing genuine care towards employees. Second, they do not follow the popular leadership teachings, but keep openness and follow their own intuition to lead their businesses. For example, a SME leader suggested: 'Like driving on the road, I simply follow the flow and lead ad hoc.' Third, they adopt a low-profile approach by creating a flat organizational culture to let employees naturally grow into their jobs and become self-motivated.

We also found SME leaders follow nothingness to enhance a broader reputation among external stakeholders through three stages. The first stage involved attention-generating. The leaders employ multiple ways to generate extensive attention and engagement among a broad set of stakeholders. These efforts could be as simple as offering lunch. For example, a SME leader invited a customer for lunch simply because it was lunch time when the customer was requesting a £4 delivery. This small but authentic gesture caught the customer's attention. Hence, he proactively offered further business to this leader, which was a turning point for the firm; it not only survived but exploited this opportunity to steadily grow.

At the second stage, the leaders employed distinctive ways to build trust and gain endorsement among external and distant stakeholders through reducing uncertainty. For example, one leader had no prestigious education background, no capital or good Guanxi (personal networks), but he always tried to be a role model within his firm and an ethical person in everyday life. His business not only survived but flourished in the highly competitive market in Shanghai. Being good to others functions like a magnet, inviting reciprocity: if one is genuinely good to others, others will return the gesture.

The last stage referred to evaluation. The leaders recounted a variety of dilemmas emerging in their decision-making process. They drew upon moral capacity and made heightened ethical and transparent decisions, and were oriented towards long-term sustainable growth, even at the sacrifice of immediate and short-term financial gains. Eventually their efforts were well-paid off as they successfully managed to develop a positive reputation among external stakeholders. This enabled their firms to stand out from the 'cowboys' in the market.

What can other types of organizations, especially Chinese SMEs, learn about building reputation? We argue that reputation building is particularly important for SMEs to survive and grow in fiercely competitive markets. SMEs are often constrained by limited financial capital, human capital and social capital. But there is still something that SME leaders can do. We suggest that they can embrace Daoist nothingness to build up both local reputation and a broader reputation among internal and external stakeholders. The leaders often represent their own firms, so their personal reputation tends to be regarded as a proxy for their organizations' reputation. If they follow a natural way to be genuinely good people and good leaders, their organizational reputation will follow.

*This article is based on the following academic publication: Li, H., Jones, O., Harvey, W.S. and Yang, J. (2020), "A Daoist perspective on leadership: reputation-building in Chinese SMEs", International Journal of Entrepreneurial Behavior & Research, which can be accessed here.*

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