A Daoist perspective on leadership: reputation-building in Chinese SMEs

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Abstract

Purpose

This article examines the influence of Daoist *nothingness* on leadership in growing Chinese SMEs. Daoism is based on a 'letting-go' approach through maintaining inherent openness, which challenges goal-oriented and hierarchical approaches typical of Western and Confucian leadership theories. This facilitates the cross-fertilization of ideas related to the effective management of smaller firms.

Design/methodology/approach

This study focuses on SME leaders in a group of twelve growing SMEs in the Shanghai logistics industry in China. Narrative and semi-structured interviews explored emerging aspects beyond the established model of leadership associated with reputation-building. This led to in-depth, thick descriptions, broadening our understanding of leadership and reputation building.

Findings

SME leaders follow nothingness by continuously adopting a letting-go approach which spontaneously fosters reputation-building. By maintaining inherent openness, nothingness functions as an enabling principle that mobilises multi-beings leading to reputation-building in unintended ways.

Research limitations/implications

A greater plurality of empirical and methodological contexts in Western and non-Western countries helps to understand the dynamics and intersection of Daoist nothingness, leadership and reputation-building.

Practical implications

SME leaders recounted how they discursively practised nothingness for extended periods in their everyday practice. The study shows the significance of nothingness for SME leaders who aspire to grow their businesses by reputation-building among salient stakeholders.

Social implications

Daoist nothingness provides insights into the distinctive approach of Chinese SME leaders and their relationships with local and distant stakeholders. By engaging in active non-action they relax pre-determined intentions and immerse themselves in the process of leading, where the intrinsic connections between goals and processes are automatically animated. Such an approach differs from the top-down and goal-oriented approach to leadership adopted in many western SMEs.

Originality/value

This paper makes two theoretical contributions. First, it indicates the powerful influence of Daoist nothingness on leadership by drawing on the broader context of entrepreneurship in Chinese SMEs. Second, it enriches existing concepts such as reputation by endowment and reputation borrowing by demonstrating how Daoist nothingness silently fosters both local reputation and generalized reputation.

Key words

Daoist nothingness, leadership, reputation, SMEs, China

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Introduction

This article investigates the influence of Daoist nothingness on leadership as a complement to reputation management in growing Chinese micro, small and medium enterprises (SMEs). It is important to use indigenous Chinese thought (Barney and Zhang, 2009) rather than borrowing Western philosophies to examine the unique dynamism and complexities embedded in Chinese business contexts (Tsui *et al.,* 2004). Daoism is regarded as the philosophical foundation that differentiates Chinese leadership from Western constructs (Chan, 1970; Grint, 2011). The core principle of Daoism centres upon nothingness, referring to the inherent openness through a letting-go approach (Wenning, 2011). Yet, surprisingly little is known about the perceptions and practices of Chinese SME leaders attending to this indigenous thinking (Cheung and Chan, 2005; Xing and Sims, 2012).

In the process of SME growth, the first challenge lies in the 'crisis of leadership' (Greiner, 1972:6). Indeed, SME leaders are central to the operation of small businesses, setting priorities for organizational success, building reputations and defining the trajectory of organizational development (Penrose, 1959; Whetten and Mackey, 2002). Notwithstanding the prominence of leadership studies, the bulk of research tends to focus on large organizations, while there is a dearth of leadership research that gives sufficient attention to context (Currie et al., 2009; Liden and Antonakis, 2009), particularly in relation to SMEs (Cope *et al.,* 2011). The underlying assumption is that small businesses are simply different from large businesses in terms of scale. However, close proximity and 'resource poverty' (Welsh and White, 1981:18) means that leadership in smaller organizations is distinct compared to larger ones where there are substantial distances between leaders and followers (Bass, 1985).

Leaders who aspire to grow their businesses need to reduce uncertainty among stakeholders by building-up reputation so that they can 'stand out' among their competitors (Rindova *et al.,* 2007). The tasks of reputation-building are mainly distributed among marketing and corporate communications departments in large organizations. In contrast, leaders take 'a figurative role' in SMEs where they are often representative of their firms (Holt and Macpherson, 2010: 21). In this regard, the individual reputations of SME leaders are viewed as a model for their employees (Hogg, 2001) and overlap with multiple reputations perceived by salient internal and external stakeholders (Harvey *et al.,* 2017). Challenges to reputation require urgent examination of leadership to ensure businesses flourish in the long term (Sparrowe,

2005). Following this line of argument, we understand leadership as a process in which leaders build up reputation among stakeholders within the firm and beyond. Hence, we pose the following research question:

How do SME leaders build reputation in their everyday leadership practices?

We focus on growing Chinese SMEs, which are a particularly appropriate context for two reasons. First, given the increasing vitality of Chinese SME growth (Ahlstrom and Ding, 2014; Shu *et al.,* 2019), there is limited scrutiny of the interrelations between leadership and reputation. Second, existing research tends to focus on how to build reputation in large organizations (Harvey *et al.,* 2017), but the formation of reputation in smaller firms remains underexplored (Petkova, 2012). Chinese SMEs are facing major pressures including globalization, technological innovation, social change (Yu *et al.*, 2001) and responding to the coronavirus. We suggest that the accumulation of reputations at the initial stage helps to build a resilient reputation over an extended period.

Leadership in the spirit of Daoist nothingness

Anderson and Sun (2017: 77) review nine contemporary leadership styles (ideological, pragmatic, servant, authentic, ethical, spiritual, integrative public, shared and distributed) in the context of 'the dominant transformational/transactional paradigm'. They examine how the various 'theories' of leadership differ in the ways they have been operationalized by researchers. Anderson and Sun (2017: 90) conclude that, in practice, there are extensive overlaps between the various leadership styles. For example, authentic leadership strongly overlaps with transformational and ethical leadership, with many researchers using very similar instruments. Similarly, spiritual leadership has overlaps with authentic, ethical and transformational leadership styles where the focus is on fostering group cohesion and encouraging self-transcendental behaviour amongst followers (Anderson and Sun, 2017). For example, Walumbwa *et al.* (2008: 94) offer the following definition of authentic leadership:

> 'A pattern of leader behaviour that draws upon and promotes both positive psychological capacities and a positive ethical climate, to foster greater self-awareness, an internalised moral perspective, balanced processing of information, and relational transparency on the part of leaders working with followers, fostering positive self-development.'

According to Iszatt-White and Kempster (2019: 360), authentic leadership research can be divided into US-based literature, which concentrates on a 'normative and functionalist' leadership style aimed at measurable organizational outcomes. Whereas, the European/Asian tradition of authentic leadership research draws on an existentialist perspective (Lawler and

Ashman, 2012), which is based on a more complex and contested view of authenticity. Iszatt-White and Kempster (2019: 367) argue that reconciling the different approaches to authentic leadership demands 'a qualitative understanding of how authenticity is enacted within leadership practice'. We suggest that authentic and spiritual leadership has strong similarities with a Daoist approach to leading. According to Cheung and Chan (2008), Daoism is linked to leadership change, flexibility and the identification of new opportunities rather than organizational stability. Daoism is based on the theory of naturalism (Pan and Yu, 2001) in which leadership is similar to the natural world, where there is a constant cycle with no beginning or ending. To justify their focus on Chinese leadership, Cheung and Chan (2008: 475) offer the following five key reasons:

(1) globalization of leadership practices in organizations and corporations spreading across national and cultural borders;

(2) significance of Chinese and Hong Kong organizations and corporations in the never-ending globalization endeavour;

(3) international division of labour and dependency, involving Chinese and Hong Kong organizations and corporations;

(4) international employment and deployment of personnel relating Chinese to non-Chinese working people;

(5) international development of leadership through knowledge sharing and cross-fertilization involving Chinese as well as Western knowledge.

We suggest that since the publication of their paper, this justification for better understanding of Chinese leadership is even more significant. In that time, China has become a major political, economic and social influencer in most regions of the world (He *et al.,* 2019). In addition, while there have been some studies of leadership in smaller firms (Garavan *et al.*, 2016; Oluwafemi *et al.,* 2019), this is a topic that deserves greater research attention. Developing a better understanding of good Chinese leadership practices will help facilitate the cross-fertilization of ideas related to the effective management of smaller firms (Cheung and Chan, 2008).

Contemporary Chinese leaders continue to draw insight from traditional philosophies such as Laozi's Daoism (Grint, 2011), which is regarded as one of the main philosophical foundations impacting Chinese managers' thinking and behaviours (Cheung and Chan, 2005). Research into leadership or management by Daoist teachings has been extensively explored in modern business practices such as leadership (Dreher, 2002; Heider, 2014) and management (Messing, 1992). For example, Ma and Tsui (2015) address leadership by attending to three dominating Chinese philosophies, namely: Daoism, Confucianism and legalism. While Confucianism is widely regarded as a shorthand for Chinese culture, contemporary leaders are

less committed to this perspective (McElhatton and Jackson, 2012). Confucianism accentuates a hierarchical, prescriptive and controlling approach (Huang *et al.,* 2015), associated with authoritarian leadership (Farh and Cheng, 2000) or directive leadership (Chen *et al.,* 2017). It fundamentally underscores hierarchy to maintain social stability, where leaders substantially undertake the role of training, teaching or educating their subordinates to perform better (Yang *et al.,* 2008). However, it is not stability but change that is seen as constitutive of organizations (Tsoukas and Chia, 2002), particularly in the volatile context of growing SMEs. Legalism, second only to Confucianism, emphasizes teaching rulers (leaders) how to survive and prosper in competitive contexts through multiple reform strategies such as strengthening control and replacing the old aristocracy by bureaucracy (Hwang, 2008). In contrast, Daoism proposes non-action, empowering, striking the right balance and selflessness. While it appears invisible through non-interference, it is 'powerful' and 'nourishing' (Ma and Tsui, 2015:15) and termed 'wateristic' leadership, which means 'follower-ship or service-ship just like water' (Dimovski *et al.,* 2013: 391).

We suggest Daoist leadership is particularly salient in the context of growing SMEs. While leadership is often characterized as being directional, functional and performance-oriented (Jensen and Luthans, 2006), it arguably emerges in a more open and natural way in small firms when leaders enact their true selves (Jones and Crompton, 2009). Zaech and Baldegger (2017) find that transformational leadership is positively related to the performance of start-up firms (Razavi *et al.,* 2017). In contrast, a laissez-faire approach, sometimes described as a total absence of leadership (Bass, 1995) has a positive influence on the performance of a larger number of small firms, but a negative impact on others (Zaech and Baldegger, 2017). This laissez-faire style suggests strong links to Daoist nothingness, which is often seen as the absence of direct interference and regulation (Barbalet, 2011).

Daoism highlights nothingness by adopting a letting-go (Wu Wei) approach through 'active non-action' (processes) and 'passive waiting' (for intentions such as organizational performance) (Chia, 2014:10; Hu, 2009; Wenning, 2011). Takeuchi (1959:292) points out: 'The central notion from which Oriental…belief as well as philosophical thought have been developed is the idea of 'nothingness''. Chia and Holt (2007:515) link nothingness to wisdom by stressing that '*nothingness, emptiness, and the undetermined that are the fecund progenerative origin – the source of potentiality for all things*' (original emphasis). Nothingness is at once psychologically engaged and philosophically detached (McElhatton and Jackson, 2012): the former refers to intensive involvement while the latter meaning *relaxing* the causal

relationship between processes and predetermined purposes (Chia, 2014); Laozi stresses: 'no action is undertaken, and yet nothing is left undone' (Chan, 1970:162). Fundamental to this paradox is that by maintaining inherent openness, nothingness functions as an 'enabling principle' (Wenning, 2011:563) that silently nurtures inherent connections between processes and purposes (organizational goals) (Jullien, 1999). Given more than half of Laozi's Daoist thoughts elaborate on morality, we suggest Daoist leadership effortlessly fosters a moral or positive climate where leaders develop their businesses not only for the benefit of themselves but also for a wider group of stakeholders (Jones and Crompton, 2009). In summary, Daoism dramatically demarcates Confucianism and legalism: the latter two emphasize exercising control over subordinates to achieve high performance (Yang *et al.,* 2008) while the former keeps non-attachment towards performance but fully engage in the process of locating, openness and low-profile (Prince, 2005).

Reputation building in SMEs

It is essential for SMEs to generate attention during the transition from being small and unknown into being noticed by developing an organizational reputation (Petkova, 2012). Reputation is a social evaluation that is 'broadly defined as stakeholder perceptions with regard to an organization's ability to deliver valued outcomes' (Rindova *et al.,* 2010: 610) that make it distinctive from other competitors. The study of reputation has primarily focused on large, well-established organizations (Fombrun, 2012). Reputation-building in SMEs represents unique changes and has attracted growing attention (Petkova, 2012). Given they are conventionally blighted by the 'liability of newness' (Clarke and Holt, 2010: 69) because of a lack of proven track record, young firms are trapped 'in a vicious circle' (Petkova, 2012: 384). The prospective reputations of smaller firms rely on building prominence by offering high-quality products or services. However, to offer high-quality products or services, small firms need to attract the attention from salient stakeholders, particularly potential employees, where a positive initial reputation is essential.

SMEs can accumulate two types of reputation: local reputation and generalized reputation (Petkova *et al*., 2008). Local reputation focuses on a small group of local stakeholders proximate to the firms who primarily derive direct experience and interactions with the firms often *via* word-of-mouth. Generalized reputation focuses on distant stakeholders, which is built up by symbolic activities and investments in human capital and social capital. Given the size of SMEs, in this paper we suggest local reputation focuses on employees and generalized reputation focuses on customers and other third-party stakeholders. Petkova (2012)

proposes SMEs can develop reputation through three mechanisms. First, SMEs can be affiliated with prestigious third parties by *reputation-borrowing*. The second mechanism is *reputation-buildi*ng by devising unique strategies such as innovation and through developing new products (Reuber and Fishcher, 2007; Rindova *et al.,* 2007). The last mechanism is *reputation by endowment* where the individual reputations of SME leaders/founders has a significant impact on the reputation of the firms (Shane and Cable, 2002). Petkova (2012) further suggests young firms follow three stages to build reputation. The first stage refers to 'attention-generating' through overcoming non-awareness of their existence by the public. This is followed by 'uncertainty-reduction', which means enhancing endorsement and trust of potentially salient stakeholders (Velamuri *et al*., 2017). This leads to a third stage of 'evaluation', where positive perceptions are created among salient stakeholders through convincing them of the value of mutual relationships (Gardner *et al.,* 2005).

Reputation building requires SME leaders to intersect multiple stakeholders within firms and beyond, where openness helps foster fluidity, interconnections, multiplicity and becoming (Chia, 2014). Despite the importance of Daoist nothingness, little is known about how it informs leadership by building reputations in growing Chinese SMEs. This is a major oversight in light of the shaping role played by leadership in the process of small firm growth (Kempster and Cope, 2010) and the significance of reputation for young firms (Petkova, 2012). This leads to the following research question: How do SME leaders build reputation in their everyday leadership practices?

Research process

This study focuses on a group of twelve growing SMEs in the Shanghai logistics industry in China. The total value of the Chinese logistics industry was approximately $37 trillion in 2018 (Chyxx, 2019). In Shanghai, the emerging logistics sector is a key industry (Hong *et al*., 2004), where 90% of logistic enterprises are SMEs. Despite its significant role in facilitating economic growth, the logistics industry remains at a fledging stage in China, where leaders/founders struggle to legitimize their nascent reputations among key stakeholders (Petkova, 2012). SMEs are defined and shaped by the values and beliefs of their founders at an early stage of their development (Jones and Crompton, 2009) and leaders appointed at later stages often follow their footprints by maintaining and reinforcing their behaviours.

We investigate a cohort of twelve leaders, who were the founders of their firms and maintained leadership of routine operations. We also interviewed five senior and strategic

external stakeholders to explore their perceptions of these leaders and their firms (see Tables 1 and 2). We adopted narrative semi-structured interviews and followed the spirit of nothingness to explore emerging aspects beyond the established model of leadership leading to in-depth and thick descriptions (Kriz and Keating, 2010).

TABLES 1 AND 2 HERE

Given reputation is predicted and evaluated by past performance (Fombrun and Shanley, 1990), we combined real-time and retrospective accounts from interviews with 12 owner-managers. Real-time interviews enabled us to engage with ongoing uncertainties and temporal phenomena. For example, we began by asking 'what's the story here?' (Weick *et al.,* 2005: 410). Open questions induced emerging stories from the interviewees, which comprised 'temporal data'. Given unknown outcomes, real-time interviews are insufficient to conceptualize the antecedents of growth, while retrospective studies are complementary to process conceptualizations with 'known' outcomes. Thus, we encouraged interviewees to reflect on their leadership journey and focus on the primary elements that influenced business growth (Kempster and Cope, 2010). We asked questions such as 'How did you manage to grow your business? Why did you lead in that way? How long have you led like that? Have you changed your leadership style? How did it work differently?' As shown in Table 3, all 12 SMEs were experiencing high levels of growth and most expected to continue growing in the next two years. The advantage of asking interviewees to trace back their personal histories is that researchers can obtain a sense of how a process study can help to reveal and achieve a better understanding of the patterns of events leading to positive or negative outcomes (Bjursell and Melin, 2011). All interviews were conducted face-to-face on the premises of the interviewees' companies between 2014 and 2017 and lasted from one and a half hour to three hours. Each interview was recorded and transcribed, and interviewees as well as their firms were given pseudonyms to preserve anonymity. The transcripts were translated from Chinese into English after all analyses were completed to avoid misinterpretation or the loss of meaning (Liu, 2003).

TABLE 3 HERE

We also draw on insights collected from informal communication via social media (*WeChat*). The first author maintained *guanxi* (personal relationships) with three leaders over five years and was aware of broader narratives associated with their leadership and business development. According to Maclean *et al.* (2012), such a long-term relationship creates a trusting environment which helps to access 'the inner world or experienced social reality of the

interviewee' (Alvesson, 2003:16). Furthermore, we incorporate various secondary data, including internal financial documents, to cross-check claims about business growth.

The data were analysed by reading the transcripts repeatedly and reflecting on the content to code more accurately. During this process, we compiled and updated memos through inserting comments and highlighting the supportive narratives of the transcripts in a separate document. Led by the data, we followed Gioia *et al.'s* (2013) three-step data structure to conduct the analysis (1st order concepts, 2nd order themes and aggregate dimensions). Our data indicated two broad themes: non-Daoist leadership and Daoist leadership. We re-reviewed the data, cross-checked themes with the interviewees, synthesized evidence from the interviews with informal communication to provide greater confidence around the aggregate dimensions. Concurrently we developed 2nd order themes and 1st order concepts. For example, the 2nd order themes include dynamics, spontaneously fostering local reputation, and silently nurturing generalized reputation. Related 1st order concepts included locating, openness and low-profile and three stages, namely: attention-generating, uncertainty-reduction and evaluation (see Figure 1).

FIGURE 1 HERE

Research Findings

Leadership involves ongoing sensemaking processes through interactions with multiple stakeholders. Most of the interviewees recounted some challenging scenarios that are reminiscent of a non-Daoist approach. They made efforts to reflect on this lived experience, where a Daoist approach gradually unfolded to them (see Table 4).

TABLE 4 HERE

Non-Daoist leadership

We encouraged the interviewees to reflect on their leadership style and its influence, and whether it had been changed. Some interviewees narrated challenging experiences during their early leadership period. For example, Yuan emotionally recounted 'the most impressive incident in his leadership journey: he had a dynamic relationship with his Deputy General Manager

(DGM) who had worked for him since the firm's establishment. He claimed that he had treated the DGM as close as a biological brother and he had never conducted any professional performance reviews on him. Unexpectedly, the DGM resigned because of the following incident:

> When his grandfather passed away, he sent me a text. I was accompanying a key customer at a concert, but I still replied to him immediately and suggested that he could ask for the cashier for cash if necessary. What I thought of was this (cash). But what he expected was - I should automatically suggest going to attend the funeral. He regarded my response as 'very cold'. He felt so upset and resigned soon. (Yuan)

Yuan thought he treated the DGM in an appropriate manner: notwithstanding his preoccupation with a key customer, he still responded immediately and assumed that the DGM was implying financial support. However, the DGM regarded it as a cold reaction symptomatic of a business transaction. The dynamics derived from Yuan's leadership approach: he used *his* assumptions to project the expectations of DGM rather than keep openness to explore the genuine needs of the DGM. In another example, Quan reflected a 'painful' experience:

> A few years ago three key supervisors suddenly left my firm, took away some of our key customers and established their own firm. A very painful experience and lesson! I thought I had been very nice to them: I tried my best to offer them a good salary, so I assumed I had made them happy. Later I learned what they wished was to buy a small amount of the company's share so that they could have a different identity – as an owner of the firm. (Quan)

Yuan, Quan as well as Qiang (see Table 4) suggested that these critical incidents had caused substantial losses to their businesses, hence pushed them to reflect on their leadership style. They continuously kept openness to engage with tried and tested practices to develop a sense about how to lead better. Over time, they realized the fundamental problems lied in their subjective one-way, monolithic approach to stakeholders. They used their own taken-for-granted assumption to project the needs of others rather than keep openness to explore the genuine needs. It inevitably led to dis-connection and dynamics, and encouraged them to refine their leadership style which we now discuss.

Daoist leadership: reputation-building in the spirit of nothingness

Spontaneously fostering local reputation

The interviewees were aspiring entrepreneurs who were keen to grow their businesses. They were aware of the importance of fostering positive perceptions within their firms to mobilize human capital. Given different trajectories, the interviewees interpreted their reputation-building in nuanced ways, identified as locating, openness and low-profile.

Locating. First, given that SMEs are distinctively characteristic of uncertainty, ambiguity and rapid changes, this challenges normative and rational thinking surrounding leadership from textbooks or training programmes. Most leaders in this study had low educational backgrounds and lacked explicit knowledge about leadership skills (see Table 1). Thus, they tended to immerse themselves in their everyday practices and idiosyncratic contexts to continuously draw plausible cues and make sense of how to lead appropriately:

> I used to adopt a directive leadership based on my previous military experience - very ineffective. Then I have a go to put myself in their shoes: for example, I imagine myself as a frontline worker and ask: 'what do I expect from the firm? Does the firm satisfy my needs?' Gradually the appropriate leadership style becomes unfolded to me. (Qing)

By putting himself in the place of his staff, Qing teased out what could be meaningful and valuable for his staff. It may not necessarily mean high salary, but also some 'soft skills' such as creating a flat culture and showing genuine care towards employees:

> Then I began to change my leadership style. For example, I sit together with my staff for working lunch almost every day, not just sometimes, so they regard me as one of them rather than a (hierarchical) boss. Once I learned an employee felt very worried about his girlfriend's accommodation, I immediately offered her free accommodation…of course he appreciated my support, which enhanced his positive feeling towards me and the firm gradually becomes promising. (Qing).

Openness. Second, while being asked about their leadership style, the interviewees used nuanced expressions yet similar implications associated with openness and a laissez-faire approach. For example, Fan reflected, 'I have no specific idea about how to lead. I am open to follow my intuition.' Similarly, Ge suggested, 'Like driving on the road, I simply follow the flow and lead ad hoc.' They realized the importance to embrace the ambiguous and fluid contexts within their firms and beyond:

Many things cannot be accomplished if we rely on explicit theories…only subjective openness can make it. In China the business context is always changing: today's tax policy might be totally changed tomorrow. Who knows? What can we do with it? We can't do anything, but have to keep openness to accept whatever happens (Jun).

As a rapidly growing economy, China is particularly characteristic of change. Government policies tend to favour large, state-owned organizations and are disadvantageous for SMEs. To some extent, Jun's narration also included passive and adaptive valence. Some leaders generated leadership insights from their own leadership journeys:

I particularly stress openness. Based on my entrepreneurial experience, if I offer my staff an open space, they have the ownership of their jobs. Then they become transformed from within - not only very loyal to the firm, but also as capable as supermen. They can create value out of my expectation! (Xue)

Xue suggested 'an open space' meant flexibility, empowerment and delegation, which enabled his staff to feel more positive about their jobs and their own strengths. Hence it transformed them to be self-motivated as active identity workers, who were proactive to maximise their potential ('as capable as supermen'). This was reminiscent of cultivating a positive cycle, where positive reputation-building was spontaneously fostered among his employees. He was operating his third entrepreneurial venture while being interviewed for this study. The importance of practising openness occurred to him based on reflections from his first and second entrepreneurial ventures. During the interview, he even emotionally raised his voice when recounting his frustration of being 'close-minded', 'structured' and 'engineered' after his second firm was bought out by a large company. Drawing on that 'lived experience', he became more aware of the significance of openness and thus reinforced this philosophy in his current business. He summarized his evolutionary trajectories: practised it naturally in his first entrepreneurial attempt, deprived of it in his second attempt and then particularly accentuated it in his third attempt.

Low-profile. Interviewees were inclined to adopt a low-profile approach; they realized that employees judged them not on their hierarchical position, but on the congruence with their own thoughts, values and convictions. For example, Shu rejected a top-down approach to prescribe job descriptions but let employees naturally 'grow' into their jobs:

During their probation period, employees were invited to undertake various roles. In this process, I keep a close eye on their performance to identify which role fits them best.

When the probation is over, I have at least an in-depth one-to-one talk with them - I invite them for lunch to make them feel more relaxed. I do not tell what they *need* to do next, rather, I ask them what they *want* or *can* do for our firm. (Shu)

Here Shu eschewed prescribing 'what they *need* to do', but providing his staff with the freedom to suggest 'what they *want* or *can* do' created a space for them to strategize their careers by themselves. He claimed that this non-doing approach was highly effective because they often brought forward thoughts or revealed capabilities out of his expectation. For example, while communicating with a director of customer services, he was modest and open to learn how to deal with customers through subtle and strategic skills, which was outside of his expertise.

Silently nurturing generalized reputation

So far, we have discussed how SME leaders fostered local reputation among internal stakeholders in the spirit of nothingness. Our data also show that nothingness nurtured generalized reputation among external stakeholders through three stages: attention-generating, uncertainty-reduction and evaluation.

Attention-generating. First, the interviewees tended to deploy moral behaviours in a discursive and consistent way, which helped enlist extensive attention and engagement among a broad set of stakeholders:

Once a customer came to deliver his coating goods. Very cheap - only £4. I was having lunch, so I wanted to invite him to join me. No special food though. As it was lunch time, I felt the invitation as easy as 'raising a hand'. He rejected again and again, but I kept inviting him, even held his hands (to show my sincerity). At last, he agreed to sit down for lunch. (Chang)

While interviewing this customer, he emotionally reflected:

It deeply struck me: we were only a business relationship - no one had been so nice to me before! So I also wanted to be good to him. I knew he was urgent to get more business. When I needed to deliver bathroom equipment later, I immediately called him. (External stakeholder)

In this story, Chang stressed that he invited the customer for lunch simply because it was lunch time (i.e., intensively involved in the process), regardless any other intentions such as increasing

customers (i.e., relaxing from intentions). At that time his firm was blighted by newness – unknown in the market. However, the small but authentic gesture 'caught' the customer's attention such that he proactively offered business (delivering bathroom equipment) to Chang. It enabled the firm to enter a specialist sub-category of logistics services which was at its very early stage and could generate major revenues. This incident was a turning point: the firm not only survived but exploited this opportunity to steadily grow. Being genuine to the customer (inviting him for lunch) was discursive, spontaneous and unintentional (nothingness), but it helped with gaining positive attention from potential customers without additional efforts. Another example was when Ge suggested that he always enjoyed sharing his knowledge to support others whenever possible:

> I am always keen to share my knowledge and try my best to help others. For example, I helped a boss (Chen) doing mooncake business. Almost no reputation in the market, his products had to be sold at a low price. So he was struggling to grow. I suggested him making tiny mooncakes to be distinctive in the market. (Ge)

Chen confirmed:

> I had a good thinking about Ge's suggestion and followed it. To my surprise, it has worked extremely well. Up to now, 80% of mooncakes in Shanghai are provided by me! (External stakeholder)

Thanks to Ge's advice, Chen substantially grew his business. Hence, he reciprocated by investing in Ge's business at a later date. Ge's story indicates that while being good is discursive and purposeless, it still can be rewarded.

Uncertainty-reduction. Each interviewee recounted several distinctive ways to build trust and gain endorsement among external and distant stakeholders. Jie reflected on his leadership journey and business development since its establishment. Blighted by several constraints such as no tangible assets, his business not only survived but grew quite sizeably. The following was an informal communication between the first author and Jie:

> I founded my business in 2004 in Shanghai. I had 'nothing' at that time: no (good) education - only a two-year college education; no money; no guanxi - I am from the countryside of an isolated province...But my business has grown quite well over the past ten years, even though the competition is very high in Shanghai.

When asked how he managed to achieve growth given the constraints, he ascribed it to being 'a good boss and a good person' among various stakeholders, hence they proactively offered support during his crisis. Despite numerous challenging incidents over his entrepreneurial journey such as no cash flow on several occasions, he still managed to survive. For example, he eagerly shared with the first author on one occasion when his firm 'survived' a cash crisis by WeChat:

> Last month my firm ran out of cash again, and it was due to pay salaries. I really didn't know how to deal with it. To my surprise, the HR manager encouraged the management team to donate whatever they could…They collected over £10,000 - enough to pay frontline workers' salaries. As for their own salaries, they suggested waiting until the next month. (Jie)

Jie's positive reputation was endorsed by both internal and external stakeholders. For example, when being asked how he perceived Jie, the vice-chairman of Shanghai Logistics Committee (SLC) immediately responded:

> I have known Jie for nearly 10 years. He is famous for being a good person in the Shanghai logistics industry. Thus, if only I can support him, I always do my best. For example, I have introduced him to be one of the five board members at SLC. It has helped him and his company to build up reputation within our industry. Now and then I have also introduced some customers to him. (External stakeholder)

'A good person' or 'a good boss' comprised vital valence in Jie's narratives. Being good functions like a magnet which automatically invites a reciprocal relationship: if one is genuinely good to others, others will return the gesture. Being good seemed effortless, but efficacious, although he admitted that the percentage might be very low.

As another example, given that the logistics industry remains under-developed in China, there are not regulations to guarantee the quality of service. This can cause numerous problems and uncertainties for customers and SME leaders struggled to project positive reputations among external stakeholders. In view of this, Fan took an active role in initiating a model of Private Boarding Meetings (PBM):

> I have initiated the model of PBM among our members. We invite 12-14 experienced experts from our industry and key stakeholders to visit a SME logistics firm; we then diagnose its problems together. The PBM has many benefits such as strengthening our

connections – not only within our own industry but also with our stakeholders. It also facilitates the development of our logistics industry. (Fan)

Fan attempted to reduce uncertainty of the emerging logistics industry and propel its development. When asked about his motivation to do this, he stressed: 'It can benefit our whole logistics industry.' When probed if this would generate potential benefits to his own firm, he confirmed: 'Of course, but as add-ons. Obviously, it helps enhance our firm's reputation among a wide-range of stakeholders.' In other words, he believed that his firm would evolve in parallel with the development of the logistics industry.

Evaluation. It is widely acknowledged that SMEs are often challenged by limited financial resources. While reflecting on his business growth over the past ten years, Qiang promptly linked to one critical incident:

> Our firm growth was doubled because of infusing £458,800 as joint capital in 2004. Without this large investment, it was certainly impossible to grow my business…I invested £23,000 to found this business. No matter how hard I had worked for so many years, my firm only grew to £200,000. (Qiang)

Surprisingly, this 'special' investor was his former landlord:

> In the process of leasing this office, my landlord feels I am an integrate, good and reliable person. When I was in urgent need of investment, he automatically offered such a big investment to me. (Qiang)

Qiang asserted that this substantial inflow of capital led to a leap in his firm growth, which quickly doubled in size. While being good to the landlord in everyday life, Qiang did not expect such an investment from him.

The interviewees also 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 to maintain a positive reputation were perceived and recognized by external stakeholders. For example, Ying ascribed firm growth to his belief in integrity rather than depending on moral luck as other 'cowboy' competitors did:

> High-level integrity is fundamental to our business growth. For example, we have a key customer who has a number of logistics services suppliers, and we are one of them.

Recently this customer discovered other suppliers were 'cowboys' - who played unethical tricks to maximise their own profits. As a result, their contracts were cancelled.

Ying suggested that his team used to be very concerned that the unfavourable behaviour of these 'cowboys' would tarnish the logistics industry and their own business. However, it turned out to function as a mirror, making the customer aware of the value of cooperating with Ying's firm. Unexpectedly, the customer cancelled contracts with the 'cowboys' and proactively offered them to Ying. This incident served as a source of experienced meaning that instigated Ying and his team to strengthen their values: consistently being moral was crucial and self-rewarding which would silently help shape and build their reputation among customers.

Discussion

In this paper we examine how leaders/founders foster reputation in the process of growing Chinese SMEs by adopting a letting-go approach. Leadership is particularly important in shaping the fluid processes of growing small firms (Kempster and Cope, 2010). Our study shows that business growth does not simply depend on specific and static traits such as creativity and risk-taking (Chen, 2007). Rather, it hinges upon leadership informed by Daoist nothingness, which, as an enabling principle, mobilises multi-beings (Wenning, 2011) and builds reputation in unintended ways. This process demonstrates the essence of nothingness that silently nurtures things without being seen. Strengthening reputation counteracts liabilities of smallness and newness blighted by SMEs, where growth is essentially a process of becoming (Tsoukas and Chia, 2002).

Organizational reputation has traditionally been of interest to labour economists who identified links between the importance of 'signalling' information about working conditions and internal norms (including payment) to potential employees (Kreps and Spence, 1985). Employees who viewed employers as having a 'good' reputation in terms of their 'human resource' strategies would be more likely to contribute to organizational growth (Fombrun and Shanley, 1990). Reputation is also important in reducing exit rates among existing staff and, therefore, minimising recruitment costs (Okun, 1981). Guest (1989) identified a number of 'foreign-owned' companies in the UK that built successful reputations based on their innovative HR strategies. Studies of large organizations show that employee perceptions of reputation are strongly associated with commitment to organizational goals (Jones, 1996).

In this research, we have focused on how SME leaders attempted to develop their organizational reputations. As shown in Table 3, according to accounts of the leaders, all 12

SMEs were growing quickly and also expected to grow in the subsequent two years. This indicates that employees were highly motivated and committed to developing the businesses in which they worked. We find that their organizational goals (reputation-building and firm growth) were spontaneously achieved by a letting-go or laissez-faire style of leadership (see Wenning, 2011). Leadership is essentially an ongoing sensemaking process, particularly in smaller firms (Jones and Li, 2017; Pye, 2005). When leaders follow *their* own presumptions, they often fail to tune in with the genuine needs of *others* (various stakeholders), hence potentially creating tensions in their businesses (as in the cases of Yuan, Quan and Qiang).

Nothingness is central to leadership and reputation building. It does not equate with leadership absence (Bass, 1995) or a 'passive' and 'counterproductive' approach (Ma and Tsui, 2015:19). Rather, deployed as a useful rhetorical strategy, nothingness can cultivate the link with multi-beings (i.e., salient stakeholders) (Wenning, 2011), which spontaneously persuades to 'buy into' the subject organization, as illustrated in the case of enhancing engagement (e.g., in the cases of Qing and Fan), obtaining key customers (e.g., in Chang's case) and substantial investment (in the cases of Qiang, Ge and Xue) (see Table 4). This is pivotal for smaller organizations (e.g., in Chang's case) who struggle with survival and safety at the early business stage, and this counter-intuitive strategy serves as a means of building their initial reputation among customers. This is distinct from Petkova's (2012) findings of how young firms *purposefully* adopt an instrumental 'reputation borrowing' strategy and affiliate with key actors to build the organization's prominence. Rather than merely relying on 'circumstantial accidents' or moral luck, our study suggests SME leaders practised nothingness as a way of living through constantly being 'both a moral person and a moral leader' to build reputation within and beyond their SMEs (Gini, 2004:27).

With regard to local stakeholders (employees), we find when SME leaders are informed by nothingness, local reputation can silently be fostered rather than coercively enjoined. They locate themselves in the places of others (e.g., in the cases of Qing and Fan), keep openness to proffer a space of action for internal stakeholders (e.g., in the cases of Xue, Shu, Qing and Yuan) and adopt a low-profile rather than a top-down approach to invite an equal dialogue (e.g., in the cases of Shu and Qing) (see Table 4). Hence, nothingness nurtures the autonomy of other individuals (Clarke and Holt, 2010) by encouraging self-awareness, self-transcendental behaviour and transparency (Anderson and Sun, 2017; Walumbwa et al., 2008) in an unintended way (Wenning, 2011) (e.g., 'supermen' in Xue's case). Our findings support Anderson and Sun's (2017) views regarding common ground between Daoist leadership and other leadership

styles. In particular authentic leadership and spiritual leadership, despite subtle difference in terms of locating, keeping a low-profile (authentic) and openness (spiritual), are similar to a Daoist leadership style.

While SMEs are conventionally 'blighted by the liability of newness' (Clarke and Holt, 2010:69) because they lack a proven track record, SME leaders in this study did not rely on persistent investment such as gaining endorsements from high-status third parties as shown in larger organizations (Rindova *et al.,* 2005). We find that initial reputation evolves in the process of consistently practising Daoist leadership by engaging nothingness through three stages: attention-generating, uncertainty-reduction and evaluation (Petkova, 2012). Given the figurative role of leaders in SMEs, their individual reputation is used as a proxy for organizational reputation and disseminated through the 'bedrock' of personal friends, peers and working relationships with key customers (Greve and Salaff, 2003). It is akin to the strategy of reputation endowment when a founder's powerful reputation is used by stakeholders as an underlying signal of the quality and potential of a firm (Dillen *et al.,* 2019; Petkova, 2012). As the firms develop, accrued reputation reduces organizational uncertainty and mobilized groups of like-minded external stakeholders who evaluate the firms as potential logistics service providers (Rindova *et al.,* 2005) (as in the cases of Chang, Fan and Jie). In so doing, SME leaders and their firms build prominence (Rindova *et al.,* 2007) through demonstrating 'who we are' and 'who we are not' (Alvesson and Empson, 2008) among external stakeholders.

Overall, this study indicates that SME leaders follow nothingness by continuously adopting a letting-go approach. Daoism stresses active non-action: relaxing pre-determined intentions and intensively involved in the process of leading, which spontaneously foster genuine connections and oneness between goals and processes, leading to reputation-building in unintended ways. On the one hand, it draws a clear demarcation from hierarchical approaches adopted by Confucianism such as authoritarian leadership (Farh and Cheng, 2000) or directive leadership (Chen *et al.,* 2017). It also differs from other western leadership styles such as authentic leadership (Avolio and Gardner, 2005) and transforming leadership (Burns, 1978) in that goals or purposes are overtly emphasized. On the other hand, Daoist leadership overlaps with other leadership styles, particularly authentic leadership and spiritual leadership in terms of self-awareness and self-transcendental behaviour (Anderson and Sun, 2017; Walumbwa et al., 2008).

Conclusions

This paper makes two important contributions. First, it indicates the powerful influence of Daoist nothingness on leadership by drawing on the broader context of entrepreneurial settings in Chinese SMEs (Welter, 2011). While the alignment between actions and intended goals are typically highlighted in western leadership theories (Avolio and Gardner, 2005) and Confucius leadership styles (Chen *et al.*, 2017), a Daoist perspective suggests adopting a letting-go approach through non-interference (Ma and Tsui, 2015), akin to wateristic leadership (Dimovski *et al.,* 2013). Second, we enrich existing concepts such as reputation by endowment and reputation-borrowing (Petkova, 2012). Informed by nothingness, instead of relying on reputation-borrowing (Petkova, 2012), SME leaders use their personal reputation as a proxy for organizational reputation, namely, reputation by endowment, which differs from relying on media engagement adopted by large organizations to build prominence. While we argue that there are benefits from adopting this approach in the short-term, we recognize that an over-reliance on coupling individual and organizational reputation is likely to make organizations vulnerable in the long-term when leaders face significant personal criticism or decide to leave the organization.

This research focused on the emerging logistics industry, where Daoist nothingness is particularly helpful for SME leaders to effectively engage with fluidity and uncertainty. One avenue of future research is to investigate how Daoist leadership functions in well-established industries like manufacturing or large-scale organizations in China. Relatedly, given this research is focused on SMEs in Shanghai, further research might examine other geographic settings in China such as the less developed North West. A greater plurality of empirical and methodological contexts in Western and non-Western countries would help to better understand the dynamics and intersection of Daoist nothingness and reputation building.

We focus on how leaders shape their organizational reputations by adopting the principles of Daoist nothingness, which is based on openness and a 'letting-go' approach to relationships with employees. This is direct contrast to the conflictual nature of employment relations between owners and employees traditionally associated with UK-based small firms (Curran and Stanworth, 1979; Moule, 1998; Rainie and Scott, 1986). For example, Jones (2003) refers to the persistence of 'autocratic management' in owner-managed small firms. The idea of Chinese owner-managers 'letting-go' has some similarities to the concept of strategic space (Thorpe et al., 2008). A study of UK-based small firms (Thorpe *et al.*, 2008) confirms the importance of owner-managers delegating meaningful responsibility to employees if small firms are to

achieve longer-term survival and growth. There are also similarities to the principles embodied in the UK's LEAD programme, which is designed to develop owner-managers' leadership skills in small firms with the potential for growth (Cope *et al.,* 2011; Gordon *et al.,* 2011). Therefore, we suggest this study confirms the importance of owner-managers adopting a leadership style which encourages all employees to achieve their potential in contributing to the success of their employers. Building firm reputation is one important outcome of adopting an effective leadership style.

From a policy perspective, our findings suggest the importance of owner-managers developing their own and their employees' human capital to enhance the firm's skills and knowledge base (Gibb, 2009; Macpherson, 2004). This can, in part, be achieved by extending their social networks to open-up the business to new ideas and new ways of working (Greve and Salaff, 2003; Macpherson and Holt, 2007; Shane and Cable, 2003), which in turn helps to create new ways that internal and external stakeholders perceive leaders and firms.

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Figure 1: Data structure
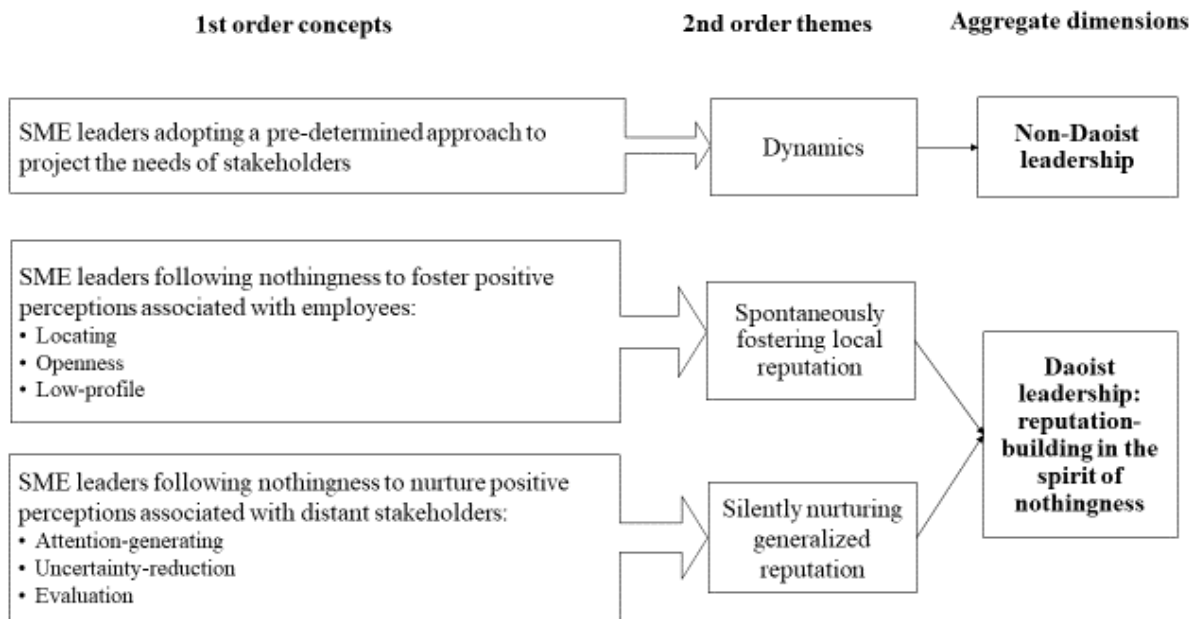
Table 1: Profiles of SME leaders

Interviewees	Company	Founder/ co-founder	Position	Education	Age of company
Qing	Boxin	Founder	General Manager	High school	0-5 years
Chang	Dayang	Founder	General Manager	High school	0-5 years
Fan	Lilai	Co-founder	General Manager	College	0-5 years
Xue	Ebox	Co-founder	Co-chairman	Bachelor	10-15 years
Yuan	Xinjin	Founder	CEO	College	5-10 years
Quan	Daquan	Founder	CEO	Bachelor	5-10 years
Ying	Yingyuan	Founder	CEO	High school	5-10 years
Jie	Sun	Founder	General Manager	College	5-10 years
Ge	Dazhou	Founder	General Manager	Bachelor	5-10 years
Shu	Grand	Co-founder	CEO	Bachelor	nearly10 years
Qiang	Way	Co-founder	CEO	College	nearly10 years
Jun	Win	Founder	CEO	College	nearly10 years

Table 2: Profiles of external stakeholders

Interviewees	Size of the company	Position	Duration of collaborating with the entrepreneurial leader
A	Large	Vice-chairman of Shanghai Logistics Committee	nearly 10 years
B	Large	General Manager	5-10 years
C	Medium	Logistics Manager	0-5 years
D	Small	Logistics Supervisor	0-5 years
E	Small	General Manager	5-10 years

Table 3: Profile of firm growth

Company	Firm size	Growth in the last 2 years	Prospective growth in the next 2 years
Boxin	micro	moderate	high
Dayang	micro	high	high
Lilai	micro	high	very high
Ebox	micro	very high	very high
Xinjin	small	very high	very high
Daquan	small	high	high
Yingyuan	small	high	moderate
Sun	small	moderate	high
Dazhou	medium	high	high
Grand	medium	high	very high
Way	medium	very high	very high
Win	medium	high	moderate

Table 4: Illustrative quotations

Themes		Illustrative quotations
Non-Daoist leadership		In our logistics sector, the employees tend to have low education background. One employee is an MBA graduate from a key university - very rare in our industry. He applied for HR director but I think he is more suitable for operations management, which he doesn't like. I know he is not loyal to the firm as he is looking for a new job. (Qiang - through WeChat)
Daoist leadership		Last year we recruited a girl with Bachelor's degree. She has such a high
Spontaneously fostering local reputation	**Locating**	degree, but she is very stable and performs excellently in my firm. Why? Let me tell you the story. Once she told her colleague that it was her birthday. I happened to be out of office, but when I learned this in the following day, I spoke to her, 'Alas, how can I forget such an important thing!' I immediately arranged my wife to drive her to buy a gift. My wife bought her a pair of boots priced at RMB 400 (with an emphasized voice). Moreover, I apologized to her again, 'Xiao Zhao, I am so sorry to forget your birthday.' Obviously, she was deeply moved and since then she has been highly self-motivated. Why do my employees like working here? This is the answer – put yourself in his/her place, and think about what they really expect from the firm, then try to satisfy their needs. By this way, they all feel happy, and we work together just like fish and water. (Fan)
	Openness	I have tried very hard to build up a core management team over the past 7-8 years, but it is still not good enough...The journey is like searching for a life partner. I am aware of the importance to be open to lead the imperfect team to become better. (Shu) I had a very low education, but I always keep openness to learn by communicating with all kinds of persons. For example, I was once struggling about how to effectively sort out customers' receipts. After I talked with a friend, an idea suddenly occurred to me: 'Ah, the problem can be resolved in this way!' I don't mean I got a perfect solution, but some useful thoughts did enlighten me. (Qing) At the initial stage, we had no idea about our marketing orientation and struggled at the price competition. But we always kept openness to what happened to us. Later an opportunity did come, that is, we entered agreement with a strategic partner – Alibaba Company, which was a critical turning point for us. After that, we switched to focus on e-commerce service through network operation model. (Yuan - through WeChat)
	Low-profile	I treat them as equally as my friends...I keep telling them that not me but all of them are free to make decisions on the organizational issues. By this way, they see themselves as an important part of our firm and think highly of it. (Qing)
Silently nurturing generalized reputation	**Attention-generating**	Once I urgently needed to deliver goods from Wuhan to Shanghai port on the eve of Chinese New Year. All the other logistics companies closed. I didn't know how to resolve it. My friend told me Yuan was reliable and might help me, so I approached him. He did his best to deliver the goods in time. (External stakeholder)
	Uncertainty-reduction	I invested a school and struggled to enrol new students at the initial stage. Xue made special efforts to help me get more students ...When he was establishing his firm and needed investment, I automatically offered him financial support to him...(External stakeholder)

| | **Evaluation** | Once our company (DHL) had an urgent delivery during Chinese New Year. All the other logistics companies were closed down and we were extremely worried and learned from our friends Ge might help, so we contacted him. We asked for a quotation but he insisted on prioritising to deliver our goods first. After the successful delivery, he charged us as usual. We really wanted pay him extra fees. But he firmly rejected it. Later we decided to offer him all our logistic business from Beijing to Shanghai. (External stakeholder)

After working for Secretary Chen of SLC as a truck driver for many years, he knew I was a good person. He suggested me starting up my own businesses. I had no capital at all...he proactively offered me lots of money - no charge for any interests. He also mentored me about how to manage people and businesses. (Chang) |