

# An International Perspective on Wangdao Leadership Philosophy

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**Editor:** The author of this article is Acer founder and StanShih Foundation Chairman Stan Shih. He is the current honorary director of the Sustainability Leadership Research Center in National Chiao-Tung University. He actively promotes Wangdao, a management philosophy rooted in the east, to be implemented and promoted in the management and operation of businesses. The aim is to further extend Wangdao internationally, allowing an originally eastern management mentality to contribute to the world.

The author describes in the article: a) introduction, b) motivation for promoting Wangdao, c) Wangdao management strategy, d) Wangdao management action implemented in Acer, e) Wangdao management strategy implemented in TSMC, f) 6 major categories in promoting Wangdao management, comprising a total of 14 subtopics to illustrate Wangdao. It begins by offering a background of and reasoning behind Wangdao in the introduction. It then discusses the motivation behind the promotion of Wangdao which is to break through the blind spots inherent in western capitalism. This is followed by a discussion of the major aspects of Wangdao management strategy and a more in-depth discussion on the different circumstances where this strategy is implemented as in the case of Acer and TSMC. The article concludes with a promotion of Wangdao management strategy. The author also hopes that more people will get to know Wangdao and its ideas through this article, “An International Perspective on Wangdao Leadership Philosophy.”

## **Introduction**

The “Wangdao” philosophy 2500 years ago was first proposed by Mencius, the representative Confucian figure of the Warring States period, as an appeal to the nations as the King’s Way. At that time, Wangdao was a way of leadership for a country’s ruler with its main emphasis on winning people over through virtue. Mencius also proposed that “the least is the ruler, the state comes second and the people are the most important.” The philosophers of the time had already espoused the idea of “the world belongs to everyone living together in harmony” among others. This central thought is of great importance to Chinese culture.

Since I was a little child, I was deeply influenced by Chinese culture and it was naturally ingrained in my thoughts. When Acer was founded more than forty years ago in 1976, it was built on a corporate culture where “the human being is basically good in nature” which in practice was nurtured over the years. Many years after my retirement, professor Chen Ming-Jer (University of Virginia Darden School of Business chair professor; lifetime fellow and former president of the Academy of Management where its Strategic Management Society is composed of twenty thousand professors) and I set up a heritage class to cultivate Chinese global business leaders. We named

this the “Wangdao Management Program.”

### **Capitalism’s Blind Spots**

The development of Western capitalism with a winner-take-all thinking at its core, begins with a pursuit of “maximizing the rights and interests of shareholders” but inevitably discovers the presence of blind spots. Thus, it has to make corrections to include “all stakeholders”. After the Enron case, corporate governance began to be proposed which developed into a period requiring businesses to properly implement ESG (Environmental, Social, Governance).

In addition, western scholars also proposed the concept of Triple Bottom Line, emphasizing that managing businesses must include sustainable development. The most important goal was to commit to holding onto the principle of the Triple Bottom Line. Business finances, social responsibility and environmental responsibility must be adhered to. This reflects the recent discussions on what is referred to as stakeholder capitalism.

However, the west’s quest for the sustainability of human civilization is from the outside going in. In contrast, the eastern Wangdao thinking is the opposite, beginning from within going outward, to attain sustainability. The key here is that the leader must be equipped with the basic Wangdao beliefs, considering how to create value, balance interests in order to pursue sustainable development. This allows humanity to move in a more civilized direction.

### **The Difference in Business Philosophies Between East and West**

The aim of Western capitalism is to maximize shareholder benefits. Therefore, this is a “winner-take-all” thinking, vastly different from the eastern aim of “co-existence, co-prosperity.”

Faced with the expansion of globalization, the past few decades have seen the development of very efficient operation ecosystems which serves to benefit those who are a part of globalization. However, the presence of a few winners with a winner-take-all mentality has had a negative impact on some who did not fare well.

For this reason, from the benefits created from the promotion of globalization, a portion of these resources must be allocated to compensate for the stakeholders that

are at a disadvantage, to be used in re-educating and assisting them in their transformation. This will create a new energy for future value co-creation. It will also allow them to continue to join in and create even more new value for human civilization.

Due to the globalization process, multinational companies are often the victors. In a development trend where the world is flat, with some American jobs that are replaced by other countries, global division of labor carries increased competitiveness. Even though this may result in certain people becoming weak and marginalized, it should not lead towards protectionism or preferential US policies.

In order to go hand-in-hand with the entire world to create value together, the government must be at the forefront. The government must understand the resources and advantages that it possesses, positioning and developing towards the best and effective way of creating value in the future.

Even though each individual or country may often possess a nationalist-type thinking, my personal experience is that “altruism is the best way to benefit oneself.” In the process of development, we must be able to work with others to create value together, satisfy market needs, utilizing the resources of the entire world to create value. In the process of globalization, we must take care of the weak and marginalized, allowing them to live without fear, and through re-education and transformation, continue to join in value co-creation.

During this process, a leader must also ponder on which method or mechanism he can use to help everyone in value co-creation and balance of interests. More importantly, it must be on the basis of co-existence and co-prosperity that we face the many new challenges that globalization brings.

### **Wangdao’s Three Major Core Beliefs**

The new definition of Wangdao in the contemporary world was unveiled in 2011. The so-called “Wangdao” is not the King’s Way, but a way for leaders of groups big and small, the Leader’s Way who cares for the “world.”

The “world” referred to here has a range. A business in its self-defined area takes care of the benefits of its customers, employees, shareholders, suppliers, retailers, financial institutions, the society and the environment and all stakeholders. It must

also maintain the balance for all stakeholders.

Wangdao's three major core beliefs are "Value Creation, Balance of Interests, Sustainable Development." The three major beliefs also parallel the traditional Chinese thinking of "Heaven, Earth, Man." Value creation talks about the "Dao of Earth", emphasizing the phrase "the terrain is vast, and the gentleman carries things with virtue" from I Ching (Book of Changes);

Within the three major core beliefs, the one that holds the most weight is "Value creation." The value that is created must be viewed from the Hexa-aspect values. How does one create value for the society? The key here is to reflect on how to create value by continuous innovation. Things of old slowly devalue during the development process. It is only through continuous innovation that new value can continue to be created.

Secondly, we come to "Balance of interests". Value requires many stakeholders to create value together. Therefore, besides the process of value creation, a mechanism enabling value co-creation for all stakeholders must be constructed. To ensure a balance of interests, this must be a cooperative mechanism and platform where all parties involved have mutual trust. This is the spirit of Wangdao.

The idea of Western democracy is that everyone is equal, that each individual has a vote (voice). From this perspective, this is the absolute balance. However, when viewed from the actual development of a civilized society, the value that each individual's contribution to society is different. Therefore, achieving a balance of interests must not point towards "absolute balance" but must be oriented towards "relative balance" or "dynamic balance", requiring a weighted concept to make adjustments.

Lastly, we arrive at "Sustainable development". As businesses pursue sustainable development, the creation of value must go hand-in-hand with taking care of the balance of interests of all stakeholders. This is the only way to be sustainable. Otherwise, once there is an imbalance of interests, stakeholders will not be able to create value together. Then the original ecosystem will not develop in a sustained manner.

### **General Theory of Hexa-aspect Values**

In order to create value, it is important to propose the “General Theory of Hexa-Aspect Values” which emphasizes that value creation must come from the hexa-aspect to view the overall value of an object. Besides the visible values of tangible, direct and present, we must place importance on the invisible values of intangible, indirect and future.

Only through continuous value creation and a sustained construction of a mechanism for value co-creation and balance of interests can we attain the goal of sustainable development.

The visible values of “tangible, direct and present” have already been developed into specific quantifiable KPI standards by management studies in the past. These standards have systematic methods and tools of measurement. Conversely, as the invisible values of “intangible, indirect and future” are presently not easily quantifiable, they have been largely ignored.

Leaders, however, must create value for the organization and society not only in terms of visible value, but also in invisible value such as training talent, branding, research and development, etc. These are all “intangible, indirect and future” invisible values. Leaders must give importance to and dedicate their effort and resources, giving equal importance to the visible and the invisible in their pursuit of the greatest overall value for the long term.

### **Wangdao and Social Responsibility**

Businesses exist because of the needs presented by society. Therefore, when businesses are established, they must first ask themselves what new value they can offer to society. Then, they can satisfy the needs of the society. Managing a business means to utilize society’s limited resources to create value, while at the same time create an acceptable surplus or profit in order for the business to sustain its development.

Managing a business must of course fulfill its social responsibility. Right from day one of a company’s inception, Corporate Social Responsibility (CSR) must be at its very heart. Putting into practice Wangdao’s ideal of taking care of the world when running a company, a leader must consider how to create Hexa-Aspect Values for the society.

When companies implement and promote social responsibility, it must especially attach importance to protecting the environment and the natural ecosystem. Even though society and the natural environment do not have a voice and react unlike people, and so they are easily neglected. Yet, they are all important stakeholders and have the greatest connection to the “intangible, indirect and future.” If these are not taken into account from the beginning, then once society and the natural environment retaliates, the price that is to be paid will far surpass whatever amount of investment that was previously considered.

Therefore, in managing a company, one not only needs to take care of shareholders, he/she must also take care of the interests of all stakeholders. The pursuit must not only be limited to the visible values of “tangible, direct and present,” it must break into the invisible values of “intangible, indirect and future.” Otherwise, when all is accounted for in the end, whatever overall value that was created may likely be in the negative. A leader must never strive for merely short-term gain.

Additionally, giving back to the society not only entails the common and expected business contributions (donating tangible resources). Businesses can actually contribute intangible resources such as their professional ability, their management ability and their corporate influence. By giving back numerous intangible resources to the society through these actions, they contribute even more to the society.

### **Wangdao and Corporate Governance**

Moreover, managing a business must also value and follow corporate governance. While running a company, it is inevitable that various problems arise. If these are met with a spirit of corporate governance of “trust, transparency, fairness and responsibility” from which a mechanism for sustainable development is established, it can help companies with proper corporate governance break through these predicaments during the low points and rise out from it.

Corporate governance is a type of culture and value which translates to action in the end. Therefore, it is not mere lip service, but is implemented. Sometimes we suddenly hear explosive news about some famous company doing insider trading and other forms of malpractice. Actually, a lot of these companies have long-term business value. If a company sets up corporate governance early, it has the opportunity to either avoid malpractices from happening or easily find someone to

take over when such a thing occurs to safeguard the value of the company.

A leader's thinking must also come from the "inside-out" and from the heart to affect his/her actions and establish the new mechanism for corporate governance. Only then can it accomplish things that benefit the sustainable development of the company.

Owing to government laws that require businesses promote corporate governance that is "outside-in," this is not in line with the requirements of Wangdao thought of "inside-out". The influence of corporate organizational culture is far more important than the regulations. Even if regulations tighten, there is always a way to benefit oneself by finding a workaround or a gray area if there is no Wangdao thought. Therefore, to effectively implement corporate governance, an organizational culture based on Wangdao thought must be implemented.

When running a company, it is unavoidable that revenues may not meet expectations due to failed strategies, changing markets, fierce competition and the ups and downs of the business cycle, etc. When a business is socially responsible, continuously improves its business core competencies at the same time and establishes a good corporate governance mechanism, I believe that it can find solutions to the problems that come its way.

### **Re-engineering Acer and the "New Smiling Curve"**

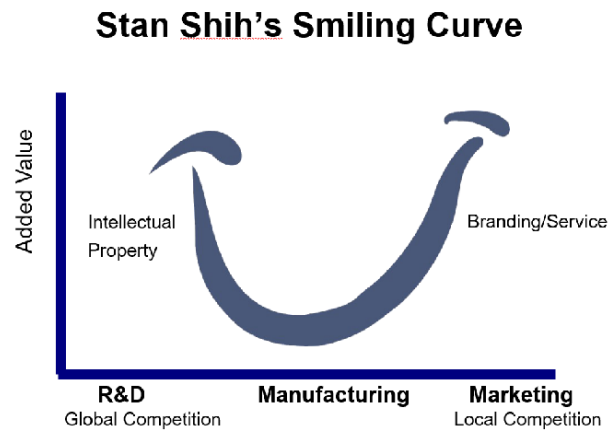
Looking at the Acer experience, when the original mechanism for value creation and balance of interests become ineffective due to the rapid changes in the high-tech industry, a transformation must be initiated.

Since 1976 when Acer was founded, it went through two periods of re-engineering with the first in 1992 (Re-engineering Acer) and the second in 2000 (Millenium Transformation). Additionally, Acer once again initiated its third re-engineering at the end of 2013.

When Acer began its re-engineering effort in 1992, it was also the time Wangdao philosophy was employed to make adjustments in order to face the future. The PC was originally able to create value, but its added value was limited. This necessitated the company to promote a transformation for finding a new area of value creation using Wangdao thought.



At that time, in order for value-creating employees to communicate with the entire PC industry ecosystem, the “Smiling Curve” was proposed in 1992. (Figure below)



Simply put, the “Smiling Curve” is a curve describing the industry’s added value. Looking at the horizontal axis (X), industry fluctuation is represented from left to right with R&D, manufacturing and marketing at the left, center and right points; the vertical axis, on the other hand, represents the high and low of added value.

In terms of market competition, R&D to the left of the curve is global, while sales and marketing to the right of the curve is regional. When faced with global competition, your technology must be one of the best in the world or you will not be competitive; for brand marketing to meet regional competition, it must rely on localized sales and marketing expertise for it to be effective.

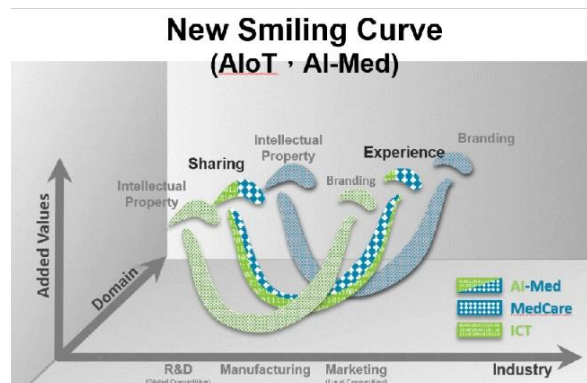
When seen from the smiling curve, there is a relative limit to add-on value for PC manufacturing from the value chain. On the other hand, R&D, components, brand marketing and service operations provide a higher added value.

The smiling curve was specially designed in order to convey this idea to the employees. Moreover, this was to tell everyone, and for the company’s operators located in the Hsinchu Science-Based Park, that the company hoped to move the lower added value of PC manufacturing overseas (as expressed in the middle of the smiling curve). Our Taiwan operations’ focus and energy thus shifted to the left of the curve to manufacture motherboards, add-on cards, and shifted to the right of the curve for service operations and other higher added value areas for development. That year saw the company’s first re-engineering by way of concepts brought forth by the smiling curve.

Another twenty years after, the age digital economy is upon us. With the big development trend of Industry 4.0, AIoT, etc., the industry must ramp up its transformation efforts to prepare itself for the future. For this it must carry out integration across multiple fields in order to create new value that is customer-centric. By sharing resources, we co-create tangible and intangible value together that provide benefits, implementing them in the experience economy and the shared economy. So, in 2019 the “New Smiling Curve” was proposed.

The biggest difference between the “Smiling Curve” (1992) and the “New Smiling Curve” (2019) is that while before it was two-dimensional, multi-dimensional thinking is now required to create even higher add-on value for the new economic age.

Therefore, the “New Smiling Curve’s Six-Dimensional Viewpoints” has X (upstream, midstream, downstream), Y (added values) and Z (domain types) axes. We also add on the axes for “Time, Tangible/Intangible and Direct/Indirect” considerations. These comprise the “New Smiling Curve.” (Figure below)



Different industries have their own “Smiling Curve” to interpret where their add-on values lie. The emphasis of the “New Smiling Curve” is that only by integrating across domains can a new experience and shared resources be created in the new economy. This is the only way new value can be created. This is also the key to Taiwan’s future transformation by elevating its add-on value.

To cite an example, Taiwan’s two industries with the greatest advantages – the ICT and medical industries can band together with the potential to become a world leader through AIoT application development, offering better quality and better medical services to everyone and providing concrete contributions.

To take a hold of the opportunity of the new economy in the future, one must focus on gaining insight into the user's daily work and life experience. From "right to left," by starting off from the needs of the user from the right end of the smiling curve leading towards technology at the left end, many technologies are integrated to provide the consumer with a totally new experience in this platform. At the same time, a shared economy is created through the efficient use of the platform. This allows everyone involved in the platform ecosystem to share in its benefits.

The purpose of transformation is to reposition a company and to find a new model for value creation and balance of interests in the new ecosystem.

During its first re-engineering, Acer proposed a plan for intrapreneurship and a goal to have 21 listed companies by the 21<sup>st</sup> century. At the same time, the "Global Brand, Local Touch" strategy was introduced for all stakeholders to create value together and maintain a balance of interests. Local subsidiaries and partners were empowered to make decisions. Within these lie a great deal of hidden incentives.

Through communication, establishment of a common understanding of transformation and its joint implementation, Acer completed its first re-engineering and regained the strength for growth for the company, finding a new model for creating value once again.

By 2000, Acer started its second re-engineering plans (Millenium Transformation) by separating the company into two entities, one for R&D, manufacturing and services and the other for brand business. Acer focused on managing the brand business, while the R&D, manufacturing and services business became Wistron. This allowed this different division of labor to re-establish a new mechanism for a balance of interests. At the same time, each entity can focus on the different areas of expertise and increase their competitiveness. After the transformation, they were once again able to restore their strength for further growth.

### **Acer's Third Re-Engineering**

After 2010, the growth of the PC industry began to slow down due to changes in the objective environment. PCs were being replaced by smartphones, tablets and other mobile devices. Compounding this fact was the introduction of a new wave of Apple products. This dealt a tremendous blow to Acer which was firmly holding on

the PC space. In addition, the management team still employed the old PC thinking model with no new breakthroughs. So, it was very difficult to manage the business at the time.

A winning formula in any industry has a time limit. For example, ten years of the ICT industry is considered a very long time, so it has to undergo a re-engineering every ten years or so in order to search for another winning strategy. When the greater trend changes, even the world's strongest company cannot stem the tide.

So at the time, I specifically called for the need for Acer to quickly find a new winning formula. The most important element in this quest was to change the old way of thinking, while at the same time, establish a new core competency to meet industry trends and market requirements, thereby responding to the changes in the greater environment.

However, I had already retired from Acer at the end of 2004. When Acer once again encountered headwinds and both the CEO and president resigned at the end of 2013, and with no alternative, I relented and returned to freely take up the chairman's role for 210 days. I started Acer's third re-engineering by guiding Acer to face new challenges using Wangdao.

### **Promoting Transformation, "5C Decision-Making Principles"**

When viewed from Wangdao, each transformation comes from the realization that the strength of the original value creation model begins to become restricted. It therefore must adjust to a new direction for future value creation. Secondly, a new mechanism for a balance of interests must be established. Wangdao talks about value creation and balance of interests.

During transformation, what must first turn around is the mindset, then the organizational mechanism, so that the actions can be implemented. As far as the promotion of the steps for transformation, the five big steps, "shaping the culture, proposing a vision, setting a strategy, adjusting the organization, taking action" must be repeated constantly in a cycle.

Moreso during the process of promoting transformation, communication becomes very important, whether it be shaping new visions or planning new strategies. These all have to come to a consensus.

Communication must begin from top to bottom. The management involved in the transformation must first be on the same page and communicated with clearly. Once there is a consensus, the next stage would be to communicate with the entry level employees. Entry level employees are all watching and may even internally resist change.

Therefore, the “5C Decision-Making Principles” refer to “Communication, Communication, Communication, Consensus and Commitment.”

When promoting transformation, constant communication must occur with all the employees in order for everyone to feel that the company has already reached that crucial moment where change is inevitable. Moreover, when a consensus is reached during communication, everyone must be committed to it. If there is a good method, then it should be proposed. If there is no better way, then the present consensus is the best way as of the moment. Then everyone must implement it together.

### **Transformation is Like a Ship Changing Course**

Pushing forth a transformation is like a ship changing course. If the ship turns too fast, it will overturn, but if it turns too slow, it will lose momentum and lower the odds of success. So, turning too fast or too slow are both not ideal. It presents a great challenge for the one at the helm who must stably direct the turn while maintaining everyone’s confidence.

In particular, the purpose of transformation is to face the future. Therefore, each transformation must act in concert with the new direction of development, re-establishing new core competencies. Only then can the company find renewed competitive spirit and continue creating value.

We can see clearly that the direction of transformation during Acer’s three re-engineering efforts were all geared towards continuous value creation. From the original PC ecosystem, it found a new market segment for creating profit, reallocating resources and selectively letting go of unprofitable markets and products. The goal was not to pursue economies of scale, but only to acquire business that can prove profitable.

In addition, Acer which in the past had hardware at its core has gradually transformed into a company with “hardware + software + services” as its guiding vision, grasping the opportunity of the cloud computing age.

Taking heed of the future, Acer is now focused on services with the user at its very heart. These services will combine “hardware, software and services.” Now more than ever, it needs to integrate and work with partners across industry fields, using the “New Smiling Curve” to communicate with everyone and train new core competencies.

### **TSMC’s Wangdao Management Philosophy**

In the early days of the high-tech industry’s development, it was originally vertical integration. By the 90s, the worldwide industry trend started shifting towards disintegration.

In 1991, a Harvard Business Review article mentioned that the world was already moving towards a “Computerless computer company” and a “Fabless semiconductor company”.

This paradigm shift of the PC and semiconductor industry was first initiated by Acer and TSMC. In the field of personal computers, Acer in 1983 simultaneously promoted its brand business as well as offered design and manufacturing services for OEMs; in the area of semiconductors, TSMC in 1987 established an innovative business model with its professional foundry service.

TSMC pushed into the forefront of the semiconductor industry with its innovative foundry service model. Technology-wise, it began at the world’s third tier, but with the right business model it accumulated the strength to continuously expand economies of scale and investment. Now it is at the pinnacle of the world’s top tier companies, with a singular focus in creating value in the foundry service space.

In the semiconductor industry ecosystem, TSMC also set up a mechanism for a balance of interests. It not only collaborated with equipment suppliers, it also offered assistance and testing feedback during the process of developing new equipment. In addition, TSMC does not compete with its customers, concentrating only in the foundry service space. This allows its customers to attend to the development of IC design that meets market demands. No conflict exists with the

customer in terms of benefits. There is also the forging of a relationship with the customer based on long-term trust, unlike its competitors Samsung or Intel.

Even though TSMC founder Morris Chang has never brought up the topic of Wangdao, he is deeply rooted in eastern culture with an understanding of western culture. In reality, his management beliefs fully reflect the spirit of Wangdao which is embedded in TSMC's business model wherein its customers, suppliers and all related beneficiaries share in value co-creation. It can be described as a perfect example of Wangdao leadership philosophy.

### **Expanding “Wangdao Business Accounting”**

As everyone is used to seeing the visible values of “tangible, direct and present,” it is easy to overlook the invisible values of “intangible, indirect and future.” Even corporate performance management indices such as KPI (Key Performance Index) lean heavily on the visible values, and present accounting systems are not immune to this fact as well.

In order to change this phenomenon, I specifically worked with NTU (National Taiwan University) professor of accounting Liu Shuen-Zen to promote “Wangdao Management Accounting.” Even though it is still based on IFRS (International Financial Reporting Standards), it must integrate the ideas and spirit of “Wangdao Management Accounting”, utilizing “notations” as supplemental information in financial reports. At the same time, it sets up the “Wangdao Value Report” to assess areas of invisible values. Businesses should formulate a criteria for evaluation within their own organization that is sustainable, long-term and regular (quarterly or annually), serving as an important reference for the company's internal management.

How then does one assess invisible value? As different industries have different standards, one can begin by comparing with peers, or with oneself from a before/after perspective. In the long run, you will begin to see if the investment in invisible value is worth it or not.

For a long time, the “General Theory of Hexa-Aspect Values” has encouraged everyone to think in terms of Wangdao, calculating the general ledger from the hexa-aspect values. Up to now, financial statements lean towards presenting the specific numbers from the “tangible, direct and present (short-term).” However, to see the

real worth of a company, one must include the “intangible, indirect and future (long-term)” invisible values such as investments in R&D, talent training, corporate image and social welfare. Only then can you consider the report complete. By this the real value of the company is expressed. I believe that as long as businesses continue to have long-term investment in invisible values, the effects will no doubt be seen in the created visible values.

### **Establishing the “Sustainability Leadership Research Center” with NCTU**

In order for long-term investment into Wangdao-related research, StanShih Foundation (founded by the author) and the National Chiao-Tung University College of Management specifically established the Sustainability Leadership Research Center.

The research center placed under the leadership of the NCTU College of Management professors allows for a more systematic research into Wangdao thought, with sustainable development and leadership ability at the core of research. At the same time, “corporate succession”, “corporate transformation”, “corporate innovation” and other topics form the main research principles. The gradual addition of local and international Wangdao business cases will further clarify the Wangdao spirit to the outside world.

We also hope that the Sustainable and Leadership Research Center will implement a research structure based on eastern management philosophies in the future, making even more tangible contributions to world civilization.

Taking Acer as an example once again, if viewed from the tangible, direct and present visible values, it most certainly is not the most outstanding company. However, when seen from the overall hexa-aspect values and especially from the intangible, indirect and future invisible values, Acer has given Taiwan society the nurturing and training of the greatest number of high-tech talent, giving young people a reason for confidence and hope. At the same time, the Acer brand has raised the image of the ethnic Chinese brand on the international stage, aiding other Taiwan brands in their global development. These are the most precious value that Acer holds. This is also the goal that Wangdao pursues.

Looking back at the road that Acer took, it is not only the nurturing cradle of Taiwan’s high-tech industry talent, quite a few of leading companies in the ICT and



semiconductor space possess Acer's DNA. They did so by merging or incorporating a few of Acer's related businesses. These include TSMC (merging TI-Acer), Mediatek (merging Acer Labs), Hon-hai (merging Ambient), WPG Holdings (merging Sertek) and other international companies. Though the names of these companies no longer exist, they integrated into the companies that took them in, continuing to create value together, continuing to show the influence of Wangdao.

In other words, Acer's Wangdao culture not only globalized Wangdao ideas through the process of Acer's globalization, it also further expanded into more diverse fields through the globalized companies embedded with Acer DNA to elevate the international influence of Wangdao.