



## Acer's "Kingly Way" and "Hegemon's Way": A case study of Chinese management style

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### Abstract

The case study investigates Stan Shih's management style during his era as Acer Group founder to show how he combined Eastern and Western business styles for leading this company through worldwide PC market challenges. This case starts by explaining Acer's development through its start and international brand expansion before it encountered issues with its massive organizational structure. The business underwent a critical transformation when Mr. Shih developed his "smile curve" theory which showed the most valuable parts of the industry value chain. He separated the business in 2001 to establish an R&D center which focused on developing new products for brand expansion. This case shows how Shih used Confucian "Kingly Way" principles to run his business operations through a system which bases its leadership on the belief that humans possess natural goodness and employs profit-sharing and employee bonus systems to build a family-like workplace environment. Moreover, it also illustrates how he applied "Hegemon's Way" (Legalist) authority and execution during organizational shifts to find equilibrium between "Kingly Way" and "Hegemon's Way" while practicing Taoist principles of natural progression. This case study provides some questions, which help readers evaluate Chinese Management Style obstacles and benefits when dealing with current capitalist systems and worldwide business operations and modern technological advances.

**Keywords:** Stan Shih, Acer, Smile Curve, Kingly Way, Hegemon's Way, Confucianism, Legalism, Chinese Management Style

### Introduction

The Taiwanese electronics industry operated through what people called the "OEM era" during the year 1976. The worldwide electronics supply chain maintained distinct operational zones because American and European companies took charge of technology and branding and sales operations which produced the majority of financial gains. Japanese companies maintained their position as leaders in high-end manufacturing because they achieved excellence through their manufacturing operations and quality assurance systems. Taiwanese companies functioned as the "world's factory" because they used the OEM system to generate small profits from processing work. The profit distribution for personal computers showed a massive imbalance because American and European companies which owned technology and brand names received more than 90% of the total profits. The survival of contract manufacturers depended on their ability to operate with narrow profit margins because they had to manage their expenses against their customer demand. Foreign brands held complete control over technology and pricing power and market voice. Taiwanese electronics companies operated as a "processing link" because they lacked any chance to move up in the global supply network. The model generated consistent financial returns but forced businesses to maintain a defensive position which left them exposed to replacement by more affordable market entrants.

Stan Shih who was 42 years old at the time chose to follow a path which his peers viewed as "untimely." Shih worked as an experienced engineer who earned his master's degree from National Chiao Tung University's Institute of Electronics while maintaining a research position at the Industrial Technology Research Institute (ITRI) which offered him a bright academic career. He recognized the complete structural collapse which affected Taiwan's electronics industry while understanding the dual nature of

OEM operations which contained both dangerous industry problems and hidden strategic chances.

Shih made a determined choice in 1976 to abandon his secure research position because he joined forces with five engineers who shared his vision to create Multitech from their modest apartment on Minsheng East Road in Taipei. The business evolved into Acer which gained worldwide recognition. During its initial period Acer followed the typical path of Taiwanese electronics companies by performing multiple business activities to stay operational. The company focused on distributing electronic components while it offered microprocessor support and built computers yet it operated in a highly competitive market which almost drove them to bankruptcy. Shih maintained his focus on long-term objectives instead of getting distracted by immediate rewards. The OEM model revealed its deadly defect to him through his multiple industry observations and business operations because brands need to exist for companies to survive in the future. The absence of technological capability creates a dangerous situation for any business operation. Market control becomes unreachable for businesses which lack the ability to influence their target market. Shih maintained that Taiwanese enterprises needed to evolve past their current state as permanent manufacturing facilities which serve foreign corporations. The companies needed to develop their own brand identities while they mastered technological skills and built worldwide distribution networks. The belief established itself through the OEM market challenges to become Acer's core strategic framework for all upcoming business decisions.

During its initial startup period Acer encountered extreme difficulties which threatened to destroy the company. While NT\$250,000 wasn't an insignificant amount, it was still tight for a company entering the electronics industry. To maintain cash flow, Acer took on various OEM orders, from parts

distribution to computer assembly. Yet, even in the toughest times, Shih never abandoned his pursuit of a brand. The OEM business attained stability so he started developing a brand strategy through three main initiatives which included funding research and development work with a small budget that cut short-term gains and attempting to establish PC accessories under their brand name which provided brand management skills although sales remained low and building domestic research and marketing teams to develop staff who would support worldwide business growth. The "nurturing a brand within OEM" approach stood as the only one of its kind which operated throughout Taiwan's industrial sector during that period. Most Taiwanese electronics companies chose the shortcut of "focusing solely on OEM for quick profits," pouring all resources into expanding production scale and lowering manufacturing costs. But Shih chose a harder, more long-term path: in an era where everyone chased "fast money," Acer quietly laid the first cornerstone for its future global brand journey. The company established its long-term commitment which people at that time would have considered outdated and impractical because it built the essential base which allowed Acer to achieve its future success. Shih understood that brand development needed continuous financial support together with gradual growth and enduring dedication. He often said, "Building a business is like planting a tree; you cannot rush success. You must give it time to take root and grow."

In 1987, after 11 years of accumulation, Acer had completed its initial capital buildup and faced its first critical choice since its founding. That year, overruling all opposition, Shih made an extremely bold decision: to completely rename the company from "Multitech" to "Acer." This was far more than a simple name change; it was a high-stakes global gamble. Shih understood that while "Multitech" had some recognition in the domestic Taiwanese market, it had fatal flaws: it was too long, hard to remember, strongly "technology-oriented," lacked emotional connection and cultural depth, and was difficult to communicate globally. After much deliberation, Shih chose "Acer." Derived from the Latin word "acerbus," meaning "sharp, lively, insightful, acute," the word was short, easy to remember, fluid to pronounce, and devoid of regional connotations – inherently designed for the global market. The Chinese name, embodying the Eastern vision of "great ambition, reaching the peak," aligned with Chinese cultural roots while being internationally communicable. The perfect combination of Chinese and English names reflected Shih's deep insight into brand internationalization: a successful global brand must both transcend cultural barriers and retain its local cultural characteristics.

Following its rebranding efforts Acer started its worldwide expansion by creating a detailed international strategy which involves establishing strong domestic operations across Asia before moving into European and American markets to achieve worldwide market penetration. The business approach followed Shih's "steady and sure, step-by-step" philosophy which helps him avoid the typical mistake of expanding too quickly when entering foreign markets. Acer achieved a quick ascent through the worldwide PC market because it combined affordable product offerings with adaptable marketing approaches and deep understanding of market demands in different regions. By the mid-1990s, Acer had established itself as one of the top ten PC

manufacturers worldwide while becoming Asia's third most influential technology company after Sony and Toshiba and it ended American and European domination of the worldwide PC industry. Acer started with NT\$250,000 in startup funds before reaching worldwide recognition as a brand through its progression from a small OEM workshop to an international brand which took 20 years to achieve. The expedition showed Shih's "brand-first" strategy would succeed while teaching essential business principles to future Taiwanese corporations about their starting point with OEM work before they must establish their own brand identity and their manufacturing facilities serve as base operations which their branding abilities will determine their maximum operational capacity. The fast development of the company created conditions which would eventually lead to multiple organizational problems that resembled the troubles a fast-growing teenager would fight to manage. The company revealed its fundamental organizational and management issues which reached a critical stage during the late 1990s when Acer faced a collapse of its entire business operations.

### **The "Giant's Disease" Crisis beneath the Prosperity**

By the late 1990s, Acer, a fast-sailing ship, began showing severe symptoms of "giant's disease." The company showed rising revenue numbers while operating international offices throughout multiple nations and maintaining a workforce which spanned thousands although these numbers established its position as a successful global business. The organization faced increasing internal risks which remained out of sight. The organization developed into a complex system which resulted in delayed decision-making processes. The company followed a centralized headquarters system which required all international branch decisions to pass through multiple approval stages before reaching Taipei for final approval. The company maintained a lengthy and complicated approval process which functioned properly during its early stages but became unmanageable when the business expanded into international markets and faced quick market changes. The PC market at fast speed required Acer to respond quickly but their response times became too slow which made them miss crucial market opportunities that competitors Dell and HP took advantage of because they had more adaptable management systems. Shih later reflected, "Our organization was like an elephant – huge, but hard to turn. The market required instant responses but our team had to wait for approval at every stage." The "big company disease" proved to be a major problem which harmed both Acer's operational performance and its ability to compete effectively in the market.

The organization showed an uneven operational structure because its strategic direction lacked clear definition. The company Acer needed to battle against two different market approaches which combined their "brand + OEM" strategies into a single strategic challenge. The company needed to build its individual PC product line because this approach would let them acquire the profitable market which exists at the consumer stage. The company continued its OEM business operations while still accepting manufacturing requests from various global brands. The two business approaches operated in direct opposition since branding required companies to create unique products which they sold at high prices to achieve substantial profits while OEM manufacturing demanded businesses to produce

standardized products at minimal costs through stringent cost management and efficient production systems. The different customer bases of Acer along with its resource distribution and corporate approaches led the company to fail in meeting the needs of either group. Acer faced a challenging market situation because its unclear business strategy prevented it from establishing a strong competitive position. The business faced a third obstacle because it operated within the red ocean market which led to minimal profit margins. The worldwide PC industry experienced rising competition during the late 1990s because Dell used direct sales to cut expenses through innovative supply chain systems and HP expanded through acquisitions which created large-scale operational efficiencies and IBM maintained its position in the upscale business sector. The company operated between mid-range and low-end markets because it used price competition to protect its market position. The business faced a never-ending cycle because its profit margins decreased every year while its revenue numbers continued to increase without generating any actual profits. The data revealed that Acer experienced three straight years of net profit decreases from 1998 through 2000 while its foreign operations suffered major financial setbacks. The Asian tech star which used to shine brightly faces a critical moment to either renew itself or face total extinction. The staff morale dropped to its lowest point while the public began to doubt and investors started to lose trust in the company. The company Acer faced its most severe survival crisis since its founding.

Shih as the founder who leads Acer understood that the company faced problems because of incorrect strategic choices and traditional management approaches and values which had shifted from their original path. The leader understood that Acer had forgotten its industry value chain position because the company underwent a fast expansion period. The traditional labor system at Acer operated through two segments which included manufacturing as an original equipment manufacturer (OEM) and branding operations but these divisions showed major differences in their ability to generate value and their financial success. The manufacturing sector requires workers to perform most tasks because it operates with basic technological systems and faces strong market competition which results in very small profit margins. The process of branding requires both extensive knowledge and large financial investments because it involves complex technical challenges which lead to strong brand value and substantial profit potential. The company faced a challenging situation because it dedicated excessive funds to its basic manufacturing operations yet failed to provide enough financial support to its valuable research and development and branding activities. The company used an incorrect resource distribution method which resulted in continuous profit losses even though its business operations expanded extensively. The company faced a major problem because its OEM operations clashed with its brand activities which created internal strategic conflicts that blocked the company from developing a distinct market position. Shih understood that Acer needed to undergo an entire organizational transformation because this was the only way the company could continue its existence. The revolution needed the company to create new value offerings while shifting its financial backing and organizational design and corporate environment transformation. The "Smiling Curve" theory which he had

developed in 1992 but never fully applied served as the instrument for this revolutionary change.

### **The Smiling Curve**

Stan Shih developed the well-known "Smiling Curve Theory" during 1992 after he studied worldwide technology sector growth patterns and performed a thorough evaluation of PC market value distribution across its production network. The basic U-shaped curve showed how different business segments distributed their value which Acer used to guide its business transformation and which reshaped the development path of Asian technology sector. The horizontal axis of the Smiling Curve shows the complete production process through three stages which start with key components and technology R&D and end with branding and channel services. The vertical axis represents the added value and profit margins of each stage. The curve shows a distinct U-shape: high on both ends, low in the middle – resembling a smiling mouth, hence the name. The curve consists of three distinct sections which form its complete structure.

The left end of the value chain contains the first stage which focuses on Research and Development activities together with Innovation work. The section which faces the most difficult technological challenges includes work on technology research and development and patent portfolio management and industrial design and essential component manufacturing. Organizations that achieve technology mastery gain the ability to control market prices which leads them to achieve profit margins that exceed all other industry sectors thus creating their competitive edge. Microsoft and Intel control the majority of PC industry profits because they excel at developing operating systems and manufacturing processors. The middle section which represents the low-value zone contains Manufacturing and Assembly operations. The business operates in a market with low entry barriers but faces strong competition because it depends on workforce expenses and large-scale production for its financial success. The market operates with very thin profit margins because businesses face immediate replacement by their competitors. The market operates through cost-based competition because any new competitor who offers lower prices will immediately win all customer orders which forces companies to stay inactive. Most Taiwanese electronics companies operated in this area during the 1990s while they maintained high levels of activity yet their financial returns remained extremely low. The right end of the value chain contains the high-value zone which includes Branding and Services operations. The segment establishes contact with users through its brand marketing activities and its channel management operations and its after-sales service and user operations functions. A strong brand commands significant product premiums, and a robust service system enhances user loyalty and repurchases rates, ensuring long-term profitability. IBM and Apple dominate the PC industry through their ability to create powerful brand recognition which they combine with their exceptional customer service to generate profit margins that exceed what most companies in the industry achieve.

The Smiling Curve theory shows that businesses must leave their low-value manufacturing section to achieve their maximum profits and build enduring business success through their work at both ends of the curve. The theory instructed Acer to stop manufacturing because this sector

generated more than seventy percent of its earnings while the company needed to focus all its efforts on research and development innovation and brand service sectors. The company needed to choose between two paths because it had to stop its major income source which demanded them to accept significant financial losses while they worked to reshape their entire business structure. The transformation process presented an insurmountable challenge because the team needed to handle internal opposition while proving their project to outside experts and dealing with urgent financial needs and various unknown factors. Shih maintained that Acer needed to undergo a complete transformation because he believed this path would lead the company out of its low-profit situation and help it achieve market dominance. He often said, "Corporate transformation is like a snake shedding its skin. It's painful, but if you don't shed it, you die." The Smiling Curve theory not only saved Acer but also became a guiding theory for the transformation of Taiwan's entire tech industry. TSMC developed its business through the right end because it built brand services and technology empowerment which transformed the company from a basic wafer foundry into a worldwide leader in semiconductor technology. MediaTek developed its business through the left end because it built brand services and technology empowerment which transformed the company from a basic wafer foundry into a worldwide leader in semiconductor technology. MediaTek advanced its business through the left end because it developed its research center which enabled the company to become a leading global chip design company. The Smiling Curve theory became the main tool which helped Asian companies achieve their challenging transition from manufacturing work to becoming innovation centers. The Smiling Curve theory became the main tool which helped Asian companies achieve their challenging transition from manufacturing work to becoming innovation centers. The Smiling Curve theory became the main tool which helped Asian companies achieve their challenging transition from manufacturing work to becoming innovation centers. The Smiling Curve principle which originated in technology now applies to value distribution systems across various industries. Most manufacturing industries display a common value distribution which shows R&D and branding activities deliver better profit margins than production and assembly operations. The key lesson for contemporary management is that when formulating strategy, companies must clearly understand their position in the industry value chain and define how they create value and generate profit. The business will not achieve sustainable competitive advantage because its low-value segment operations prevent it from building profitable market positions. Organizations must switch their operations to superior market segments through two possible paths which involve developing technological expertise and core product knowledge or creating powerful brand identities and customer support infrastructures. The process of migration needs businesses to dedicate extended periods of time for funding and persistence while showing strategic determination and operational bravery which leads to the achievement of valuable benefits and enduring market superiority.

### **Co-governance Management**

Stan Shih developed the "Co-governance Management" approach which differs from the Western business practice

of Shareholder Primacy that uses centralized management systems. The business value community consists of various stakeholders who include employees and customers and suppliers and members of society according to this philosophical approach. A business needs to distribute development rewards equally between all stakeholders to achieve permanent business growth. The concept draws its strength from Eastern Confucian teachings about benevolence and righteousness which follow the win-win philosophy that promotes peace instead of competition. Shih believed that a company's success is never due to a single factor but results from the joint efforts of many parties. Businesses need to create governance systems which enable all stakeholders to gain value through shared objectives that unite their interests for long-term stability. Acer operates its co-governance management system through three main elements which it follows in practice. The initial wave of companies which started employee stock ownership plans (ESOPs) in Taiwan included Acer as one of their members. Shih followed his principle of "making employees owners of the company" through two main approaches which involved giving workers company shares and stock options to distribute ownership across all staff members including top management and factory workers. The system enabled employees to shift from their previous role as "workers" into "partners" who shared their personal goals with the company's business growth. The ESOP system created a strong bond between employees and their work place which made them more eager to develop new ideas. People used to care about their salaries but now they understand business growth matters to create lasting wealth for the organization. The team members started to look past their basic task fulfillment because they wanted to develop new methods for business growth. The system enabled Acer to build an employee workforce which maintained company loyalty through challenging business transformations because it made workers feel like they owned the organization. Shih frequently stated that companies receive their highest value from their skilled personnel instead of their physical manufacturing facilities and machinery. You achieve talent retention and motivation through making them company owners. The business philosophy introduced a new way of thinking which caused Taiwan's business community to debate about its implementation. The ESOP system proved Shih's prediction correct because it strengthened shareholder value through company value growth which produced better results for shareholders.

Acer broke down its centralized headquarters structure to fight the "big company disease" which enables organizations to respond more effectively. The system created two separate business structures which it called Strategic Business Units (SBUs) and Regional Business Units (RBUs) through its analysis of business attributes and regional characteristics. The business units gained full operational independence which enabled them to react immediately to any market changes. The primary focus of headquarters involved strategic direction and resource management and risk monitoring but they avoided direct interference with operational activities. The organizational change used a metaphor which compared the process to turning a large ship into an adaptable collection of ships. Each business unit functioned as an independent vessel which maintained its own combat systems to make decisions based on battlefield circumstances yet the entire

fleet operated under shared strategic goals which enabled joint operations. The model maintained cost advantages from large-scale operations while providing enough flexibility to improve Acer's market reaction speed and competitive position. The decentralization process resulted in numerous managers who developed broad operational knowledge and business understanding throughout their careers. The business units became self-directed through these individuals who developed into leaders who managed challenging situations while creating a strong talent foundation for Acer's upcoming growth.

During internationalization many multinational corporations encounter the problem of "not adapting to local conditions" because their headquarters create global strategies which ignore local market characteristics and cultural differences which results in poor execution. The solution to this problem appeared when Acer adopted its "Glocalization" approach. The company Acer let its foreign operations operate with full independence which enabled their teams to develop product strategies and marketing plans that used local customer behaviors and cultural aspects and market requirements. The European teams designed laptops which matched European taste preferences and work requirements while North American teams took charge of their domestic retail operations and business relationships. The Asian teams developed tailored products which matched their specific market needs. The business model based on "Think Global, Act Local" helped Acer achieve fast market entry while protecting the company from typical international business failures. Shih once said, "The highest level of management is trust. Trust your employees, and they will surprise you." The management system of co-governance establishes institutionalized rules from "trust" through Eastern cultural values which promote inclusiveness and win-win approaches to create a unified organizational environment. The management approach operates in opposition to Western methods which focus on control and operational efficiency yet Acer has shown its value through successful implementation.

### **Value Innovation**

Mr. Shih maintained his mental clarity during the harsh price competition which defined the PC market. The manager understood that price wars would help companies get market share during short periods but they would not maintain their competitive advantage. The market operates through price wars which force companies to reduce prices by cutting their expenses but this approach leads to both quality degradation and reduced research spending and diminished customer support. The process creates a negative feedback loop because it leads to lower product competitiveness and damaged brand reputation which results in decreased customer satisfaction. Shih warned his team that price wars would only bring them temporary success but value innovation would lead to long-term success. The "Value Innovation" method Shih introduced required businesses to create original value which competitors could not duplicate instead of depending on price competition. The process of value innovation demands companies to develop their products through innovative approaches which combine technological progress with design improvements and service enhancements and business model alterations to create enough value that customers will pay extra for it.

Acer developed its value innovation through three distinct approaches which worked together to achieve their common objectives.

The company followed two main paths to achieve its value innovation success at Acer. This company maintained its practice of dedicating 5% to 8% of yearly revenue to research and development during its toughest transformation years. The company worked on developing thinner and lighter laptops while they also focused their efforts on creating longer battery life and better thermal management systems. The company maintained its dedication to international innovation which enabled Acer to obtain numerous global patents that created a protective technological barrier which freed the company from its dependence on inexpensive manufacturing operations. The creation of technological barriers brought about two beneficial outcomes because it enhanced product functionality and durability and it established a strong foundation which supports higher brand value. The organization needs to create a unique brand identity which will eliminate its cheap product image from Path 2. The company started to develop its brand identity by breaking away from its previous reputation as a manufacturer of inexpensive computers. The company established itself as a brand which attracts young consumers through its innovative products that remain affordable for their budget. The brand position allows Acer to keep its value leadership position while it demonstrates its youthful and creative brand identity. The company developed particular product lines which targeted three market segments including young people and business users and gaming enthusiasts. The brand position which Acer used enabled the company to achieve market differentiation from its competitors while it built up its brand value. Path 3: Full-link service upgrade – from selling products to selling an ecosystem. The company Acer established a new definition for sales because their approach treated product sales as the start of customer service instead of the usual final step. The organization dedicated major resources to establish a worldwide after-sales support system which provides round-the-clock technical assistance and complimentary upkeep and product exchange options and various additional benefits. The organization switched from basic product sales to delivering complete product and service packages to its customers. The service system which operates in this environment creates better customer loyalty because it enables customers to obtain products together with continuous service benefits. Value innovation enabled Acer to successfully escape the vicious cycle of price wars, find its own differentiated competitive path, and lay a solid foundation for long-term profitability. Organizations need to establish their value creation system because they must answer the vital question about their target customer base and the value they generate for them. Businesses enter price wars when they fail to establish their value proposition. Organizations need to dedicate themselves to long-term value innovation because this approach requires patience and ongoing financial backing which does not generate immediate returns. Research and development together with branding and service systems require organizations to dedicate continuous resources and extended periods of time for achieving their competitive position in the market. Organizations need to focus on their customers when they develop value innovation because they must solve actual user problems

while delivering results which exceed customer expectations. User needs shape the path of innovation because innovation which exists independently from user requirements leads to self-centered activities that fail to generate market value.

### **The 2001 "Hegemon's Way" Transformation**

Acer transformed its operations by following three strategic directions which included the Smiling Curve theory and co-governance management model and value innovation philosophy. Organizations face substantial obstacles when they try to put theories into practice which require them to destroy their backup plans and leaders need to push through opposition. In corporate management practice, we often observe this phenomenon: the correct strategic direction has been identified, but due to various internal and external obstacles, the transformation never truly materializes, and companies hesitate and delay, missing opportunities and ultimately declining. Stan Shih understood that during times of major change the "Kingly Way" needed its gentle approach and consensus-building but it required the forceful execution of the "Hegemon's Way" to succeed. The "Hegemon's Way" in this text refers to leadership which involves making tough choices during essential periods while leaders must also take significant chances and fight against opposition to achieve organizational transformation. Organizations need to deploy an "iron fist" approach during emergency situations because this method acts as their main power which allows them to cross the transformation gap. Acer surprised the worldwide technology sector when it launched a strategic divide in 2001 through forceful tactics which led to its own organizational change. Shih's spin-off plan operated as a surgical procedure which split Acer Group into three separate entities while removing all businesses that did not add value and directing attention toward valuable business areas.

The first cut was the brand business (New Acer). The company will maintain its Acer brand while dedicating resources to personal computer research and development and design work and marketing efforts and brand management activities. The company will position itself as the main source of future profits and strategic value for the group. The new Acer Company would eliminate its manufacturing duties so it could move forward without any operational weight while focusing on essential value-producing tasks which exist at both ends of the Smiling Curve. The second cut was the manufacturing business (Wistron). The company established Wistron Corporation as an independent entity by transferring all manufacturing facilities and assembly operations together with ODM/OEM contract manufacturing work. The new business entity would operate without Acer brand responsibilities to concentrate on providing OEM services for major global brands while it expanded through its growing size and cost savings. Wistron's independence also completely resolved the inherent conflict between Acer's brand business and its OEM operations. The third cut was the service business. The business separated its technical services together with after-sales service and system integration and other operations to establish professional service companies which formed a complete "product + service" ecosystem that expanded brand value. The arrangement created a professional scale service system for Acer which established a new profit growth point.

The direct consequence of this plan was that Acer Group's revenue instantly shrank by more than 70% in the short term. The company made an extremely harmful financial choice when they decided to leave their manufacturing base while simultaneously shrinking their operations which resembles a self-destructive action. Almost every person in the worldwide technology sector rejected this transformation during that time period because some experts predicted Acer would lose its business within two years. The company announced its plan to separate into different parts which triggered a large number of people to express their doubts about the plan while Shih found himself without anyone to support him. Internal executives showed strong opposition because they doubted how the company would control its supply chain without manufacturing operations and how it would maintain product quality and delivery efficiency. The company needed to find new competition strategies because it had scaled down its operations. The removal of manufacturing operations would create multiple problems for supply chain management systems. Shareholders became anxious because they believed the stock price would decline after the company decided to give up 70% of its revenue. The system needs to protect investor interests because shareholder organizations want to file lawsuits based on short-term performance drops. Management needs to prove they have fulfilled their responsibility to shareholders which requires them to act in their best interests. The capital markets created conditions which made all these issues become actual problems. The industry responded with sarcasm and ridicule because they believed Taiwanese enterprises built their success through manufacturing. Acer is pursuing a failed business plan because the company focuses on appearance instead of actual value which will lead to its downfall. The founder made a senile erroneous decision which will drive the company into complete destruction. The industry showed doubt because Taiwan's businesses during that period relied heavily on Original Equipment Manufacturer (OEM) operations. The partners showed doubt because they questioned the entire future of Acer after the company made its revolutionary transformation. The partners needed to decide about their ongoing collaboration with the other party. The team needed to search for different suppliers because they wanted to protect their organization from potential dangers. The supply chain instability made the transformation process more complex to handle. The entire team awaited Shih's decision to settle because they expected Acer would abandon its current path for the established OEM business model. The business maintained a consistent cash flow with manageable risks under its survival model which most Taiwanese businesses already understood. Shih maintained his position without any hesitation throughout the entire situation. The leader showed complete dedication to "Hegemon's Way" leadership by taking charge of the transformation leadership team and conducting individual discussions with both executives and shareholders and explaining the transformation need through Smiling Curve logic. The founder uses his complete control to push through organizational changes which include staff position shifts and asset movements by enforcing strict measures for execution. Shih made a strong announcement during the employee meeting when he said: "Organizations must face difficulties when they start their transformation process." The company faces an immediate

performance decline which will lead to sustainable growth in the future. Our failure to act against ourselves today will lead to market destruction of our business tomorrow! I accept all responsibility for this choice but I remain certain that Acer has no other path to survival. The leadership at Acer developed their strong determination which became their main motivation to transform the organization. The Hegemon's Way leadership style of Shih depended on his strategic determination which emerged from his deep understanding of the industry to secure the company's future. He showed his leadership abilities through his actions because leaders need to make decisions and show strong leadership when organizations undergo major changes instead of waiting for everyone to agree.

Time ultimately proved Shih's foresight. The 2001 "Hegemon's Way" transformation completely pulled Acer out of the mire and ushered in a rebirth. By 2005, Acer's transformation was basically complete, with leapfrog improvements in various indicators: Business structure was optimized, and profit margins soared. After stripping away manufacturing operations, Acer traveled light, and its overall gross margin jumped from 12% before the transformation to over 25%, completely escaping the low-profit predicament. Although revenue scale decreased, profitability significantly enhanced, and the company's financial health greatly improved. Brand value reached its peak, and global influence increased. After focusing on brand operations, Acer's global visibility significantly improved, once becoming the world's second-largest personal computer brand and long holding the top sales position in the European market. The brand's success brought Acer sustained market share and profit returns. Innovation capabilities exploded, and products led the industry. After concentrating resources on R&D, Acer repeatedly launched innovative industry products, achieving breakthroughs in thin and light notebooks, long battery life technology, thermal design, and other areas, with technological strength ranking among the world's first tier. Organizational efficiency improved, and responsiveness became more agile. After decentralized operations, each business sector focused on its own area, decision-making chains were significantly shortened, and market response speed increased by over 30%. The former sufferer of "giant's disease" had transformed into an agile, efficient, highly profitable global technology giant. Acer proved through practice: A company's strength lies not in how large its scale is, but in how high its value is; not in how comprehensive its business is, but in how focused it is. This transformation not only saved Acer but also provided a classic transformation model for global enterprises.

### **The Dynamic Balance Wisdom of Eastern Management**

Acer reached success because Stan Shih combined his two management methods into one complete system which he called the "Kingly Way" and the "Hegemon's Way." The two concepts which stem from Confucian political philosophy of ancient China seem to contradict each other yet they work together as complementary forces which resemble the Yin and Yang of Taiji to create Acer's governance system. The "Kingly Way" and the "Hegemon's Way" represent two traditional Chinese governance concepts, in which have existed since ancient times. Mencius, in his dialogue with King Hui of Liang, clearly distinguished between them: "He who uses force under the guise of benevolence is a

hegemon... He who practices benevolence through virtue is a true king..." The Hegemon's Way depends on force and power to achieve its goals but the Kingly Way achieves success through benevolence and virtue and righteousness. Shih translated this ancient political philosophy into modern corporate management language, endowing it with new meaning:

Kingly Way management is centered on "benevolence and righteousness," emphasizing winning people over through virtue and moving them through emotion. Within a company, this manifests as care for employees, integrity with partners, and responsibility to society – pursuing harmonious coexistence and long-term stable development. The Kingly Way is "soft," the power to unite people, the company's "soft power." It builds trust, cultivates culture, and shares value, making the enterprise a warm, cohesive organization. Hegemon's Way management is centered on "authority," emphasizing compelling people through force and controlling them through systems. Within a company, this manifests as forceful decision-making, efficient execution, and strict control – pursuing short-term victories and market competitiveness. The Hegemon's Way is "hard," the power to break through difficulties, the company's "hard power." It sets clear goals, enforces strict assessments, and makes decisive adjustments, enabling the enterprise to maintain combat effectiveness in fierce market competition. Traditional views hold that the Kingly Way and the Hegemon's Way are as incompatible as fire and water, requiring a choice between them. But Shih believed they are two sides of the same coin in corporate development, both indispensable: with only the Kingly Way and no Hegemon's Way, a company loses competitiveness, appearing weak and vulnerable in the market, ultimately eliminated by rivals; with only the Hegemon's Way and no Kingly Way, a company loses the support of its people, internal conflicts intensify, and it eventually disintegrates. The dynamic balance of hardness and softness, the harmony of Yin and Yang, the equilibrium between the Kingly Way and the Hegemon's Way – this is the highest realm of management. In Acer's daily operations, Kingly Way thinking permeated every management detail, becoming the guiding principle for uniting the organization, connecting with partners, and giving back to society. Towards employees, it practiced benevolent sharing. The employee stock ownership plan allowed every employee to share in the company's developmental dividends. Shih respected and trusted employees, giving them ample space for development and empowerment. Acer was like a "big family," and its immense organizational cohesion kept the team stable even during the painful period of transformation, with talent turnover far below the industry average. The cultivation of this "family culture" fostered a strong sense of belonging and identification among employees towards the company. Towards partners, it adhered to win-win cooperation. Acer never sought to "monopolize the profits." Instead, it gave distributors reasonable profit margins and established long-term, stable cooperative relationships with suppliers, creating a true community of shared interest. In the European market, Acer formed joint ventures with local distributors, sharing risks and rewards. This model of "symbiosis and co-prosperity" won absolute trust and long-term support from partners. Many distributors maintained cooperative relationships with Acer for decades, becoming the company's most valuable channel assets. Towards

society, it upheld long-termism. Acer invested over the long term in environmental technology research and development, promoting green manufacturing and sustainable development; it engaged in educational public welfare, establishing scholarships to cultivate technological talent; it actively shared management experience, promoting the overall upgrade of Taiwan's technology industry. Shih always believed that a company is a part of society and must bear social responsibility to obtain the foundation for long-term development. This sense of social responsibility earned Acer a good public reputation and public trust. Kingly Way management endowed Acer with a warm organizational culture, a stable cooperative ecosystem, and a good social image, solidifying the foundation for the company's long-term development. Although this soft power is difficult to quantify, it is the company's most enduring competitive advantage.

In the cruel business world, the gentleness of the Kingly Way alone is far from sufficient. Shih was deeply versed in the principle of "striking when it's time to strike," using the Hegemon's Way at critical junctures to clear obstacles for the company and win competitions. Facing the transformation crisis, he made forceful decisions. The spin-off and restructuring in 2001 was the ultimate manifestation of Hegemon's Way leadership: in the desperate situation of internal and external troubles, Shih did not resort to democratic voting or hesitate and delay. He used the absolute authority of the founder to override opposition and forcefully drive reform. This iron fist was key to the company bridging the transformation chasm. If Shih had chosen to compromise and adopt a gentle, gradual reform, Acer would likely have missed its opportunity in hesitation and ultimately been eliminated by the market. Facing market competition, he ensured efficient execution. Acer established strict market goals and performance appraisal systems, requiring teams to attack forcefully and defeat competitors; teams with poor performance were decisively restructured, while teams with outstanding achievements were heavily rewarded. This Hegemon's Way style of strict discipline ensured Acer maintained formidable combat effectiveness in the global market. This "results-oriented" management style ensured the effective implementation of corporate strategy. Facing operational risks, he maintained strict control. Even while implementing decentralized management, Acer headquarters always retained strong risk control and financial oversight powers, setting clear operational indicators and risk red lines for each business group. Once problems arose, it intervened decisively and stopped losses in time, preventing the company from falling into major crises. This "controlled decentralization" ensured organizational flexibility while guarding against systemic risks. Hegemon's Way management endowed Acer with the courage to break through difficulties, the strength to face competition, and the ability to withstand risks, becoming the hard support for the company's foothold in the market.

Shih's management wisdom lay not in simply using the Kingly Way or the Hegemon's Way, but in dynamically switching between them according to the specific situation, achieving their organic balance. This dynamic balance manifested in multiple dimensions: During peaceful development periods, the Kingly Way was primary, focusing on uniting people, cultivating culture, and accumulating strength, pursuing stable growth; during transformation crisis periods, the Hegemon's Way was

primary, focusing on breaking deadlocks, breaking out quickly, and decisive change, ensuring corporate survival. For internal management, the Kingly Way was primary, respecting employees and stimulating creativity, building a harmonious organization; for external competition, the Hegemon's Way was primary, attacking forcefully and seizing the initiative, enhancing market competitiveness. For routine decisions, consensus and participation were emphasized, reflecting the inclusiveness of the Kingly Way; for critical decisions, decisiveness and execution were emphasized, reflecting the decisiveness of the Hegemon's Way. This management model of "combining hardness and softness" gave Acer both the cohesive force of popular support and the competitiveness for market conquest, breaking down the barriers between Eastern and Western management thought and providing a unique Eastern management model for global enterprises.

### **The Acer Model in the 21st Century**

Acer's transformation and development not only achieved success for itself but also had a profound impact on the entire Taiwanese technology industry. Through its own practice, Acer proved that Asian companies could indeed build world-class brands, inspiring countless Taiwanese enterprises to move from behind the scenes to center stage, from OEM to branding. The Smiling Curve theory became a guide for the transformation of Taiwanese technology companies: TSMC moved along the right end of the curve, strengthening brand services and technology empowerment, evolving from a pure wafer foundry into a technology leader and standard-setter for the global semiconductor industry; MediaTek moved along the left end of the curve, deeply cultivating chip research and development and innovation, becoming a top-tier global chip design enterprise, occupying an important position in the smartphone chip market. Shih's Kingly Way management philosophy was studied and emulated by numerous small and medium-sized enterprises in Taiwan, gradually forming a distinctive Eastern management culture. Entering the second decade of the 21st century, the global technology industry ushered in a wave of disruptive change: the rise of smartphones significantly squeezed the traditional personal computer market; new technological waves such as artificial intelligence, the Internet of Things, and cloud computing arrived, reshaping the industry landscape; Acer's competitors expanded from traditional PC manufacturers to technology giants spanning multiple sectors like Apple, Huawei, Amazon, and Google; the structure of the corporate workforce underwent profound changes, with the younger generation becoming the mainstay, holding completely different expectations regarding the meaning of work, organizational culture, and management styles; remote work, flexible employment, and the gig economy became new trends, challenging traditional organizational management models. Against the backdrop of this new era, is Kingly Way management still effective? This is a question of concern to many business managers.

### **Questions and discussions**

**Question 1:** Stan Shih transformed the Confucian idea of "benevolent governance" into "co-governance management" in the corporate context, emphasizing employee stock ownership and profit sharing.

In the modern capitalist market economy, is there a fundamental conflict between the Confucian values of

benevolence and righteousness and the principle of maximizing shareholder value? How should enterprises balance benevolence toward employees and righteousness toward shareholders?

**Question 2:** Wang Dao (Kingly Way) management stresses “family culture” and employee belonging. However, this model may face adaptive challenges in Western workplace cultures characterized by individualism.

Is Wang Dao management only applicable to the East Asian cultural sphere? Against the backdrop of globalization, how can Confucian Wang Dao thought be effectively integrated with Western individualistic management culture?

**Question 3:** Wang Dao management upholds that “long-term value is superior to short-term gains,” yet capital markets often evaluate enterprises based on quarterly performance.

Amid shareholder pressure and long-term transformation, how can corporate leaders use the Confucian wisdom of the distinction between righteousness and profit to persuade capital markets to accept short-term pain in exchange for long-term value?

**Question 4:** During Acer’s restructuring and split in 2001, Stan Shih overruled objections and pushed forward reforms with “assertive/overbearing” methods, which aligns closely with the Legalist idea of “subduing people through power.” What is the source of legitimacy for leaders to adopt “assertive” decisions in the absence of democratic consensus? How can the Legalist concept of “shi” (power/authority) be coordinated with empowerment and checks and balances in modern corporate governance?

**Question 5:** Assertive (Ba Dao) management includes “clear rules (fa), flexible tactics (shu), and absolute authority (shi).”

In Acer’s transformation practice, how were these three dimensions specifically reflected? Modern enterprises emphasize decentralization and empowerment—does this fundamentally contradict the Legalist centralized concept of “shi” (power)?

**Question 6:** Legalist thought emphasizes strict laws and control, whereas Wang Dao management pursues trust and co-governance.

How did Stan Shih strike a balance between decentralized management and strict control? When assertive measures (such as mandatory restructuring) damage the trust of some stakeholders, how should enterprises repair such trust deficits?

**Question 7:** The dynamic balance between Wang Dao and Ba Dao is metaphorically described as “Taiji Yin-Yang,” emphasizing the integration of toughness and gentleness.

Is this Daoist-style dynamic balance operationally applicable? How can corporate leaders cultivate the ability to switch flexibly according to the situation? Are there clear criteria to determine when to apply Yin (Wang Dao) and when to apply Yang (Ba Dao)?

**Question 8:** Daoism advocates “governing by non-action (wu wei),” while Acer’s co-governance management emphasizes decentralization and employee autonomy.

Does co-governance management embody the spirit of Daoist “wu wei”? In modern enterprises, is “wu wei” equivalent to “inaction”? What are the similarities and differences between Stan Shih’s statement “Trust your employees, and they will surprise you” and Laozi’s idea “I take no action, and the people transform themselves”?

**Question 9:** Daoism emphasizes that “the Dao follows nature,” opposing forced intervention against natural laws. Yet Acer’s 2001 transformation was an assertive, forcefully driven initiative.

Does this “forced transformation” conform to the Daoist principle of following nature? When an enterprise faces a survival crisis, how should it choose between acting in accordance with the trend and proactive change?

**Question 10:** Stan Shih integrated and applied three schools of thought:

Confucianism (Wang Dao), Legalism (Ba Dao), and Daoism (dynamic balance).

Please provide a comprehensive discussion:

- (1) What internal tensions exist among these three schools in terms of values and methodology (e.g., Confucian moral idealism vs. Legalist realism and utilitarianism)?
- (2) How did Stan Shih achieve such integration?
- (3) What requirements does this integration place on the philosophical literacy of modern corporate leaders?

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