

**David Kronfeld – WHN**  
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Larry Bernstein:

I went to Israel on vacation and we signed up for an IDF anti-terrorism training session. We were put together in a team of four people. And, the young Israeli female soldier asked our group of four to choose our leader. And I said, "The question answers itself, it's Debbie August. She is an amazing, she is a take charge person and she can lead us anywhere. Her husband Glenn readily agreed. How did your experience in the Israeli army help you distinguish between leadership and management?"

David Kronfeld:

That's a very, very good question. There is a significant difference between a military leader versus a business leader. In the military, in 99% of the cases you only lead. You are told what to do by higher ups and you only need to execute well.

That is completely the opposite in business. In business, you are rarely told what to do, you are expected to evaluate the situation yourself, dissect it, make observations, arrive at conclusions, make recommendations and execute. You may need to get approval of higher ups, but the role is completely different.

In the military, a great leader is the one who can do the leadership role. In the business side, it is coming up with the right solutions and leading becomes secondary.

Larry Bernstein:

In the book the Desert Fox, the biography of German General Rommel, the author describes Rommel's battle management philosophy. Rommel would tell his lieutenants to "Take that hill," and he would also explain the battlefield objectives like not losing the river was critical and the hill was secondary. In the fog of war, Rommel wanted to give his lieutenants agency to achieve the overall objective. The best managers give agency to their people, even in the military.

David Kronfeld:

There's a lot of truth to it. You want a successful outcome. How do I accomplish that?"

You need to have multiple people perform different tasks, to be well coordinated but more importantly, they need to understand exactly what the tasks are. And since there are always surprises, nothing goes according to plan, they need to be able to improvise on the spot how to react to changing conditions.

It is extremely important to make sure that everybody on the team from top to bottom understands precisely what the expected outcome is, where is some leeway to make changes, what is a do or die, or what is not. It's the compromises day to day in the field that will yield the outcome you want.

Larry Bernstein:

When you evaluate a venture capital investment in tech, do you pay more attention to the technology or the quality of the management team? Business plans and technology change all the time, does that mean, we should focus more on the quality of management and their ability to adapt?

David Kronfeld:

I want to make sure that the technology in principle is of real value. I'm willing to accept the observation that you made, that it is likely to change.

A change in technology depends on how the architecture of that technology was built. If the technology was built to be flexible and accommodate specific changes over time, then you'll be able to make the changes with good management. But if the technology was not built with an architecture that has flexibility for changes, then no good managers will be able to succeed.

Larry Bernstein:

I want to talk about new product development, we had Michael Hiltzik and Jon Gertner on this program speak about Bell Labs and Xerox PARC. These industrial labs had great technology, great scientists, and brilliant ideas like the mouse.

But it went nowhere. There was this concept that if we put great engineers across disciplines together, and give them sufficient funding that they would change the world. And then these labs were closed. Why did these famous industrial labs fail in new product innovation while entrepreneurial startups succeeded?

David Kronfeld:

Most of the technological breakthroughs that really change things doesn't happen by design. It is a creative ingenuity by a single individual who changed the paradigm.

Successful technology did not come from a plan to build but rather an innovation that occurred by an individual that saw a tremendous breakthrough. The innovation comes first, only then the question of how do we build a product that is commercially available becomes important?

The reasons that the industrial parks don't work is because they lack innovation. In a corporate environment this is not cherished. Because an inventor can be unproductive for five years, and then in the sixth year it happens. In a corporate environment, they won't allow you to be unproductive for an extended period of time. As a result, the large corporate environment is not conducive to inventing. The large corporation is good at many things. They can commercialize products, sell it, support it, and that's why they should acquire small entrepreneurial firms that have cutting edge products.

So, if I were managing a large corporation, my strategy would be not to invent anything, I would buy small companies that invented something, and then put the corporate resources where my strengths are, which is to make a commercial product and support it.

Larry Bernstein:

Let's change topics to the rule of 80/20. It has such applicability in life in every dimension. Please explain the rule of 80/20, and how it applies.

David Kronfeld:

(laughs) It's a little counterintuitive. The 80/20 rule says the following, 20% of any group is responsible for 80% of the output of that group. 20% are very productive, the other 80 percent are not. And it's true in everything about life. If you look at any work environment, 20% would be good, while 80% would be pedestrian, toeing the line, but not impressive, relative to the 20%.

When you have a task, or when you have expert advice, 80% of that advice may be pedestrian, but 20% is going to be insightful. Just because one has a great resume, it doesn't necessarily mean that is one of

the 20 percentiles. There is very little correlation between being a 20 percentile from the past track record.

Because it takes more than just brainpower to be successful. Whenever you listen to anybody, no matter what their resume looks like, you have to ask yourself, "Do I believe that person is one of the 20 percenters or one of the 80 percenters?"

Larry Bernstein:

If you have a group of 100, 20 will produce 80% of the product. And then, what I find more amazing is when you remove the 80, and you now have the remaining group of 20. This rule of 80/20 applies even in that highly select pool.

In the select group of 20, the top four produce 80% of the value of the product as well. So, from the original group of 100, 64% of all the output comes from the four most productive people.

David Kronfeld:

That is correct. My mentor Charles Wong, the founder, CEO of Computer Associates pointed me to the significance of the 80/20 rule.

Charles said "when I started Computer Associates, we were three people that designed, programmed, and sold it to the market. We grew to become hundreds of millions in sales. It's still the same product, but I have now 200 people trying to change and maintain it." He says, "Why does it take 200 people to maintain something that took three people to build?"

He said, "When a development team tells me, 'We are late. We're not going to be able to deliver that deadline, we need more people.'" He said, "I have a different way. I asked him to identify the 20 at the bottom, and 'Lose them.' I don't add, I subtract people." And the bottom 20 are a drag. Because they have to be supervised, the remaining 80 will be much more productive.

Larry Bernstein:

When COVID started, I called a buddy of mine who is an entrepreneur who had about 100 employees. And I said, "What are you doing?" And he said, "Well, I can only have 20 essential employees at work. And I said, "how productive are they?" "Oh, they're very productive. They probably produce 80% of the value add of the company." And I said, "Well, by that logic, why don't you just discard the other 80 guys?" And he said, "it's easy for you to say that. But the reality is, God forbid, one of those 20 leaves, I'm toast. At least I got them in reserve."

And there's these little projects and little things that need to be done. You're right, they're not that productive. How do you think about that as a problem? It's slightly different from getting rid of your least productive 20 employees. It's that we need the other 80 guys, even if they're not particularly productive.

David Kronfeld:

First your logic is consistent with what I described, and it's proven by what he told you, but his response was counterintuitive to everybody else. It doesn't make sense to most people.

The second observation is you couldn't possibly have, in the world, all businesses, made up of 20 percenters. Because 80% would be unemployed. 80% of them are not as productive, but their performance is perfectly acceptable. The way that management works with the 20%, is through compensation and promotions. Senior management doesn't go a step farther and say, "Let's keep just the 20%, and fire the 80% and make more money?"

The second observation: 80% becomes the norm. There are companies that are only satisfied with the top 20. Consulting firms that do strategy work. Investment bankers that do very complicated transactions, the top law firms, maybe companies like Microsoft, Oracle, Google, that get rid of the bottom 20% every year. They ask people to leave if they are ranked at the bottom. This way these firm always refresh, and they will end up with a staff that would be in the 20% everywhere else, but within their organization, even though they're all 20 percenters relative to the rest of the world, there'll still be the 80/20 rule.

Because those firms view their job as providing what I call insight. If they provided average, commonly understood observations, there would be no need and role for them. These consulting firm are hired because the company was unable to solve a particular problem and needed help finding a solution.

The missing element is what I call astuteness, insightfulness, or brainpower. So, when the consulting firms are being called upon, they have to be more insightful, they have to be smarter than the client on the average, or else they'll be unsuccessful finding a solution because remember, very smart people that have been working in that industry for years have been unable to tackle and solve it.

Larry Bernstein:

I want to discuss failure. Leo Melamed spoke on What Happens Next and he said what distinguishes the American capitalist system from the Chinese communist system is that there is greater tolerance for failure. You may have done the right thing; it just didn't work.

How do you think about tolerance of failure and management's willingness to accept it and lever it for the next project?

David Kronfeld:

I rarely look at failure as a reason to exclude anybody. However, I want to see success. If I can be convinced that he had success, then failures become an advantage because it tells me that he has learned, and he can be more careful in my project than a person that had never had any failure.

Larry Bernstein:

I really enjoyed Appendix 1 of your book where you give advice to teenager about how to plan a career in business. I handed it to my son and said, "Jonathan, go read Appendix 1." Can you explain your advice for teenagers?

David Kronfeld:

I failed high school because I wasn't studying. I didn't take it seriously. And something in my life turned around to do well in school and to do well career wise. There are very few people who say, "I want A and A pluses, period. That's it. And I'll commit everything that I have right now to it," because the trade-off is horrendous. I want to go out and play and have fun and be with friends, and doing well in school may be counterproductive for that goal.

The advice that most parents give their children is "You've got to do well in school." So, in reality, they end up not listening to it because that's just not the way the world works, (laughs). So, I wanted to give them a reason why it makes sense to trade off extra time and effort on doing well in school versus the fun that they may have otherwise.

It is how you can influence them based on their view of the world.

Larry Bernstein:

30 years ago, Salomon Brothers hired the Nobel Prize winner Myron Scholes, and I walked into his office, and I said, "Hi, Myron. I'm Larry Bernstein. I'd like to work on a project with you." He said, "Okay, what are your passions in this business?" I said, "Tax policy and derivatives." He said, "this is going to work out great."

And it took chutzpah. And in your book, you showed chutzpah. You tell the story of when you were denied access to the school of your choice, so you snuck into the office of the head of Israel's Ministry of Education. I think you were 13-years-old, and you walked in without an appointment. The Minister looked at you strangely and said, "Who are you? What are you doing here young man?" And then you made your case as to why he had the power to change your life.

And he said, "All right. I'll make it happen," and you got into the school of your choice. How important is chutzpah?

David Kronfeld:

Chutzpah is great. I define Chutzpah to be gumption that you're not bashful and portray confidence that you can do it. However, chutzpah can be defined in two dimensions. The other part of is behaviorally doing something that the other person may not like. That's why it's called Chutzpah.

The best answer is to have chutzpah, but don't deliver it in a chutzpah way. Convey it in a more conducive way. You don't want to come across as being a one big pain in the butt.

Without that chutzpah, getting into the best school would not have happened for me. The Israeli minister probably appreciated that a 13-year-old kid had chutzpah to visit the Minister of Education, sneak into his office and make demands. But if I were not a kid, I'm not sure that I would've gotten a very sympathetic response. That again brings up, the fact that you need the chutzpah, but you need to be very cognizant in the delivery of the chutzpah, because without the proper delivery, you're not going to get your way.

Larry Bernstein:

One of the great things about America is that you don't have to succeed in every moment. You can make mistakes. You can fall off track. You can graduate college in six years and not four or not graduate at all. You can educate yourself. You didn't go to Harvard; you worked your way up from a lower middle-class community in Israel and ended up in the top echelon of American business.

David Kronfeld:

So, tongue in cheek first, you better have some chutzpah, (laughs).

Having chutzpah by virtue of culturally growing up in a country where it's pretty common. And I learned how do you communicate that you are capable and "Just give me a chance."

You need to be able to compete with the rest of the world, because advancement in America and in a capitalistic system is being better than other people. You want to place yourself in the 20 percentiles, it's the ability to be more insightful than the average person., I started looking for insights. Noticing nuances and exceptions that are not obvious to other people. Taking common wisdom and showing there is a twist. Insightfulness is what propelled me to the top.

Larry Bernstein:

One of the case studies in your book relates to a junior high video that your daughter produced about a colorful singing toll-booth operator named Jack. And in the video, your daughter used the song *Hit the Road Jack*. And she won the contest to place the video on CNN, but the network said that they needed

copyright permission to use the song. And your daughter was informed by the personal assistant to the copyright holder that the owner had never given permission to use the song.

What you told your daughter is that you need to get into the shoes of the copyright holder and understand his worldview, and try to understand why he got to the answer no. And if you can figure out the worldview of your negotiating partner, then maybe you'll have a chance to come up with a creative solution to the problem. How do you put yourself in the shoes of your negotiating counterpart?

David Kronfeld:

That's a superb observation, and that's insightful advice that you just gave, which most people rarely follow.

There is a significant difference in the way most people think when they solve problems. So instead of looking at what makes sense to you, try to project yourself into what makes sense from the other's perspective. Start paying attention to the why, how, everything, every minor detail. Don't just be happy with, "Oh, I made a proposal. They agreed. What else do I need to know?" I spent my early life asking, "What were the arguments? Who said yes? Who said no? What were the arguments for yes? What were the arguments for no? What at the end affected the scale? What at the end were people able to convince with? And you get a whole different perspective from the other side, from what it took for the other people to make a decision.

Larry Bernstein:

What advice do you have for negotiating a deal?

David Kronfeld:

"If you want to be a good negotiator, you need to be able to negotiate both sides of the argument at the same time," and train your mind to start thinking in advance about the quality of your position. It's the difference between thinking about it from your perspective and putting yourself in the other person's shoes.

A good negotiator is somebody who's able to think in advance what the counter-arguments might be, what the weaknesses of your own arguments are. It's not to be quick on your feet. Making up answers on the spot is a loser's game.

Larry Bernstein:

You work hard. You dig. You try to find data. You like to ask questions. You like to investigate things that have been overlooked by other people. How important is effort.

David Kronfeld:

I've been a very hardworking person, and I spent the time and effort and the energy physically. But that's not what contributed to my success. The determinative criteria are not to be physically lazy but rather not to be intellectually lazy.

Working hard is not critical. What is most important is to think hard. I outperform other people because I am not intellectually lazy and I am insightful. Beware common wisdom, buying into the obvious.

Don't worry about having a higher IQ. Pay attention to non-obvious things. That's where most people are lazy. They pay attention to the obvious, draw conclusions, and think they have a solution. I will always focus on the exceptions, whether there are nuances and then suggest a different path.

Larry Bernstein:

I had a book club years ago with Stuart Diamond who is a professor in the negotiation department at Wharton, and he has written a book entitled Getting More. Stuart Diamond suggested meeting your counterpart to try to figure out his perspective and all elements about his decision-making process. His advice: just keep asking questions. Then you can use all that information to come up with a solution that fits both of your criteria.

David Kronfeld:

You gave your listeners the solution. I recognized early on that I needed to change my interpersonal skills; I needed to change my chutzpah, the way I conveyed my ideas, I had to change my self-orientation where I was at the center, and try to appreciate what people who are responsible for the outcome will think or do. I started asking lots of questions, and that's the answer. Because when you ask the what, why, and how, you will get a treasure trove of knowledge that you will be allow you to predict what the outcome is likely to be.

Larry Bernstein:

David, I end each session on a note of optimism. What are you optimistic about?

David Kronfeld:

We have a divisive society here in America, and everybody is arguing a single point of view and having to win, and damn the other side of the argument. It's not a very healthy trend.

I'm optimistic because the business world has the opposite way of thinking. You will never succeed in business by not understanding how other people think. You will fail if you believe what you want is important and what other people want is not.

Over time, younger people who transition into business will realize that this behavior is a recipe for failure in business. They will not want to fail and they will start opening their mind, just like I did when I was younger. And business is the counterforce to the politics the younger generation are taught by academicians who I believe have the wrong perspective.

Larry Bernstein:

Henry Ford said you can have any color car you want as long as it was black. In contrast, we had the Burger King philosophy, which was, have a burger your way. Just tell us what you want, we'll make it. And I think it's that latter philosophy is superior. And I think Ford learned his lesson when he refused to make a car other than in black when competitors showed up with colored vehicles and took market share.

David Kronfeld:

That's exactly right. You cannot be closed-minded and be successful in business. And that is the missing ingredient in where we are headed right now in the political and media arena. But financial motivation is very strong. And that's the only chance we have to reverse the trend.

If we change from a capitalistic system to a different system that is not open-minded, a government-forced system: It's my way or the highway. By losing capitalism, the economic engine that drives us, we will absolutely aggravate this downhill spiral trend towards becoming an authoritarian society.