
**“When Prudence Becomes Paralysis: Lessons from
Berkshire Hathaway’s Missteps and Prescriptions
for a \$500 Billion Future”**

Berkshire Hathaway: Issues, Lessons, and Prescriptions

**FROM THE ENGULF & DEVOUR
RESEARCH DIVISION OF STERLING COOPER, INC.**

ENGULF & DEVOUR[®]



I. Introduction

This advisory memorandum constitutes an incisive analysis of Berkshire Hathaway Inc. (BRK) corporate model, a construct whose unconventional tenets, while yielding unparalleled historical success, are now confronting a critical inflection point.

Heretofore, the model has operated as a vast, decentralized conglomerate, its efficacy predicated upon the singular genius of its architect, Warren Buffett who has attained guru type of admiration. However, the costs and risks of this *sui generis* approach are becoming manifest, underscored by recent events that demonstrate a clear need for evolution.

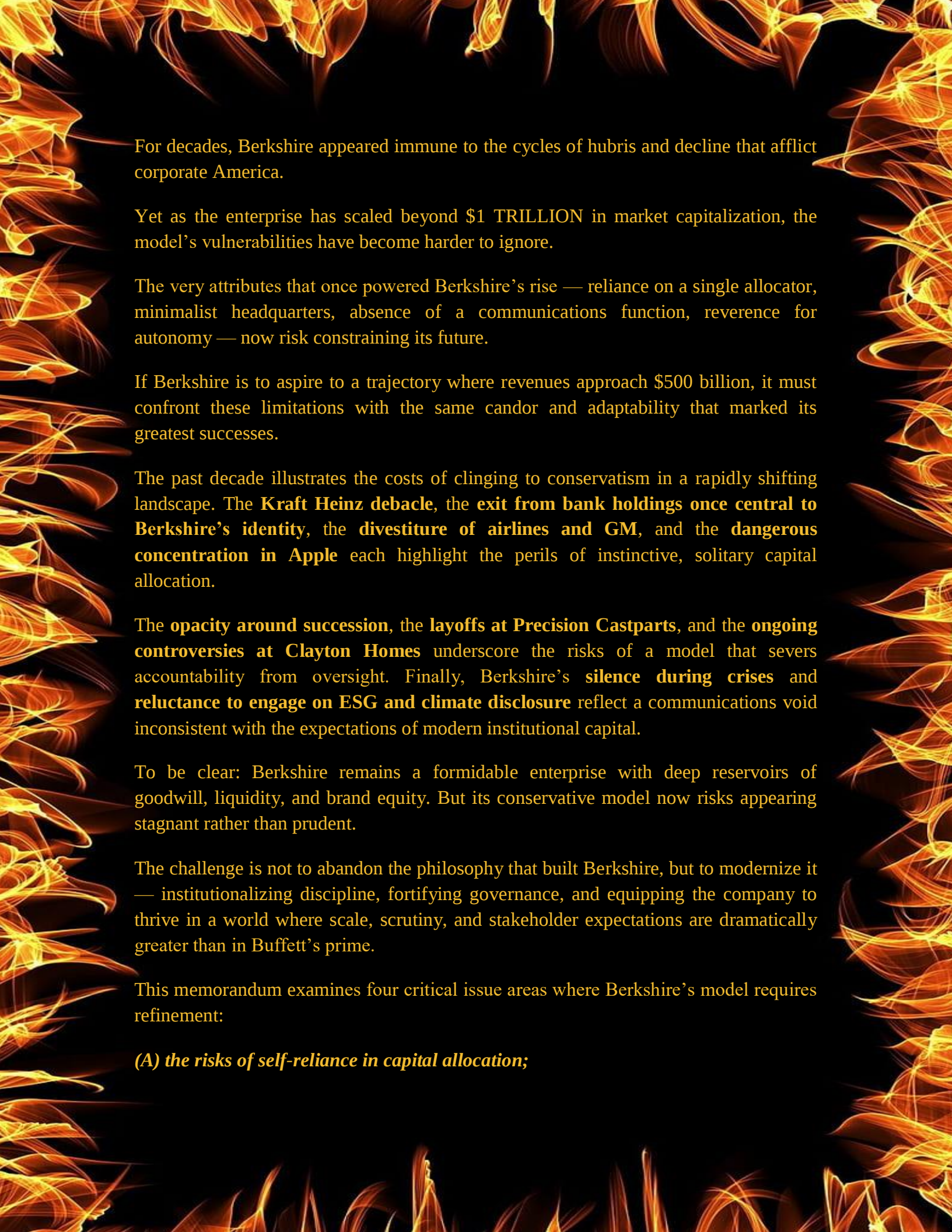
The following discourse delineates these vulnerabilities, meticulously examining the company's non-conventional practices through the lens of recent market dynamics, strategic shifts, and ongoing legal and reputational challenges.

This analysis is not a repudiation of the foundational principles of the Buffett-Munger era but rather an admonition: that the very traits that enabled its past triumphs—a reliance on a single point of failure for capital allocation, unconstrained executive autonomy, a minimalist approach to external communications, and a pervasive "alter ego" phenomenon—must be calibrated to ensure the firm's enduring resilience.

By adopting these series of strategic imperatives designed to institutionalize Berkshire's strengths and professionalize its external engagement, mitigating these risks and unlocking substantial latent value is easy.

For half a century, Berkshire Hathaway has stood as a monument to the virtues of patience, discipline, and decentralization. From its origins in a failing textile mill, the company grew into one of the largest and most admired conglomerates in the world, propelled by Warren Buffett's singular talent for capital allocation and his ability to inspire trust among both executives and investors.

Berkshire's reputation has been earned through a combination of decisive acquisitions, hands-off governance, and a principled refusal to follow fads. The firm's structure — dozens of subsidiaries operating with autonomy, under the umbrella of a small Omaha headquarters — was once hailed as a refreshing alternative to bureaucratic conglomerates. Buffett's "owner's manual" for shareholders provided a rare measure of transparency about philosophy, if not about operations.



For decades, Berkshire appeared immune to the cycles of hubris and decline that afflict corporate America.

Yet as the enterprise has scaled beyond \$1 TRILLION in market capitalization, the model's vulnerabilities have become harder to ignore.

The very attributes that once powered Berkshire's rise — reliance on a single allocator, minimalist headquarters, absence of a communications function, reverence for autonomy — now risk constraining its future.

If Berkshire is to aspire to a trajectory where revenues approach \$500 billion, it must confront these limitations with the same candor and adaptability that marked its greatest successes.

The past decade illustrates the costs of clinging to conservatism in a rapidly shifting landscape. The **Kraft Heinz debacle**, the **exit from bank holdings once central to Berkshire's identity**, the **divestiture of airlines and GM**, and the **dangerous concentration in Apple** each highlight the perils of instinctive, solitary capital allocation.

The **opacity around succession**, the **layoffs at Precision Castparts**, and the **ongoing controversies at Clayton Homes** underscore the risks of a model that severs accountability from oversight. Finally, Berkshire's **silence during crises** and **reluctance to engage on ESG and climate disclosure** reflect a communications void inconsistent with the expectations of modern institutional capital.

To be clear: Berkshire remains a formidable enterprise with deep reservoirs of goodwill, liquidity, and brand equity. But its conservative model now risks appearing stagnant rather than prudent.

The challenge is not to abandon the philosophy that built Berkshire, but to modernize it — institutionalizing discipline, fortifying governance, and equipping the company to thrive in a world where scale, scrutiny, and stakeholder expectations are dramatically greater than in Buffett's prime.

This memorandum examines four critical issue areas where Berkshire's model requires refinement:

(A) the risks of self-reliance in capital allocation;

(B) the crisis costs of severing autonomous executives;

(C) the externalities of decentralization borne by consumers and workers; and

(D) the reputational risks of underinvesting in public relations. It concludes each section with prescriptions designed to help Berkshire not merely preserve its legacy but position itself to double revenues and earnings on a scale befitting its size.

Conglomerate Discount

Below is a comparative valuation of Berkshire Hathaway against the three peers: Markel Group, Fairfax Financial, and Jefferies Financial Group.

Comparative Valuation Metrics

The table below provides a quick overview of key valuation metrics, including **Market Capitalization**, **Price-to-Earnings (P/E) Ratio**, and **Price-to-Book (P/B) Ratio**.

Company	Market Cap	P/E Ratio	P/B Ratio
Berkshire Hathaway (BRK.B)	\$1.06 Trillion	16.9x	1.6x
Fairfax Financial (FFH)	\$41.5 Billion	8.8x	1.7x
Markel Group (MKL)	\$24.5 Billion	11.6x	1.4x
Jefferies Financial Group (JEF)	\$14.3 Billion	25.3x	N/A*

All financial figures are approximate as of September 2025. Fairfax Financial's market cap has been converted from Canadian Dollars (CAD) to U.S. Dollars (USD). P/B data was not consistently available for Jefferies Financial Group.

Valuation Analysis

Here's a brief analysis of these numbers:

- **Market Cap:** This metric highlights the vast difference in scale. Berkshire Hathaway is a \$1 trillion company, dwarfing its peers.¹ Its size is a key factor in its business model and investment strategy, allowing it to make large-scale acquisitions and investments that smaller firms cannot.
 - **P/E Ratio:** The P/E ratio, or Price-to-Earnings ratio, measures a company's current share price relative to its per-share earnings.² A lower P/E ratio can suggest a company is potentially undervalued compared to its earnings.³ In this case, **Fairfax Financial** has a significantly lower P/E ratio than Berkshire Hathaway and its peers, which may indicate that the market views its earnings with less growth potential or that the company is currently trading at a relative discount.
 - **P/B Ratio:** The P/B ratio, or Price-to-Book ratio, compares a company's market price to its book value (its assets minus its liabilities).⁴ This metric is particularly useful for financial companies and holding companies as it helps gauge how a company is valued relative to its underlying assets. All four companies trade at a P/B ratio above 1.0, which suggests that the market values them at a premium to their reported book value. **Berkshire Hathaway's** P/B is in line with or slightly higher than its peers, indicating the market's confidence in the value of its investment portfolio and its management.
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II. Issues and Lessons for Berkshire

Table 1: Costs of Berkshire's Blemishes vs. Modest Prescriptions

Blemish / Cost	Illustrative Examples	Prescription
Overreliance on a single allocator	Kraft Heinz impairment, bank stake liquidations, GM and airline exits, Apple overweight	Establish a capital allocation committee; codify investment discipline

Fragility of executive autonomy	in Sokol affair legacy, GEICO and PCC leadership exits, succession ambiguity	Expand board's role in succession, staged delegation of capital allocation
Externalities of decentralization	of Precision Castparts layoffs, Clayton Homes lending controversies, absence of ESG baseline	Adopt a "Berkshire Baseline" for labor, consumer, and ESG standards
PR void and reputational drift	Silence during pandemic, climate disclosure resistance, Kraft Heinz fallout	Create a lean communications/ESG office for crisis response and investor engagement

A. Error Risks of Self-Reliance in Capital Allocation

Berkshire Hathaway's greatest strength has always been Warren Buffett's ability to deploy capital with an eye toward both intrinsic value and long-term compounding.

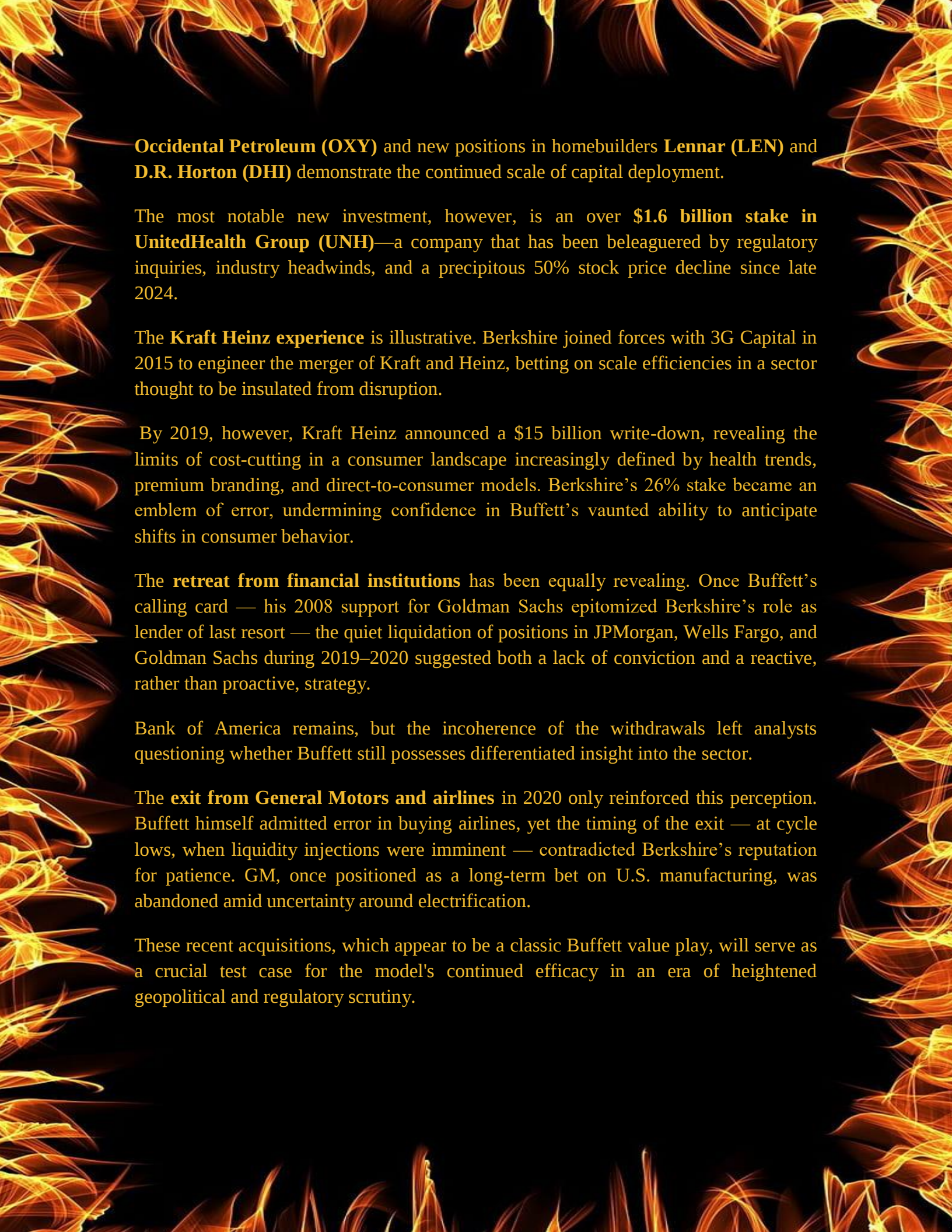
For decades, this model of centralization in a single allocator proved more effective than any investment committee could. Yet as the company's scale has grown, the risks of self-reliance have multiplied.

The historical bloopers of **Dexter Shoe** and **General Re (Gen Re)** serve as salient cautionary tales, illustrating the perils of using a premium stock to acquire a fundamentally flawed business and the dangers of a trust-based acquisition model where formal due diligence is supplanted by personal relationships.

Since 2016, Berkshire has continued to engage in capital allocation on a gargantuan scale, with mixed results that underscore the fragility of this idiosyncratic approach in a world of increasing market complexity.

The massive **Apple Inc. (AAPL)** investment, which has become a cornerstone of its portfolio, stands as an exemplar of Mr. Buffett's concentrated, long-term bet on a high-quality business.

Conversely, the divestment of IBM, a major reversal, highlighted the single-point-of-failure risk where a single individual's (BUFFETT'S) miscalculation can result in the loss of billions. More recently, the company's aggressive accumulation of a stake in



Occidental Petroleum (OXY) and new positions in homebuilders **Lennar (LEN)** and **D.R. Horton (DHI)** demonstrate the continued scale of capital deployment.

The most notable new investment, however, is an over **\$1.6 billion stake in UnitedHealth Group (UNH)**—a company that has been beleaguered by regulatory inquiries, industry headwinds, and a precipitous 50% stock price decline since late 2024.

The **Kraft Heinz experience** is illustrative. Berkshire joined forces with 3G Capital in 2015 to engineer the merger of Kraft and Heinz, betting on scale efficiencies in a sector thought to be insulated from disruption.

By 2019, however, Kraft Heinz announced a \$15 billion write-down, revealing the limits of cost-cutting in a consumer landscape increasingly defined by health trends, premium branding, and direct-to-consumer models. Berkshire's 26% stake became an emblem of error, undermining confidence in Buffett's vaunted ability to anticipate shifts in consumer behavior.

The **retreat from financial institutions** has been equally revealing. Once Buffett's calling card — his 2008 support for Goldman Sachs epitomized Berkshire's role as lender of last resort — the quiet liquidation of positions in JPMorgan, Wells Fargo, and Goldman Sachs during 2019–2020 suggested both a lack of conviction and a reactive, rather than proactive, strategy.

Bank of America remains, but the incoherence of the withdrawals left analysts questioning whether Buffett still possesses differentiated insight into the sector.

The **exit from General Motors and airlines** in 2020 only reinforced this perception. Buffett himself admitted error in buying airlines, yet the timing of the exit — at cycle lows, when liquidity injections were imminent — contradicted Berkshire's reputation for patience. GM, once positioned as a long-term bet on U.S. manufacturing, was abandoned amid uncertainty around electrification.

These recent acquisitions, which appear to be a classic Buffett value play, will serve as a crucial test case for the model's continued efficacy in an era of heightened geopolitical and regulatory scrutiny.

The market has watched with skepticism as this new position has not yet recovered, with some analysts questioning whether the "Oracle of Omaha's" touch remains infallible as he approaches his final year at the helm as CEO.

In a world of increasing market volatility, where a single misstep can erode billions in shareholder value, the costs of self-reliance, while historically modest, argue for a calibrated adjustment. As the succession plan contemplates a more distributed power structure, with Greg Abel assuming the CEO role, the risk of idiosyncratic error can be prudently mitigated by a formalized, yet streamlined, investment committee.

Lesson: Reliance on the instinct of one allocator may suffice at smaller scales, but at \$1 trillion in market value, concentration errors carry systemic consequences.

Prescription: Berkshire should establish a **capital allocation committee**, chaired by Greg Abel with Ajit Jain and select external directors, to institutionalize discipline. This committee would not displace Buffett but would codify his philosophy into repeatable processes: clear diversification limits, defined hurdle rates, and sectoral balance.

Such codification would position Berkshire to pursue a path toward \$500 billion in revenues while reducing the risk that errors of judgment at the top erode decades of accumulated trust.

B. Crisis Costs in Severing Autonomous Executives

Decentralization has long been Berkshire's proudest principle. By entrusting subsidiary CEOs with near-total autonomy, Buffett created a culture of entrepreneurial freedom unusual in large corporations. Yet this model has weaknesses, particularly when executives falter or depart abruptly.

The **David Sokol affair** remains instructive: Sokol, once seen as a successor candidate, resigned in 2011 after revelations of trading in Lubrizol stock before recommending the company as an acquisition. Though resolved without litigation, the incident cast a shadow on Berkshire's governance, exposing the risks of an overly trusting model.

More recently, turnover at **GEICO** and **Precision Castparts** has underscored fragility. At GEICO, leadership changes contributed to underwriting volatility, raising questions about whether autonomy has translated into adequate accountability.

At PCC, the resignation of CEO Mark Donegan amid sweeping layoffs highlighted how decisions at the subsidiary level can reverberate reputationally across Berkshire as a whole.

The bedrock of Berkshire's decentralized structure is a zealous commitment to subsidiary autonomy, predicated on a foundation of trust. However, this model's costs are most pronounced when it fails, resulting in highly-publicized executive departures that suggest a crisis.

The **NetJets** debacle, involving two executives once considered potential successors to Mr. Buffett, **Richard Santulli** and **David Sokol**, serves as a powerful illustration of the company's lack of formal protocols for executive vetting, training, and talent review.

This dynamic has now reached a fever pitch with Mr. Buffett's definitive announcement at the 2025 Annual Meeting that he intends to step down as CEO at the end of the year.

While the designation of **Greg Abel** as CEO-in-waiting in 2021 was a critical and largely well-received step, the market's reaction to a firm timeline for the transition was immediate and visceral.

Is Abel the “right” person for the job...???

The company's stock experienced a precipitous **12% decline** in the weeks following the announcement, a stark manifestation of what analysts and academics have long termed the "Buffett Premium."

The premium, estimated to be between 5% and 10%, represents the additional value investors have historically been willing to assign to Berkshire's shares, a valuation underpinned by Mr. Buffett's perceived investment acumen.

The market's sharp reaction underscores the fragility of a governance model so intertwined with the persona of a single individual. The passing of Charlie Munger in 2023 further concentrates the burden of oversight on Mr. Buffett's chosen successors, elevating the need for a formalized, systematic approach to leadership development and crisis management.

The succession question extends beyond the CEO role to the future of the firm's investment philosophy. While Ted Weschler and Todd Combs have managed a portion of the portfolio, the market remains uncertain about their ability to replicate the *alpha* generated by Buffett's concentrated bets.

The recent trimming of the **Apple (AAPL)** position, (before it moved up in value) a move initiated by the investment managers, has been viewed by some as a harbinger of a more diversified, less conviction-based approach to capital allocation, potentially eroding long-term returns.

Lesson: In moments of crisis, Berkshire's model of autonomy can create opacity, reputational damage, and investor uncertainty.

Prescription: The board should **formalize succession beyond the CEO role**, clearly designating who will control capital allocation, who will oversee culture, and how transitions will be staged. By delegating meaningful authority to Abel and Jain in the present, Berkshire can demonstrate that succession is not theoretical but operational — a key step in preparing for growth that targets half a trillion in revenues. A bigger question is WHY ABEL?

He missed the railroad mergers, did not suggest any that we know of add-on acquisitions to any of the subsidiaries, and the description of his supposed oversight of all the 189 (less the insurance subsidiaries) is a burden that makes absolutely no sense... Too much for one person needless to say.

C. Externalities of Decentralization: Consumers and Workers

The autonomy of Berkshire subsidiaries has enabled operational excellence. But it has also produced externalities borne by workers and consumers, which increasingly redound to the parent company's reputation.

The most glaring example came at **Precision Castparts**, where the pandemic triggered the layoff of 10,000 employees. Though the decision was rational from a business perspective, Berkshire's detachment left the impression that headquarters was indifferent to human costs.

In an era where institutional investors prioritize stakeholder considerations, such detachment is untenable.

Similarly, **Clayton Homes** has faced recurring accusations of predatory lending practices in its manufactured housing business, disproportionately affecting lower-income and minority borrowers. Berkshire's refusal to impose guardrails has allowed criticism to mount, creating reputational liability for the group as a whole.

These issues are magnified by Berkshire's **refusal to adopt ESG frameworks**. While Buffett and Munger dismiss ESG as a fad, the largest pools of global capital — pension funds, sovereign wealth funds, and asset managers — are increasingly insistent. Berkshire's obstinacy risks excluding it from capital flows that will shape the next generation of corporate growth.

Lesson: Autonomy without baselines exposes Berkshire to reputational risk, investor skepticism, and exclusion from capital sources.

Prescription: Berkshire should establish a **"Berkshire Baseline"**: a minimal set of group-wide standards on labor, consumer fairness, and ESG disclosure. Such a baseline would not undermine autonomy but would protect the parent company's reputation and enable access to global capital markets, a prerequisite for scaling revenues toward \$500 billion.

D. Reputation Risks of Skimping on Public Relations

Buffett has long argued that "it takes 20 years to build a reputation and five minutes to ruin it." Yet Berkshire has paradoxically underinvested in protecting its own reputation.

The headquarters maintains no communications department, relying instead on Buffett's annual letter and shareholder meeting to shape perception. The proposal by this firm of producing a CORPORATE BROCHURE and NO COST, to describe the Company was blatantly rejected by a nasty reply by Buffett that HE has no interest in such brochures.

This model once sufficed, but the digital era moves at a speed incompatible with annual cadence. The **COVID-19 pandemic** illustrated the gap: while peers like JPMorgan, Apple, and BlackRock communicated frequently with stakeholders, Berkshire remained largely silent.

For many employees and shareholders, this silence was indistinguishable from absence.

In **climate debates**, Berkshire's resistance to disclosure has drawn criticism from proxy advisors and institutional investors. Shareholder resolutions calling for greater transparency have gained momentum, signaling discontent with Omaha's refusal to engage.

The **Kraft Heinz impairment** similarly highlighted reputational fragility. In the absence of a coordinated communications response, critics defined the narrative, portraying Buffett as past his prime and Berkshire as out of step with modern consumer dynamics.

Lesson: In today's environment, silence is not neutrality but abdication.

Prescription: Berkshire should establish a **lean communications and ESG office** at headquarters. This need not bloat the organization; a small team capable of crisis response, stakeholder engagement, and ESG reporting would suffice. By investing modestly in communications infrastructure, (Berkshire owns a BUSINESS WIRE firm) Berkshire can protect its brand, restore control over narrative, and reassure the capital markets that it is equipped for twenty-first-century scrutiny.

This part integrates Berkshire's historical lessons with recent blemishes into a seamless critique. The conclusion is unmistakable: what once was a model of prudence now risks ossifying into complacency.

By institutionalizing capital allocation, formalizing succession, establishing a Berkshire Baseline, and building a minimal communications function, Berkshire can position itself for renewed growth.

These are not costly reforms — they are modest prescriptions commensurate with the scale of a company whose ambition must be to move from admiration of past accomplishments to realization of future earnings at the \$500 billion threshold.

E. Hypocrisy Charges and the Alter Ego Problem

Berkshire Hathaway's reputation has long rested on Warren Buffett's carefully cultivated image as the antithesis of Wall Street excess: frugal, principled, and oriented toward long-term value.



However, the lack of Dividends has now awarded Buffett the 2025 CEO Cheapskate Award for NO DIVIDENDS FOR 60 YEARS. Not a great legacy for all that work in building the Company.

Yet as the company grew into a sprawling conglomerate with hundreds of billions in market capitalization, its actions increasingly attracted charges of hypocrisy.

On one level, the criticism is straightforward. Berkshire's "folksy" brand promises permanence, autonomy, and stewardship, yet its investments have repeatedly contradicted that ethic.

The \$15 billion write down of **Kraft Heinz in 2019** illustrated how Berkshire, despite touting patience and discipline, was willing to underwrite aggressive cost-cutting and financial engineering through its partnership with 3G Capital. Critics rightly pointed out the inconsistency: while Buffett historically avoided leverage-driven, downsizing-led buyouts, Berkshire co-sponsored exactly such a play.

The resulting brand erosion at Kraft Heinz left Buffett openly admitting he overpaid and underestimated consumer shifts. The processed foods are in contravention for people moving toward healthy food, as recommended by RFK Jr. in his healthy food initiative.

Buffett admits to eating like an 8-year old, with the cheap Mconald's meals and drinking several daily Cokes.

The hypocrisy narrative deepened with Berkshire's incremental exits from the **banking sector** between 2020 and 2022. Buffett had for decades praised Wells Fargo as a model bank and held JPMorgan, Goldman Sachs, and others as cornerstones.

Yet as regulatory, cultural, and earnings pressures mounted, Berkshire quietly shed nearly all bank positions. The optics suggested retreat rather than conviction, particularly jarring because Buffett had once rebuked investors for abandoning strong financials during crises.

Further tension emerges from Buffett's **Apple concentration**. Berkshire owns nearly half a trillion dollars' worth of Apple stock at its peak — more than 40% of its equity portfolio.

While Apple is a durable business, the bet undercuts Buffett's longstanding warnings about excessive dependence on single positions. Critics contend that if Berkshire were a mutual fund, such concentration would be reckless.

Buffett has argued that Apple is more a consumer staple than a tech bet, but the contradiction between rhetoric and practice exposes Berkshire to reputational risk if Apple falters.

These episodes reveal the costs of Berkshire's alter ego model. When Buffett himself is synonymous with the company, any divergence between principle and practice magnifies scrutiny.

In legal and reputational terms, Berkshire can neither fully distance itself from its co-investors' conduct (e.g., 3G's layoffs) nor its own portfolio rebalancing. Unlike a diversified institutional investor, Berkshire's every move is interpreted as a reflection of Buffett's personal ethos.

Prescription: To mitigate hypocrisy charges, Berkshire must institutionalize decision-making beyond Buffett's singular judgment. Establishing a **publicly accountable investment committee** — with published criteria for evaluating deals and divestitures — would align rhetoric with action.

Transparency on why certain investments are exited, and on the balance between financial return and reputational cost, would preserve trust. More importantly, Berkshire must articulate an **ESG-lite philosophy**: not capitulating to fads, but explaining how permanence, employee treatment, and consumer responsibility factor into its holdings.

F. Miscellaneous: Family Firms and the Tenure Myth

Publicly Traded Family Businesses

Since its inception, Berkshire's crown jewels have been acquisitions of family-run companies such as Nebraska Furniture Mart, See's Candies, and Clayton Homes. These deals flourished because sellers prized autonomy and permanence, often accepting lower prices in exchange for Buffett's stewardship.

Yet the post-2016 environment has made such deals rarer. Publicly traded family firms now face activist scrutiny and fiduciary obligations that limit their ability to sell at discounts. The **Clayton Homes controversy** remains a cautionary tale: shareholders objected to the modest premium Berkshire offered, leading to litigation and delay.

Today, similar resistance would be magnified by social media activism, private equity suitors, and higher capital availability.

Consequently, Berkshire's reliance on cash, rather than stock, as deal currency imposes an opportunity cost. Families and boards often prefer equity in the acquirer for tax deferral or upside participation. Berkshire's ideological opposition to using its shares therefore precludes it from many attractive transactions.

Berkshire was provided with many great opportunities by this firm to acquire great publicly traded firms that are selling at 10x PE or lower, that would easily double the Berkshire revenues in one year and not use ANY cash at all.

Tenure Myth and Executive Departures

Equally problematic is the myth of permanence among Berkshire managers. While Buffett celebrates "lifetime managers," turnover has accelerated.

Since 2016, notable departures include **Ajit Jain's lieutenants at Berkshire's insurance units, executives at BNSF facing rail safety challenges, and leaders at Geico following underwriting losses and digital missteps.**

Berkshire provides little disclosure on these changes, often cloaking transitions in silence.

Opacity undermines investor confidence. The very premise of Berkshire's decentralization — minimal oversight because managers are trusted — requires that managers in fact remain stable. When they do not, stakeholders question whether the model ensures quality succession.

Buffett just acquired a PEST control business, and no announcement of price, revenues or earnings was made, it just appeared as another subsidiary.

Was the Board of Directors consulted , engaged advisors or approved this secret acquisition?

Prescription: Berkshire must modernize its acquisition toolkit and management development system. On acquisitions, selectively offering **stock-plus-cash hybrids** could unlock deals otherwise lost to private equity. On talent, Berkshire should establish a **centralized leadership institute** — training mid-level executives across subsidiaries to preserve culture while ensuring a pipeline of successors.

This would disarm the tenure myth by replacing anecdotes with structure.

G. Coda: Partnership Manqué

For decades, Buffett described Berkshire as “a partnership in corporate form.” That metaphor grew less apt as the shareholder base ballooned to nearly one million owners.

Today, Berkshire’s annual meetings resemble conventions, not intimate partnerships. The rise of index funds means many shareholders are disengaged institutions, not kindred spirits. 4,706 institutional investors own the majority of Berkshire stock, and are waiting for dividends.

This dilution matters because Berkshire’s patient capital model relies on aligned expectations. The risk is that activist investors, once rare in the Berkshire context, may eventually agitate for dividends, buybacks, or restructuring inconsistent with the Buffett ethos. Indeed, post-2016 pressure has mounted for Berkshire to deploy its **cash pile**, with critics arguing that hoarding depresses returns.

Buffett’s rebuttal — that attractive elephant-sized deals are scarce — is logical but insufficient. Investors increasingly view the cash as a failure of imagination, particularly as Berkshire’s peers (Amazon, Alphabet, Apple) reinvest at scale into adjacencies like cloud, logistics, and AI. The partnership ideal thus rings hollow when the company sits idle.

BUFFETT FAILED TO REPLY TO OUR FIRM’S POINTING OUT MANY GREAT COMPANIES TO BE ACQUIRED THAT CAN EASILY DOUBLE BERKSHIRE’S REVENUES.

IN FACT, IN OUR OPINION, EVERY ONE OF THESE ACQUISITION TARGETS WOULD PREFER TO RECEIVE BERKSHIRE STOCK INSTEAD

IN A TENDER OFFER THAT WOULD BE TAX FREE TO THE EXCHANGING STOCKHOLDERS.

Prescription: To restore partnership credibility, Berkshire must **operationalize its cash**:

- Allocate a portion to **venture-style adjacencies** (climate tech, AI in insurance pricing, advanced manufacturing).
- Commit to **structured buybacks** tied to valuation bands, reducing arbitrariness.
- Signal **capital discipline through explicit hurdle rates**, rather than opaque “elephant hunt” narratives.

In short, the rhetoric of partnership must evolve into concrete mechanisms that reassure both long-term and institutional shareholders.

III. Implications for Peers and Policy

Table 2: Value of Berkshire’s Practices vs. Corporate America

Berkshire Practice	Value	Cost / Risk	Prescription
Decentralized Autonomy	Empowered managers, entrepreneurial culture	Poor oversight, uneven quality	Leadership institute; clearer succession planning
Minimal Internal Controls	Trust-based efficiency	Exposure to misconduct, reputational harm	Targeted risk controls in sensitive industries (finance, energy)

Cash Preference in Deals	Certainty, liquidity	Missed family/public deals, tax inefficiency	Stock-plus-cash hybrids
Avoidance of PR/Lobbying	Cost savings, authenticity	Vulnerability to exposés, slow response	Centralized crisis communications team
Concentrated Bets (Apple)	Outsized returns	Concentration risk, hypocrisy narrative	Portfolio diversification framework

A. Governance and Culture

1. Board Role

Berkshire's board has historically been advisory, (or asleep more aptly put) not monitoring.

Directors are often loyalists or long-time friends. While this fosters trust, it limits independent oversight. Post-2016, regulators and investors demand more rigor.

BUFFETT'S ELDERLY SON AND DAUGHTER ARE DIRECTORS-SHOULD THEY BE ON THE BOARD OF A \$471 BILLION REVENUE BUSINESS? OR IS THIS THE DEFINITION OF NEPOTISM?

For example, the **Sokol-Lubrizol episode** demonstrated the need for board-level intervention when conflicts arise.

Prescription: Expand board composition to include **independent directors with expertise in technology, climate, and global markets**. This would modernize oversight without diluting culture.

2. CEO Power

Buffett's dual role as chairman and CEO just was accepted. But in the succession era, splitting roles is prudent. A stronger **non-executive chair** could preserve governance balance. However, Howie Buffet, has been planned for that role, and is HE the right person?

3. Control vs. Trust

Berkshire's minimalist controls operate under Buffett but may not scale.

Recent missteps at **Geico**, where slow adoption of digital underwriting led to market share erosion, show the limits of blind trust. Introducing **baseline risk controls** — without undermining autonomy — is essential.

B. The Conglomerate Form is DEAD, and creates a conglomerate discount

Berkshire has proven that conglomerates can thrive when capital allocation is disciplined.

Yet the form has lost favor in corporate America, as conglomerates are often discounted. Post-2016, Berkshire's challenge is that its **cash hoard and cautious deployment** make the model appear stagnant.

THE 16x PE RATIO FOR BERKSHIRE, HAS IT MIRED IN LOW VALUATION, WHILE SOME OF ITS SUBSIDIARIES IF SPUN OFF TO STOCKHOLDERS, WOULD COMMAND SUBSTANTIAL PE RATIOS, significantly above 16x.

Peers like **Markel Group** and **Fairfax Financial** are smaller but nimbler, actively pursuing adjacencies. Berkshire must rediscover that dynamism. For example, energy transition represents a massive capital need; Berkshire Hathaway Energy could spearhead \$100 billion-plus in renewables, repositioning the conglomerate as indispensable.

C. Activism, Hostility, and Defense

While Berkshire has largely been immune to activism, post-Buffett it will face pressure. Activists could target underperforming units (newspaper holdings, retail) or challenge capital allocation. Berkshire must preempt this by articulating a **shareholder engagement framework**: regular briefings, published capital allocation criteria, and transparent hurdle rates.

PAYING DIVIDENDS DUE TO THE MASSIVE \$696 BILLION IN RETAINED EARNINGS, SHOULD BE A PRIORITY, TO AVOID THE 20% ACCUMULATED EARNINGS TAX THAT COULD BE IMPOSED BY THE IRS FOR HOARDING EXCESS CASH BEYOND THE COMPANY'S NEEDS.

D. Emulation

Corporate America can learn from Berkshire's patience and culture. But emulation must be selective. Blindly copying Berkshire's minimal controls or aversion to PR would be dangerous. Instead, firms should emulate its **owner orientation** and **long-term horizon**, while adapting controls and communications to contemporary realities.

IV. Remarks

Berkshire Hathaway is at once a triumph and a cautionary tale. Its decentralized, trust-based culture created immense value under Buffett's stewardship. Yet post-2016 blemishes — Kraft Heinz's missteps, bank exits, concentration in Apple, Geico's lag, and the inertia of \$341 billion cash — reveal the costs of over-conservatism.

To reach \$500 billion in revenues or equivalent earnings power, Berkshire must **retool its governance, modernize capital allocation, and expand its strategic imagination**. The prescriptions outlined — from stock-hybrid deals to leadership institutes, ESG-lite frameworks, crisis PR, and renewable energy bets — provide a roadmap.

Ultimately, Berkshire can still be the exemplar of disciplined capitalism. But discipline without dynamism risks decay. The moment demands a re-founding: warts and all, Berkshire must prove that even conventional wisdom can evolve.

From Conservatism to Catalyst: Prescriptions for Berkshire's Next \$500 Billion

I. Introduction: From Warts to Roadmap

Berkshire Hathaway's trajectory is at an inflection point. For six decades, its conservative stewardship yielded compounding returns that cemented its status as corporate America's most admired conglomerate.

Yet the very conservatism that protected Berkshire has now become ballast. With more than, **\$347 billion in cash as of March 31, 2025**, and a portfolio dominated by Apple, and an acquisitive stance stymied by discipline bordering on paralysis, Berkshire risks ossifying into a passive holding vehicle rather than an engine of growth.

To double its revenue base and achieve a **\$500 billion scale**, Berkshire must embrace transformation without abandoning discipline. The prescriptions here are not revolutionary by Silicon Valley standards, but they are radical by Berkshire's: modernizing governance, operationalizing its cash, committing to adjacencies in energy, infrastructure, and technology, and institutionalizing its partnership ethos beyond Buffett.

This final section translates diagnosis into roadmap.

II. Strategic Prescriptions for Berkshire Hathaway

1. Energy Transition as Core Growth Engine

Berkshire Hathaway Energy (BHE) is uniquely positioned to lead the trillion-dollar global energy transition. It already manages regulated utilities, pipelines, and renewables. Yet its current pace is incremental, not transformative.

Our proposal sent to Buffett and the Board on August 22, , called for BERKSHIRE to remain an insurance holding company while all its other subsidiaries are spun off to stockholders as individual publicly traded entities and a \$100 a share cash dividend is declared.

- **Capitalize on Inflation Reduction Act incentives:** The U.S. government is effectively subsidizing renewable buildouts. Berkshire's balance sheet enables \$100–200 billion deployments into wind, solar, storage, and transmission, particularly across the Midwest and West where it already operates.
- **Global positioning:** Unlike NextEra Energy or Iberdrola, BHE has limited global exposure. Acquisitions in Europe (offshore wind) or Asia (hydrogen) would expand scale.
- **Technology partnerships:** Berkshire has no material presence in carbon capture, nuclear modular reactors, or large-scale storage. Strategic alliances (with Brookfield, ArcelorMittal, or emerging climate techs) would reposition it as a leader rather than a laggard.

If Berkshire allocated just **two-thirds of its cash hoard to energy transition projects**, it could create a utility-scale franchise worth \$300–\$400 billion within two decades.

2. Insurance 2.0 — Digital and Analytical Renaissance

Insurance remains Berkshire's crown jewel, but it is at risk. **Geico has slipped behind Progressive** in digital underwriting and telematics, losing market share. Reinsurance faces climate and catastrophe headwinds.

Prescriptions:

- **AI and telematics integration:** Deploy capital to leapfrog into digital-first underwriting, telematics-driven auto pricing, and climate-adjusted catastrophe models.
- **Vertical expansion:** Move beyond property & casualty into health, cyber, and climate risk insurance. Berkshire's brand could anchor consumer trust in these fast-growing categories.
- **Strategic acquisitions:** Target insurtech firms that combine digital efficiency with scale — e.g., Lemonade (for consumer tech integration) or European

analytics-heavy insurers.

By reinventing insurance as **data-driven, AI-enabled, and climate-resilient**, Berkshire could secure tens of billions in incremental annual premiums.

3. Rethinking Capital Allocation and the Cash Problem

The elephant in the room remains Berkshire's **\$340+ billion cash stockpile**. Left idle, it yields minimal returns and frustrates investors.

The excuses — lack of elephant-sized targets, overvaluation — are NOT VALID, AS WE SUPPLIED BERKSHIRE WITH NUMEROUS OPPORTUNITIES FOR ACQUISITION, AND ALL OF THEM WOULD NOT EVEN REQUIRE CASH, thus such excuse is NOT VALID.

Prescriptions:

- **Structured buybacks:** Adopt clear valuation bands (e.g., repurchase shares when Berkshire trades below 1.4x book). This removes the arbitrariness of Buffett's "when I feel it's undervalued" stance.
- **HOWEVER, STOCK BUYBACKS SOLELY AT BUFFET'S DISCRETION, ARE FUNDAMENTALLY FLAWED AND DENY SUCH FUNDS FOR STOCKHOLDER DIVIDENDS.**
- **FURTHERMORE, SUCH BUYBACKS INCREASE AT NO COST TO HIM, HIS PERCENTAGE OWNERSHIP IN THE COMPANY.**
- **Private equity-style adjacencies:** Dedicate \$25–\$50 billion to a permanent capital fund within Berkshire, making minority growth investments in private companies.
- This would mirror Blackstone or KKR, but with Berkshire's unique permanence pitch.

- **Overseas acquisitions:** Berkshire's portfolio is overwhelmingly U.S.-centric. Deploying cash in Europe, India, or Southeast Asia — where family firms still value permanence — would both diversify and reignite the autonomy model.

Failure to operationalize cash risks transforming Berkshire into a giant money-market fund with equities on the side.

4. Technology & Platform Adjacencies

Berkshire has historically avoided technology. Apple is the glaring exception. But if it is to grow into a \$500 billion revenue model, selective technology adjacency is unavoidable.

- **Payments & fintech:** Berkshire owns stakes in American Express and has exposure via Apple. Direct entry into payments infrastructure, cross-border remittances, or even stablecoin-backed rails would create relevance.
 - **Logistics & supply chain:** BNSF Railway can become the backbone of digital logistics, and has missed out on railroad mergers and acquisitions while Buffett and Abel seemingly asleep, competing with Amazon's freight network. Investment in IT and AI-driven routing could unlock billions in efficiencies.
 - **Healthcare delivery:** After the failure of Haven (with Amazon and JPMorgan), Berkshire retreated. But reentry into healthcare through partnerships with payers or providers remains a massive opportunity.
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5. Globalization of the Conglomerate Model

Buffett once remarked he "didn't understand" overseas deals. That excuse no longer holds. Global capital flows demand global reach. **ALSO, WHY IS HE THE ONLY ONE EVER MAKING DECISIONS AT BERKSHIRE.** Is that not the job of the Board and advisors?

No longer should the company consider solely the advice of a 94-year-old, no matter what his past accomplishments.

Peers demonstrate the path:

- **Fairfax Financial** aggressively invests in India and Africa, securing asymmetric growth.
- **Markel Group** builds international specialty insurance franchises.
- **Jefferies Financial** reinvented itself as a global investment bank, stepping into the void left by retreating Europeans, and since Berkshire already has in the BERKADIA deal a relationship with Jefferies, use them for advice.

Berkshire should replicate its “forever owner” pitch abroad. Many Asian and European family firms remain reluctant to sell to private equity but might welcome Berkshire’s permanence. This requires building regional teams, not waiting passively in Omaha.

III. Governance and Cultural Transformation

A. Succession Imperatives

The central risk remains succession. Buffett’s alter ego structure cannot be replicated. Berkshire must shift to a **committee-led model** with clear lines: Greg Abel for operations, if it is assumed that he can oversee 189 businesses, less the insurance ones, Ajit Jain for insurance, but he is scheduled to retire and sold over \$139 million of Berkshire stock, and an investment committee for capital allocation.

B. Board Modernization

The board must evolve from a ceremonial body, which it certainly has become, to an active one. Adding directors with backgrounds in **technology, ESG, and global markets** would send a signal that Berkshire is serious about modernization. DELETE THE ELDERLY CHILDREN OF BUFFETT (Howie and Susie) , from such an important position as Board members.

C. Cultural Renewal

The “lifetime manager” myth must be replaced with systematic talent development. A **Berkshire Leadership Institute** could train future managers across subsidiaries, embedding culture while ensuring bench strength.

IV. Prescriptions for Peers

Berkshire’s peers — **Markel, Fairfax, Jefferies** — illustrate what Berkshire must adopt.

- Markel’s **measured diversification** into insurance-adjacent and venture-style holdings is a template.
- Fairfax’s **global risk appetite** shows the benefits of going abroad.
- Jefferies’ **rebranding and scale-up** demonstrates the value of clarity and specialization.

For Berkshire, the lesson is not to imitate wholesale, but to absorb dynamism. The days of passivity are over.

Strategic Imperatives for the Firm’s Evolution

The enduring success of Berkshire Hathaway demonstrates that the conventional wisdom of modern corporate governance is not always efficient or wise.

The company has proven the value of board expertise over mandated independence, the efficacy of concentrated CEO power, and the superiority of a trust-based culture over one predicated on control.

Nevertheless, for Berkshire to improve and substantially increase its revenue and enterprise value in the next era, it must strategically evolve. The following prescriptions are designed to institutionalize its strengths, professionalize its external engagement, and cultivate strategic synergies.

A. Institutionalize Capital Allocation and Cultivate Strategic Synergies

The self-reliant capital allocation model must transition from a reliance on the singular genius of one man, (which upon analysis has proven quite the opposite) to a more institutionalized, yet still agile, framework.

This is not about adding bureaucracy; it is about replicating and scaling the core discipline that has defined Berkshire's success.

- **Establish a formal Investment Committee:** A committee led by Greg Abel and others recruited from the industries Berkshire is in, and incorporating the expertise of investment managers Ted Weschler and Todd Combs would provide a robust forum for vetting large-scale acquisitions and investments.
- **This** institutionalization would mitigate the risk of idiosyncratic error while ensuring that the firm's considerable cash hoard is deployed with the same speed and discipline as its predecessor.
- **Monetize the Conglomerate Form:** Berkshire's radical decentralization is a source of strength, but it has also created a systemic inability to generate revenue by leveraging the collective power of its subsidiaries.

- **SPIN OFF ALL BUT THE INSURANCE SUBSIDIARIES INTO INDIVIDUALLY TRADING PUBLIC COMPANIES.**

RETAIN BERKSHIRE AS AN INSURANCE HOLDING COMPANY, IN FACT ONE OF THE STRONGEST FINANCIALLY IN THE WORLD.

- The new leadership should establish a strategic council of key subsidiary CEOs to identify opportunities for cross-conglomerate synergies. This could include cross-selling products and services, leveraging collective bargaining power on procurement, or co-developing new technologies.

For example, a Berkshire-owned energy company could partner with a Berkshire-owned construction firm for a major project, creating new internal revenue streams that would not exist in a fragmented corporate structure.

B. Proactively Manage Corporate Communications and Brand Identity

The era of a "flat-footed Goliath" must come to an end.

Berkshire Hathaway's immense scale and its presence in politically charged industries such as energy and housing necessitate a proactive and professional approach to public relations.

- **Create a Centralized Communications and Public Affairs Office:** This office would be responsible for managing corporate-level media relations, articulating the company's official positions on public policy, and providing strategic counsel to subsidiaries in times of crisis.
- This is a modest investment that would have a significant return on investment by protecting the company's brand and proactively shaping its narrative, rather than simply reacting to negative press.
- **Formally Separate Corporate Policy from Executive Opinion:** In the post-Buffett era, it is imperative that the company's leadership maintains a scrupulous reticence on public policy and political debates.
- This clear separation will prevent the re-emergence of the "alter ego" problem, ensuring that the company's interests are not confused with the personal views of its executives and that its brand is protected from accusations of hypocrisy.

In conclusion, the Berkshire Hathaway model, in its raw, unpolished form, is a testament to a set of principles that, while contrary to modern corporate governance, have yielded an unparalleled legacy of value creation. Its future success, however, depends on its ability to evolve.

By institutionalizing its capital allocation, cultivating strategic synergies, and professionalizing its external engagement, the company can both honor its past and secure a future of sustained growth and profitability.

III. Strategic Considerations and the Evolving Corporate Form

The enduring success of Berkshire Hathaway demonstrates that the conventional wisdom of modern corporate governance is not always efficient or wise. The company has proven the value of board expertise over mandated independence, the efficacy of concentrated CEO power, and the superiority of a trust-based culture over one predicated on control.

Nevertheless, for Berkshire to improve and substantially increase its revenue and enterprise value in the next era, it must strategically evolve.



This section delves into the deeper costs and implications of the Berkshire model, moving beyond the obvious risks to an analysis of the evolving corporate and cultural form. It considers the company's unique approach to governance, the legal and social challenges it presents, and the ultimate opportunity costs of its idiosyncratic principles.

A. Implications for Public Policy and Corporate Governance

The most general implication of Berkshire's model for public policy is to preserve the possibility for variation in governance design and business structure. This implication spans many topics, including the character and duties of the board of directors, the strength of corporate chief executives, and the degree of organizational direction harnessed by trust versus control.

American policies on all such topics have taken directions during the past thirty years that are the opposite of the direction Berkshire has taken.

1. The Evolving Board Role

During the latter half of Berkshire's rise to prominence, boards of American companies shifted from the advisory model to the monitoring model as people from multiple vantage points heralded the outside director as the solution to governance challenges.

The rise of independent directors displaced the importance of expertise and obscured the traits Berkshire boasts in its directors, especially owner-orientation, an understanding of business, and a deep commitment to Berkshire's prosperity.

These policy paths were driven largely by periodic needs to quell political disputes or respond to crises. The appeal to independence helped generate consensus while devaluing expertise.

Director independence remains a valued characteristic in corporate governance, but expertise is making a comeback. Thus, the Sarbanes-Oxley Act all but requires financial expertise on the board, and the Dodd-Frank Act contemplates a similar approach to compensation committees.

The Berkshire model proves both the value of expertise and the value of having some deliberative body available to handle crises and to steer the business during transitions.



Mr. Buffett is relying heavily on the Berkshire board to assure continuity (or sameness with no changes of plans for dividends for example) after he leaves the scene.

The Berkshire model suggests that there are both reasons to have a board and reasons to oppose its primacy. Berkshire shows that a corporation can thrive with an advisory board of the old-fashioned model. It stands as a powerful counter-example to the prevailing orthodoxy that a board must be comprised of independent monitors to be effective.

2. The Enduring Value of CEO Power

Before the 1990s, CEOs wielded substantial power, selecting the directors and enjoying the latitude that comes with deferential or passive shareholders. The rise of the independent board and of shareholder activism changed this dynamic, as boards and owners gained influence and exercised it to curtail executive power.

The long-term effects of such a shift are yet to crystallize, but are likely to be sweeping. The Berkshire model is a reminder of the value of executive power and a cautionary note about such broad scale change. Indeed, in his role as chief executive, Mr. Buffett has avoided the trap of other icons, who may be prone to vanity or licentiousness, proving that such flaws are not inevitable.

Berkshire's plan to divide Mr. Buffett's historical roles as chairman and chief executive between two individuals shows the appeal of governance design flexibility for different contexts—uniting the roles is best during Mr. Buffett's tenure but dividing them seems better post-Buffett. Buffett solely dictating who will be the CEO or Chairman is not to be done by a 94-year-old, but by a Board of independent directors.

3. The Inherent Tension Between Control and Trust

Over the past four decades, corporate internal controls became a first-order policy option to respond to a wide variety of national problems, from financial fraud to terrorist financing.

Despite their proliferation as regulatory tools to address issues ranging from consumer price gouging to worker safety and environmental protection, it is difficult to evaluate whether controls work and are worth their considerable cost. Corporate controls began as internal processes with positive aspirations of helping a corporation meet its objectives, a conception creating modest expectations of results.



When used as a leading policy option, however, controls assume a negative character. They become processes designed to prevent certain undesired events from occurring, a conception doomed to disappointed expectations.

Controls are inherently limited in what they can do, making the modest expectations associated with positive aspirational controls sensible but increasing the likelihood of disappointed expectations associated with the more ambitious efforts of negative preventive controls. Systemic forces make controls an attractive policy option.

The rise of the board monitoring model played an important role, as controls dovetailed with such oversight.

ONE HAS TO QUESTION THE APPARENT LACK OF OVERSIGHT BY BERKSHIRE'S BOARD, WHICH IS ALLOWING BUFFETT THE UNFETTERED CONTINUED STOCK PICKING AND POSSIBLE ACQUISITIONS, WHICH HE NOW GIVEN UP ON MAKING.

Movements for deregulation and cooperative compliance made controls appealing as alternatives to direct regulation. Resistance to federal preemption of state law makes controls an attractive way to inject federal policy into corporate affairs.

The corporate social responsibility movement demands greater accountability; controls addressing interests of particular constituencies seem tailor-made for the purpose. An entire compliance industry arose, led by auditors and lawyers who developed expertise in the design, implementation, and testing of controls.

Yet these forces often resulted in controls that appear to work and can be audited rather than controls that work in fact. The result: corporate America tends to expect far more from internal controls than such systems can deliver.

The Berkshire experience, using minimalist controls in favor of heavy reliance on trust, demonstrates that controls are not necessary to promote compliance or other desirable outcomes.

Policymakers should be willing to tolerate more trust-based corporate cultures than the prevailing climate favoring control permits. But even Berkshire maintains a system of internal control over financial reporting because, as Mr. Buffett joked, "no sense being a damned fool."

Still, the overwhelming principles of corporate governance and culture at Berkshire Hathaway are responsibility and trust. Such a model stands in sharp contrast to prevailing views among theorists and norms among practitioners.

The theorists assume pervasive agency costs—managers acting with self-interest in derogation of owner interests—and many managers do in fact exhibit such behavior.

Yet not all do, and Berkshire has a whole cadre of managers operating in the opposite manner. David F. Larcker and Brian Tayan of Stanford University summed up the implications with a poignancy and a question: “The operating principles of Berkshire Hathaway are in stark contrast to the ‘best practices’ recommended by governance experts. What does this say about the reliability of those best practices?”

B. The Costs of the "Alter Ego" and the "Tenure Myth"

The most significant historical cost of the Berkshire model is the widespread conflation of the company's identity with that of its long-time leader. Acquisitions of stocks or add-ons are described in the media as: “WARREN BUFFETT ACQUIRED...”....ETC.

This "alter ego" phenomenon has created two distinct categories of cost: charges of perceived hypocrisy and profound uncertainty about the future of the enterprise.

1. The Cost of Hypocrisy Charges

Mr. Buffett kept a relatively low profile through most of his career, becoming a celebrity only in the early 2000s. Although as Berkshire's public face he previously took positions on corporate topics—accounting, governance, and takeovers—at that point, he began to address general matters of national interest, including the hot button issues of taxes and wealth.

But those topics tended to entwine Mr. Buffett's private life with Berkshire's future—especially its ownership structure—so they were uniquely suited for him to address. It presented a downside, however.

People conflated Mr. Buffett's views on estate taxes, which he supported, with Berkshire's interest in acquiring family companies at discounts when owners faced such tax liabilities.



That is especially costly considering how Berkshire itself is a microcosm of America—some of its subsidiaries were founded and run by deeply conservative families in Salt Lake City and Waco, others by progressives in Boston and Seattle.

The company's businesses are managed by a diverse range of individuals from various nationalities and belief systems, totaling nearly 350,000 employees worldwide.

Mr. Buffett's condemnation of the financial services industry has provoked both ire and charges of hypocrisy. One-third of Berkshire's investment portfolio is concentrated in financial intermediaries, including longstanding substantial positions in American Express and Wells Fargo, plus stakes in controversial institutions at the center of the 2008 financial crisis like Bank of America and Moody's.

Yet Mr. Buffett lambasts banks and other financial intermediaries for both high fees and poor services. Similarly, as noted earlier, Mr. Buffett is a critic of private equity companies, yet partnered twice in recent years with private equity firm 3G in substantial acquisitions.

The perceived wedge between word and deed and related criticism is longstanding. In the 1980s, Mr. Buffett chastised leveraged buyout operators, corporate raiders, and the bankers who charged vast fees to aid them; yet Berkshire owned a large stake in Salomon Brothers, which earned substantial profits by arranging debt financing and facilitating hostile takeovers.

It is possible to square these positions—chosen companies are exceptions, distinguishing relative fees from blanket reproach, or contrast Mr. Buffett's personal views from Berkshire's corporate practices.

But the disconnect remains a cost, one derived from the executive choice of public statements.

Mr. Buffett's and Berkshire's approaches to taxes present a similar disconnect that has posed related costs. For example, Mr. Buffett has said and written about the unfairness of the American tax code, famously saying his secretary pays more taxes than he does.

His policy of NO DIVIDENDS for 60 years, exposes the company to a very large possible tax penalty, the Accumulated Earnings Tax,

Yet Berkshire defers taxes through lengthy holding periods, fails to pay dividends, finds innumerable ways to minimize taxes and maximize tax credits, and pursues tax-advantaged transactions.

Howls of hypocrisy result which, of course, confuse Mr. Buffett the individual with Berkshire the company as well as miss the difference between pure tax strategies and the broader investment values Berkshire has long adopted.

Small companies might be the alter egos of their owners, as the Supreme Court held in the *Hobby Lobby* case, saying they have constitutional rights to the free exercise of religion. But large companies like Berkshire are not the dummies of their leaders and corporate decisions are not political statements.

In running Berkshire, Mr. Buffett has a fiduciary duty. It requires him to make decisions based on what is best for Berkshire, not on whether they are consistent with his views on tax fairness or other political convictions. He in our opinion, fails to pay dividends so that he does not have to pay the tax on receiving them!

Given its size, it is no surprise that Berkshire shareholders are diverse politically and, while most concur with Berkshire policies and Mr. Buffett's business philosophy, they do not invariably agree with Mr. Buffett's political views, wherein he supposedly supported Barack Obama and Hillary Clinton.

2. The "Tenure Myth" and the Cost of Uncertainty

The alter ego phenomenon has produced both Berkshire's greatest value and ultimate cost: Mr. Buffett made the company great and his eventual departure raises questions about succession in a way that other executive succession plans do not.

Berkshire cannot be replicated (nor should it be if it continues to be a conglomerate discount valuation), and the man cannot be replaced.

Critics say the company cannot survive without him. For example, *The Economist* wrote, as Mr. Buffett became an octogenarian, that Berkshire was down to "playing out the last hand," contending that in holding the contrary view, I am "too easily convinced" Steven Davidoff Solomon in *The New York Times* lamented that Mr. Buffett graced Berkshire with an irreplaceable magic touch.



At Berkshire's 2013 annual meeting, investor Douglas Kass asserted his belief that Berkshire is no more likely to survive without Mr. Buffett than Teledyne was without Henry Singleton.

If the critics are right, that is a huge cost. Even if they prove incorrect, the fact that such a perception is widely held is a modest cost.

This perception of indispensability is tied to what can be called the "tenure myth"—the idea that Berkshire's managers are so autonomous and committed that they are permanent fixtures.

While Berkshire prides itself on the long tenure of its senior managers, this is not always the case. Besides highly-publicized departures such as those described earlier, there are numerous quieter ones. In each of a dozen cases, the frustrating fact is opacity about causes or resolutions.

Berkshire offers little or nothing by way of commentary and the executives are mum, perhaps owing to contractual commitments in severance agreements or, more likely, in light of Berkshire culture, out of a sense of loyalty.

Some low-key executive departures include the following: In the 1990s, Fechheimer Brothers Co., a uniform maker, had a series of presidents, including Richard Bentley, promoted from Scott Fetzer. In 1998, Bentley resigned from Fechheimer without comment by him or Berkshire. He was succeeded by Patrick Byrne, who stayed just two years. In 2003, Sheila O'Connell Cooper, chief executive of Pampered Chef, Ltd., left after five months on the job without a trace.

In 2006, Barry Tatelman withdrew from management of Jordan's Furniture to embark on a career in the arts, leaving his brother Eliot in charge. In 2007, soon after Sokol joined the board of Johns Manville, its CEO Steven B. Hochhauser was replaced by a MidAmerican Energy colleague, Todd M. Raba, who stayed only until 2012.

Finally, in 2012, Larson-Juhl's long-time chief Steve McKenzie was replaced by Drew Van Pelt, a newly-minted Harvard MBA, who had no experience in the industry. Apparently, Van Pelt was a choice of Tracy Britt Cool, who subsequently became chief executive of Pampered Chef.

The frustration and opacity of these departures, while not a crisis in themselves, expose the limits of the trust-based model and the reality that even at Berkshire, change is a constant, and not always a transparent one.

C. The Partnership Manqué and its Opportunity Costs

Berkshire annual meetings once drew a few hundred people who, along with Mr. Buffett, owned a decisive majority of the stock. They felt the genuine bonds of a true partnership.

Today, the meeting draws more than 40,000 out of nearly one million shareholders. Mr. Buffett's claimed economic interest is reported at approximately 15%, and the inner core group's holdings are small.

Mr. Buffett continues to talk about Berkshire having a corporate form with a partnership attitude. But it is only an attitude and it no longer genuinely reflects a true partnership.

The shareholders have signaled surprisingly close to unanimity on dividend policy and want dividends, but discussions with shareholders indicate a greater division of opinion.

You can expect once Mr. Buffett leaves the scene that some shareholders will become active in seeking policy changes, including some touching on the Berkshire model. While the dividend policy remains a plus without a cost, the disagreements over it might be classified as a cost. It arises from the broader costs of a shareholder body that has grown through major stock-based acquisitions, including Gen Re and especially BNSF, as well as Dexter, Dairy Queen, and others.

Ultimately, as with all other costs of the Berkshire model, it emanates from principle number one, which is conceiving of the corporation as a partnership.

This evolution from a genuine partnership to a public corporation with a mere "partnership attitude" has also created significant opportunity costs.

For example, a hidden cost of the company's preference for using cash for acquisitions, which avoids the amplification of error, is that it also presents a barrier in transactions where using stock would be advantageous and tax free to sellers.

This happens when selling shareholders value stock more than cash, for example, where a sale for cash would trigger significant tax liabilities. The cost to Berkshire of preferring paying in cash rather than stock is most acute in the context of targets that are publicly traded family businesses.

Family businesses appeal to Buffett as they often bring a sense of legacy and permanence that is central to the Berkshire business model. Many families prize Berkshire's commitments to autonomy and permanence, often selling to Berkshire for less than rival bids or intrinsic value.

For family businesses owned solely by close-knit groups who all wish to sell to Berkshire, the cash preference at a discount creates no problems. But problems arise for publicly traded family businesses.

When directors of such companies sell control, they are duty-bound to get the best value for shareholders. But with cash, all such future value goes to Berkshire's shareholders, not the target's public stockholder, who would also gain nothing from the autonomy or permanence that family members prize in a sale to Berkshire.

So, target directors will resist an all-cash sale at a discount and seek rival suitors at higher prices, even stimulating an auction to drive price up—repelling Berkshire, which avoids auctions.

An example can be drawn from Berkshire's 2003 acquisition of Clayton Homes, a publicly traded family business bought for a modest (seven percent) premium to market. Many Clayton shareholders objected; one, Cerberus Capital Management, told Clayton it wanted the chance to make a competing bid; another sued.

The result was a six-month delay in getting to a shareholder vote, which narrowly approved the Berkshire deal. The scenario remains unattractive to Berkshire, however, given the risk of litigation, delay, and rival bids. **Under Berkshire's acute aversion to bidding in any auction, the risk of an auction would be enough to deter Berkshire from bidding at all. The upshot: the publicly traded family business is outside Berkshire's acquisition model, amounting to an opportunity cost for what would otherwise be a sweet spot.**

IV. The Hidden Costs and the "Tenure Myth"

Certain problems and costs of the Berkshire model are not easy to classify and may be obscured by the company's immense success. While the foundational principles of the firm—trust and decentralization—have yielded an unparalleled legacy of value creation, they have also imposed significant opportunity costs and created vulnerabilities that are often mischaracterized or overlooked. This section examines these hidden costs, particularly the legal and strategic barriers presented by the acquisition model and the inconvenient truths revealed by the so-called "tenure myth."

A. The Opportunity Cost of the All-Cash Acquisition Model

As taught by the **Dexter Shoe** and **General Re** deals, using cash for acquisitions avoids amplifying the cost of a mistaken acquisition by sidestepping the dilution that can occur with a stock-based deal.

While undoubtedly beneficial in mitigating error, this feature of the Berkshire model also presents a distinct and significant cost that manifests whenever paying stock would produce advantages in a transaction. This happens in cases where the selling shareholders value stock more than cash, often due to a low-cost tax basis on their holdings.

In such a scenario, receiving Berkshire shares allows for the deferral of significant capital gains taxes that would be immediately due if the asset were sold for cash.

By refusing to pay in stock, Berkshire is effectively imposing a massive, immediate tax liability on a prospective seller, thereby making the transaction less attractive and often cost-prohibitive.

The cost to Berkshire of preferring paying in cash rather than stock is most acute in the context of targets that are **publicly traded family businesses**. Family businesses have long held a special appeal for Berkshire, as they often bring a sense of legacy, permanence, and deeply ingrained operational principles that are central to the Berkshire business model.

Many family owners have, in the past, prized Berkshire's commitment to autonomy and permanence, and in some cases, have been willing to sell their companies to Berkshire for less than rival bids or even intrinsic value.



For family businesses owned solely by close-knit groups who all wish to sell to Berkshire, the cash preference at a discount creates no problems, as the family can collectively decide to accept the terms.

But problems arise for **publicly traded family businesses**. When directors of such companies sell control, they are duty-bound by Delaware law to get the best value for all shareholders, not just the family members.

In a stock-based deal, where all holders share gains in future business value, those directors could reasonably consider Berkshire's special culture in valuing the transaction. In such a case, the value of a permanent, hands-off home for the company could be seen as an additional benefit, worthy of consideration alongside the financial terms.

However, with an all-cash offer, all such future value and the benefits of the unique Berkshire culture go exclusively to Berkshire's shareholders, not the target's public stockholders, who would also gain nothing from the autonomy or permanence that the family members so highly prize.

As a result, the directors of these target companies are legally obligated to resist an all-cash sale at a discount and seek rival suitors at higher prices. This almost inevitably stimulates an auction to drive the price up—a process that is anathema to Berkshire, which steadfastly avoids bidding in any auction.

The 2003 acquisition of **Clayton Homes**, a publicly traded family business, serves as a powerful illustration of these dynamics. Acquired for a modest seven percent premium to its market value, the all-cash deal was met with significant shareholder opposition. One prominent shareholder, Cerberus Capital Management, immediately told Clayton it wanted the chance to make a competing bid. Another shareholder sued. The ensuing litigation and contentious negotiation resulted in a six-month delay in getting to a shareholder vote, which narrowly approved the Berkshire deal.

While Cerberus ultimately opted not to outbid Berkshire and the lawsuit was dismissed, the scenario remains unattractive to Berkshire. The risk of litigation, delay, and rival bids is a significant deterrent. Under Berkshire's acute aversion to bidding in any auction, the very risk of an auction is enough to deter Berkshire from bidding at all.

The upshot of this deeply embedded cultural and strategic preference is that a class of what would otherwise be a sweet spot of acquisition targets—the publicly traded

family business—is now largely outside of Berkshire’s acquisition model, amounting to a very real and persistent opportunity cost.

B. The Myth of the Permanent Manager at Berkshire

Berkshire’s decentralized model and trust-based culture are often conflated with a myth of **the permanent manager**. While Berkshire proudly touts the long tenure of its senior managers, the reality is more nuanced.

Besides highly-publicized departures such as those of Richard Santulli and David Sokol, there are numerous quieter ones that belie the narrative of an infallible and static leadership team. The frustrating fact in each of these cases is a pervasive opacity about the causes or resolutions.

Berkshire offers little or nothing by way of commentary and the executives are mum, perhaps owing to contractual commitments in severance agreements or, more likely, in light of Berkshire culture, out of a sense of loyalty and discretion.

These low-key executive departures, while not catastrophic, expose the inherent risks of a one-man oversight model and a culture that eschews transparency.

- In the 1990s, Fechheimer Brothers Co., a uniform maker, had a series of presidents, including Richard Bentley, who was promoted from another Berkshire subsidiary, Scott Fetzer. In 1998, Bentley resigned from Fechheimer without a public comment by him or Berkshire. He was succeeded by Patrick Byrne, who stayed just two years before departing quietly.
- In 2003, Sheila O’Connell Cooper, chief executive of Pampered Chef, Ltd., left after just five months on the job, seemingly without a trace. The abruptness and silence of the departure were notable and a clear signal of an internal problem.
- In 2006, Barry Tatelman, one of the original and colorful founders of Jordan’s Furniture, withdrew from management to embark on a career in the arts, leaving his brother Eliot in charge. While this was framed as a personal decision, it was another example of a significant management change that occurred with minimal external explanation.
- In 2007, soon after David Sokol joined the board of Johns Manville, its CEO Steven B. Hochhauser was replaced by a MidAmerican Energy colleague, Todd M. Raba, who stayed only until 2012. The frequent succession and silence at a major subsidiary like Johns Manville underscore the volatility that can exist beneath the company's placid public surface.

- Finally, in 2012, Larson-Juhl's long-time chief Steve McKenzie was replaced by Drew Van Pelt, a newly-minted Harvard MBA, who had no experience in the industry. The decision was a clear break with the company's tradition of promoting from within and was a choice of Tracy Britt Cool, a former protégé of Mr. Buffett. The swift and unexplained replacement of a long-tenured chief by an outsider was a notable event in a company that prides itself on stability and trust.

These departures, though individually minor, collectively challenge the notion of a permanent management team. They reveal a truth about the Berkshire model: its reliance on a singular, all-encompassing figure for oversight means that when a managerial decision, no matter how small, goes wrong, the problem is handled internally and opaquely, leaving no public record of the cause or resolution.

This systemic opacity, while intended to protect subsidiary autonomy, ultimately serves to shield the parent company from public accountability and provides no formal mechanism for shareholders to learn about potential cracks in the decentralized foundation. The myth of the permanent manager, therefore, masks a more complex reality of quiet, unpublicized turnover.

V. Implications for Public Policy and The Enduring Efficacy of Trust

The most general implication of Berkshire's unconventional model for public policy is to preserve the possibility for variation in governance design and business structure. This spans many topics, including the character and duties of the board of directors, the strength of corporate chief executives, and the degree of organizational direction harnessed by trust versus control.

American policies on all such topics have taken directions during the past thirty years that are the opposite of the direction Berkshire has taken.

A. The Evolving Board Role

During the latter half of Berkshire's rise to prominence, boards of American companies shifted from the advisory model to the monitoring model as people from multiple vantage points heralded the outside director as the solution to governance challenges.

The rise of independent directors displaced the importance of expertise and obscured the traits Berkshire boasts in its directors, especially owner-orientation, an



understanding of business, and a deep commitment to Berkshire's prosperity. These policy paths were driven largely by periodic needs to quell political disputes or respond to crises. The appeal to independence helped generate consensus while devaluing expertise.

Director independence remains a valued characteristic in corporate governance, but expertise is making a comeback. Thus, the Sarbanes-Oxley Act all but requires financial expertise on the board, and the Dodd-Frank Act contemplates a similar approach to compensation committees. The Berkshire model proves both the value of expertise and the value of having some deliberative body available to handle crises and to steer the business during transitions. Mr. Buffett is relying heavily on the Berkshire board to assure continuity after he leaves the scene. The Berkshire model suggests that there are both reasons to have a board and reasons to oppose its primacy. It stands as a powerful counter-example to the prevailing orthodoxy that a board must be comprised of independent monitors to be effective.

B. The Enduring Value of CEO Power

Before the 1990s, CEOs wielded substantial power, selecting the directors and enjoying the latitude that comes with deferential or passive shareholders. The rise of the independent board and of shareholder activism changed this dynamic, as boards and owners gained influence and exercised it to curtail executive power.

The long-term effects of such a shift are yet to crystallize, but are likely to be sweeping. The Berkshire model is a reminder of the value of executive power and a cautionary note about such broad scale change.

Indeed, in his role as chief executive, Mr. Buffett has avoided the trap of other icons, who may be prone to vanity or licentiousness, proving that such flaws are not inevitable. Berkshire's plan to divide Mr. Buffett's historical roles as chairman and chief executive between two individuals shows the appeal of governance design flexibility for different contexts—uniting the roles is best during Mr. Buffett's tenure but dividing them seems better post-Buffett.

C. The Inherent Tension Between Control and Trust

Over the past four decades, corporate internal controls became a first-order policy option to respond to a wide variety of national problems, from financial fraud to terrorist financing. Despite their proliferation as regulatory tools to address issues



ranging from consumer price gouging to worker safety and environmental protection, it is difficult to evaluate whether controls work and are worth their considerable cost.

Corporate controls began as internal processes with positive aspirations of helping a corporation meet its objectives, a conception creating modest expectations of results. When used as a leading policy option, however, controls assume a negative character. They become processes designed to prevent certain undesired events from occurring, a conception doomed to disappointed expectations.

Controls are inherently limited in what they can do, making the modest expectations associated with positive aspirational controls sensible but increasing the likelihood of disappointed expectations associated with the more ambitious efforts of negative preventive controls. Systemic forces make controls an attractive policy option. The rise of the board monitoring model played an important role, as controls dovetailed with such oversight. Movements for deregulation and cooperative compliance made controls appealing as alternatives to direct regulation.

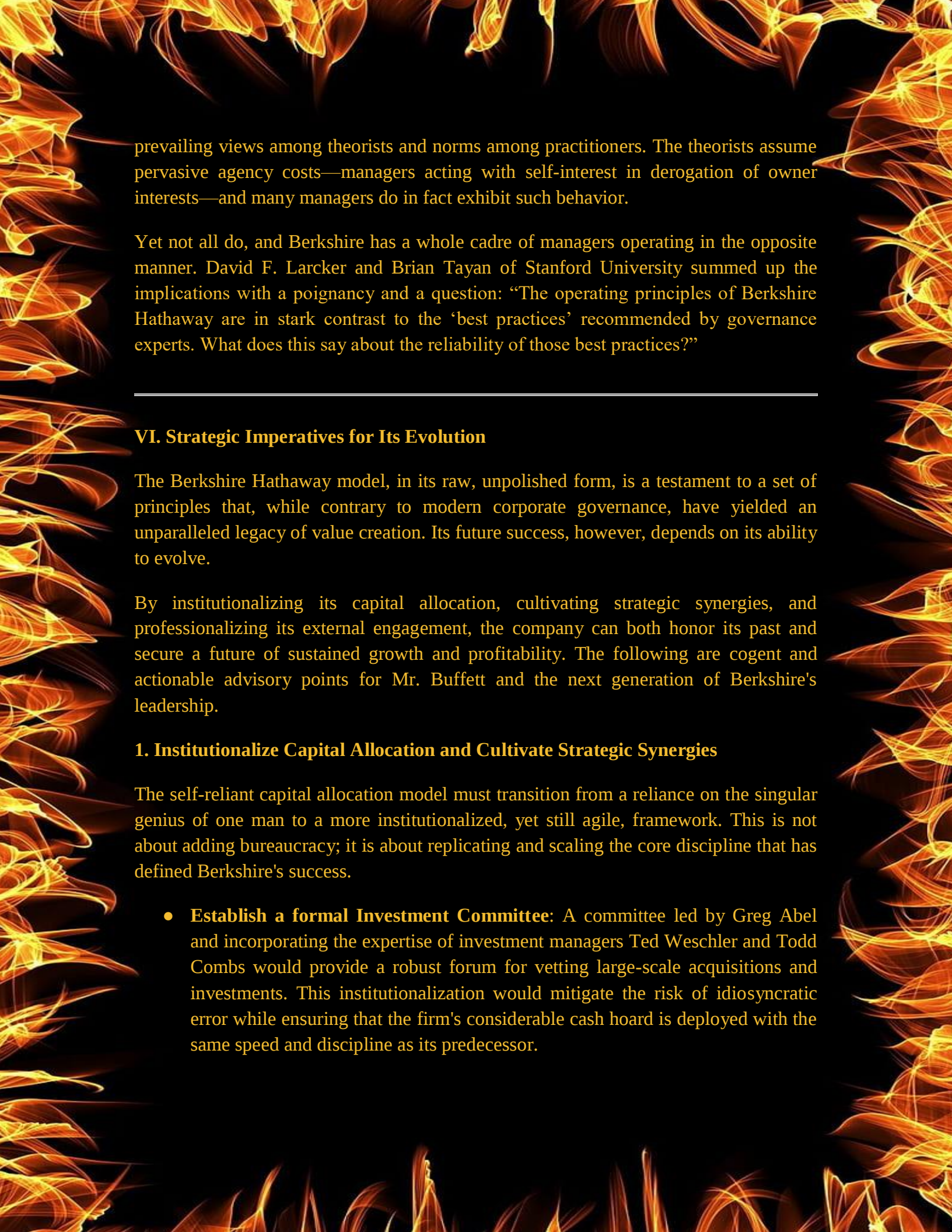
Resistance to federal preemption of state law makes controls an attractive way to inject federal policy into corporate affairs. The corporate social responsibility movement demands greater accountability; controls addressing interests of particular constituencies seem tailor-made for the purpose.

An entire compliance industry arose, led by auditors and lawyers who developed expertise in the design, implementation, and testing of controls. Yet these forces often resulted in controls that appear to work and can be audited rather than controls that work in fact. The result: corporate America tends to expect far more from internal controls than such systems can deliver.

The Berkshire experience, using minimalist controls in favor of heavy reliance on trust, demonstrates that controls are not necessary to promote compliance or other desirable outcomes.

Policymakers should be willing to tolerate more trust-based corporate cultures than the prevailing climate favoring control permits. But even Berkshire maintains a system of internal control over financial reporting because, as Mr. Buffett joked, “no sense being a damned fool.”

Still, the overwhelming principles of corporate governance and culture at Berkshire Hathaway are responsibility and trust. Such a model stands in sharp contrast to



prevailing views among theorists and norms among practitioners. The theorists assume pervasive agency costs—managers acting with self-interest in derogation of owner interests—and many managers do in fact exhibit such behavior.

Yet not all do, and Berkshire has a whole cadre of managers operating in the opposite manner. David F. Larcker and Brian Tayan of Stanford University summed up the implications with a poignancy and a question: “The operating principles of Berkshire Hathaway are in stark contrast to the ‘best practices’ recommended by governance experts. What does this say about the reliability of those best practices?”

VI. Strategic Imperatives for Its Evolution

The Berkshire Hathaway model, in its raw, unpolished form, is a testament to a set of principles that, while contrary to modern corporate governance, have yielded an unparalleled legacy of value creation. Its future success, however, depends on its ability to evolve.

By institutionalizing its capital allocation, cultivating strategic synergies, and professionalizing its external engagement, the company can both honor its past and secure a future of sustained growth and profitability. The following are cogent and actionable advisory points for Mr. Buffett and the next generation of Berkshire's leadership.

1. Institutionalize Capital Allocation and Cultivate Strategic Synergies

The self-reliant capital allocation model must transition from a reliance on the singular genius of one man to a more institutionalized, yet still agile, framework. This is not about adding bureaucracy; it is about replicating and scaling the core discipline that has defined Berkshire's success.

- **Establish a formal Investment Committee:** A committee led by Greg Abel and incorporating the expertise of investment managers Ted Weschler and Todd Combs would provide a robust forum for vetting large-scale acquisitions and investments. This institutionalization would mitigate the risk of idiosyncratic error while ensuring that the firm's considerable cash hoard is deployed with the same speed and discipline as its predecessor.

- **Monetize the Conglomerate Form:** Berkshire's radical decentralization is a source of strength, but it has also created a systemic inability to generate revenue by leveraging the collective power of its subsidiaries. The new leadership should establish a strategic council of key subsidiary CEOs to identify opportunities for cross-conglomerate synergies. This could include cross-selling products and services, leveraging collective bargaining power on procurement, or co-developing new technologies. For example, a Berkshire-owned energy company could partner with a Berkshire-owned construction firm for a major project, creating new internal revenue streams that would not exist in a fragmented corporate structure.

2. Proactively Manage Corporate Communications and Brand Identity

The era of a "flat-footed Goliath" must come to an end. Berkshire Hathaway's immense scale and its presence in politically charged industries such as energy and housing necessitate a proactive and professional approach to public relations.

- **Create a Centralized Communications and Public Affairs Office:** This office would be responsible for managing corporate-level media relations, articulating the company's official positions on public policy, and providing strategic counsel to subsidiaries in times of crisis. This is a modest investment that would have a significant return on investment by protecting the company's brand and proactively shaping its narrative, rather than simply reacting to negative press.
- **Formally Separate Corporate Policy from Executive Opinion:** In the post-Buffett era, it is imperative that the company's leadership maintains a scrupulous reticence on public policy and political debates. This clear separation will prevent the re-emergence of the "alter ego" problem, ensuring that the company's interests are not confused with the personal views of its executives and that its brand is protected from accusations of hypocrisy.

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Its future success, however, depends on its ability to evolve. By institutionalizing its capital allocation, cultivating strategic synergies, and professionalizing its external engagement, the company can both honor its past and secure a future of sustained growth and profitability.

V. Path to \$500 Billion

To reach \$500 billion in revenues or equivalent scale, Berkshire must pivot from conservatism to catalyst. A plausible roadmap:

1. **Energy transition:** \$200 billion investment → \$150 billion incremental revenues.
2. **Insurance 2.0:** Digital underwriting, new lines → \$75 billion incremental revenues.
3. **Logistics & supply chain:** Modernize BNSF, acquire another.
4. **Global acquisitions:** Family firms abroad → \$50–75 billion.
5. **Structured buybacks and adjacencies:** Unlock \$100 billion market value by efficient deployment.

This roadmap is ambitious but realistic given Berkshire's balance sheet. The cost of inaction is greater: stagnation, irrelevance, and activist pressure.

VI. Conclusion: The Final Admonition

Berkshire Hathaway's genius has been discipline. Its risk is that discipline becomes inertia.

The blemishes of the past decade — Kraft Heinz, bank exits, Apple concentration, Geico missteps, and cash hoarding — are not fatal, but they are warnings.

If Berkshire embraces energy, technology, and globalization — while modernizing governance and culture — it can remain the exemplar of capitalism, achieving a \$500 billion scale that cements its legacy. If it clings to conservatism, it risks being remembered as a relic of Buffett rather than a living institution.

The choice is stark, and the moment is now.
