

Technology

Activist Cevian Demands Ericsson Overhaul Corporate Governance

- Says company should allow Class A shares to convert to Class B
- Requests follow investigation revealing possible ISIS payments

By Thomas Seal

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Cevian AB, Europe's largest activist investor, has pressed troubled telecom firm Ericsson AB to adjust the rules on its share classes as part of a plea for major corporate governance reform.

Cevian, which holds about 5% of Ericsson's Class B shares, asked the firm to change its articles of association to give its Class A shareholders the power to convert their shares into Class B shares, according to a statement. Class A shareholders carry ten times the voting power per share as Class B, according to Ericsson's 2020 annual report.

The company's shares have lost about a third of their value in the last month after an investigation detailed the Stockholm-based company's possible involvement in making payments to terrorist organization ISIS to facilitate sales in Iraq. Then it announced that the U.S. Department of Justice had said it failed to make adequate disclosures about operations in Iraq before entering a deferred prosecution agreement in 2019.

“Ericsson's credibility and reputation have suffered enormously due to

ongoing governance issues, most recently over the handling of corruption issues in Iraq and its dealings with the U.S. Department of Justice,” Cevian said in its statement. “While we do not question the good intentions of Ericsson’s board and management team to grapple with this, it is clear that significant change is needed.”

Ericsson’s biggest Class A holders are Investor AB, controlled by the Wallenberg family, and Industrivarden AB. Representative for Ericsson and Investor AB declined to comment. A representative for Industrivarden wasn’t immediately available for comment.

The stock rose 1.7% in Stockholm.

Cevian also said:

The company should remove the dual deputy chairmanship structure for A class shareholders which “risks making the Board obedient to the A class shareholders and is a symbol of Ericsson’s historical mismanagement”

Ericsson should make all information public about corruption investigations and only withhold that which could pose a risk to the safety of individuals involved.

The head of internal audit should report only to the board audit committee, not to management.

The board should have an “ongoing mandate to buy back shares” which should demonstrate the board’s confidence in the shares’ value and should always be weighed against any acquisitions.

The demands were reported earlier by the Financial Times.

– *With assistance by Christopher Jungstedt*

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