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Net Impact Case Competition 2024

“Arrow Electronics Global Biodiversity Strategy”

Arrow Electronics is a *Fortune* 109 technology company currently serving over 210,000 manufacturers and service providers worldwide. Founded in 1935, Arrow’s technology products, services, and solutions topped sales of \$37 billion in 2022, split among a dozen industries including power management, design engineering, and aerospace/defense. Headquartered in Colorado, USA, Arrow’s 22,000-strong global workforce helps source, build, and launch products that improve the quality of life for people around the world.

When it comes to Environmental, Social, and Governance (ESG), Arrow knows first-hand how technology can improve people’s lives, so it pursues its ESG goals by collaborating with partners to develop responsible solutions to global problems. The company describes this approach as Five Years Out, where bridging the gap between what’s possible and the practical technologies to make it happen are applied to issues of sustainability just as they are to product development.

Arrow published its second ESG report in April 2023. The 122-page document features the company’s ESG goals, results, and related performance updates on topics relevant to its business, with a specific focus on multiline distributors as outlined by the Sustainability and Accounting Standards Board (SASB) and disclosure topics as outlined in the guidance from the Task Force on Climate-Related Financial Disclosures (TCFD). Key items in the report include:

- Environmental
 - Energy efficiency
 - Environmental regulatory compliance
 - Greenhouse gas (GHG) emissions
 - Supply chain—environment
- Social
 - Employee diversity, equity, and inclusion
 - Global training and development
 - Benefits and rewards

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- Health and safety
- Governance
 - Supply chain—human rights
 - Business ethics and integrity
 - Governance, ownership, and accountability
 - Regulatory compliance practices
 - Privacy and data security

A New, Global Biodiversity Strategy

While Arrow is pleased with the progress toward its ESG goals to date, there is more to do. In 2024, Arrow’s environmental sustainability team would like to develop and deploy a new, global biodiversity strategy. On the whole, the strategy will produce a new Arrow plan of action, which will integrate with and complement other Arrow ESG-related initiatives, to ensure that plants, animals, and ecosystems are conserved, protected, and enhanced, and that progress toward the plan’s goals is tracked using measurable targets. While this plan will be new, it will leverage many existing Arrow commitments and efforts that affect biodiversity.

Among many considerations when producing an inaugural biodiversity strategy, Arrow cares about the European Sustainability Reporting Standards (ESRS). These standards, which represent the manner in which all companies that do business in the European Union (EU) report on sustainability, are a mandatory, integral part of the Corporate Sustainability Reporting Directive (CSRD). The CSRD is the specific EU directive that requires companies to report on their ESG practices; its goal is to standardize corporate sustainability reporting, thereby making it easier for companies to comply with requirements and for all those interested to be able to “compare apples to apples” when analyzing progress made by different companies. The CSRD was passed by the EU Council in November 2022, with the new rules beginning to apply to companies at various stages during the five-year period from 2024-2028.

ESRS covers four reporting areas, otherwise known as the four pillars of governance: strategy; impact; risk and opportunity management (including the materiality assessment process); and metrics/targets. The ESRS standards were adopted by the European Commission in Summer 2023 and take effect on January 1, 2024. A key facet of ESRS is double materiality, meaning all instances when a corporate action produces both impact materiality and financial materiality. In other words, double materiality occurs when a corporate initiative or other business effort meets or exceeds the thresholds of materiality from, for example, both environmental impact (e.g., a material reduction in GHG emissions) and financial impact (e.g., a material increase in revenue).

Arrow’s global biodiversity strategy will also seek to honor the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD). These recommendations are designed to meet corporate reporting requirements across multiple jurisdictions, to be consistent with the global baseline for corporate sustainability reporting, and to be aligned with the global policy goals in the Kunming-Montreal Global Biodiversity Framework. The TNFD

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disclosure framework consists of conceptual foundations for nature-related disclosures, a set of general requirements, and a set of recommended disclosures structured around the four ESRS pillars listed above.

Another consideration in the global biodiversity strategy is integration with nature-based carbon removal technologies, sometimes known as carbon-dioxide removal (CDR). Examples of this include protecting landscapes to limit deforestation (and allowing forests to regrow), restoring coastal wetlands, and switching to restorative agricultural practices, such as cover crop rotation, that support healthy soils. These ecosystems impact climate change by capturing CO₂ from the air and sequestering it in plants, soils, and sediments.

It's critical that Arrow gets the new strategy right the first time, given the significant and sometimes long-term decisions that will be made as a result. In addition, key stakeholders will analyze every word in the strategy to ensure that issues most important to them are at least acknowledged and, at best, given the attention the stakeholder believes is deserved. Arrow knows it will never be able to please everyone, so its focus will be on integrity, authenticity, and a pragmatic approach that is achievable, so as not to later suffer criticism for overstating goals or "greenwashing."

Because the CSRD and ESRS are new, there's no boilerplate strategy Arrow can start with and then customize. While it's obvious to start by identifying all mandatory requirements from the relevant government authorities, the best parts of the new strategy will likely come from a mix of the many voluntary initiatives that have proliferated across the globe over recent years. Therefore, a couple of key questions are, What sustainability efforts in Arrow's past and present have proven effective, and which haven't? What sustainability commitments has Arrow already made that must be acknowledged and factored into the new biodiversity strategy?

Inevitable Tradeoffs

Beyond the many considerations listed above, Arrow must address several inevitable tradeoffs that companies face when developing a global strategy for the first time.

To start, what should Arrow's objectives be when conducting market research and competitor analysis on global biodiversity? Like any new corporate effort, it's smart to learn what similarly situated companies, including competitors, are already doing and planning to do. Since biodiversity as a facet of sustainability is very new to many organizations, there might not be a lot of easily accessible information available, but every day delivers more corporate reactions to the standard-setting that's happening in Europe and beyond.

Given that whatever Arrow shares publicly about its strategy will be scrutinized by a multitude of stakeholders, it wants to be aware of all the ideas and factors mentioned by similar organizations (e.g., to ensure it doesn't overlook or underestimate something potentially valuable). That said, Arrow's success over the years reflects its continued accountability for corporate citizenship and makes clear its unique position as a technology-centric, go-to-market, and supply chain services company. Will there be an opportunity for Arrow to celebrate

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something as unique as its position within its industry and implement a strategy that hasn't appeared anywhere else? Or should it leverage some of the best parts of the strategies and directions of other industry organizations (e.g., strength in numbers)?

Another tradeoff involves Arrow's ambition. Should its initial global biodiversity strategy err on the side of caution by focusing primarily on minimum, mandatory requirements, or should it aspire for more? On the one hand, if its sustainability eyes are bigger than its stomach, the company will be criticized, maybe vilified, by those accusing it of over-promising and under-delivering. On the other hand, if Arrow takes an overly conservative approach, it might be equally chastised for an insufficient commitment to sustainability, which might appear out-of-step with competitors that are demonstrating a higher level of corporate responsibility when it comes to biodiversity.

Of course, Arrow would never commit to goals it isn't confident it can achieve, but the manner in which this is presented in its strategy is crucial. As with all business strategies, Arrow can predict the future with only so much accuracy; there's always risk when forecasting what near-term and long-term market conditions will look like down the road. But Arrow has several excellent core competencies that would be ideal to leverage in its ongoing efforts to make the most of its success with innovation. In other words, global biodiversity offers several extraordinary opportunities for Arrow to apply its innovation to serious, real-world sustainability challenges. The question is, to what extent should the company follow this path to "above and beyond" standard-setting commitments, or should such ambition wait a year or three until the dust has settled on unfinished SS-ESRS (i.e., sector-specific ESRS) standards and other very new requirements?

Following on this question, another tradeoff asks if Arrow should develop a single strategy, designed to be updated annually (or otherwise as necessary), or develop several strategies predicated on likely but different scenarios that could play out in the coming years? The latter could start with a "Plan A" strategy that is delivered publicly in 2024, while simultaneously producing a series of unannounced Plan B, Plan C, etc., alternate strategies in case of unexpected situations (e.g., climate change advances more rapidly than expected or another pandemic arises).

Another option is to design the global biodiversity strategy more generally and then create multiple sub-strategies based on various regional approaches. This path would allow Arrow to easily customize sub-strategies to fit requirements in one region that do not appear elsewhere, and it fits nicely with the company's current geography-influenced business model.

The downsides of alternate strategies and sub-strategies? To start, they require more time and other resources. Also, the presence of alternate strategies might divide the Arrow environmental sustainability team working on this extremely important effort. At a time when the company wants and needs all its leaders working together, in synch, on this strategy, the presence of alternate plans might divide the leadership team into camps—or worse, siloes—whose allegiances are divided among the varied strategies.

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A fourth tradeoff involves Arrow's suppliers. In situations like this when the company is developing a new global strategy, it's common to consider the role that suppliers will play in the ultimate plan. In many cases, for instance, the suppliers are large enough that they will need to develop and implement their own global biodiversity strategies under the CSRD mandate. Given this, it would be smart to work together on coordinated strategies instead of Arrow proceeding independently, oblivious to what its partners are doing. Experience suggests, though, that this smart path usually results in the suppliers asking Arrow for support—not necessarily financial support, but often asking the company to alter its ideal strategy in a way that also serves the interests of the supplier.

In other instances, the governing authority mandates that larger companies like Arrow help its suppliers meet the requirements. Because all elements of the ESRS have not been finalized, there's a possibility that Arrow working with its suppliers on global biodiversity won't be optional.

A fifth decision to be made is who should be a part of Arrow's task force creating its first global biodiversity strategy? One obvious answer is simply the internal environmental sustainability team already responsible for ESG-related efforts, or maybe the internal team plus a small number of external consultants with special expertise not currently present in the company.

While this might be the best way to go, some companies have been more successful by inviting internal leaders of other, even earlier, strategic initiatives to join the new task force, even if only as advisors. First, it would greatly increase the likelihood the new strategy will not only not conflict with the other initiative, it could be designed from the start to mesh seamlessly with it. Second, building new corporate strategies can be very challenging; doing it well often involves unique skills. If Arrow's management team already includes one or more leaders who have successfully designed and implemented strategic initiatives, the global biodiversity team should welcome them.

That is, of course, if the environmental sustainability team can count on each of these leaders to serve fully in the best interests of the new effort. To be honest, in the end, all corporate initiatives compete against each other for talent, money, executive attention, internal and external publicity, and more. Before welcoming the champion of another Arrow initiative onto its global biodiversity team, some internal due diligence should occur to ensure each leader will not overtly or covertly favor the interests of her or his original initiative at the expense of what the new team seeks to accomplish.

A sixth tradeoff involves the tenure of the strategy. Should it highlight long-term goals—think 2050 or beyond—supported by several short-term progress steps, or should it keep silent on the distant future and focus exclusively on the next five years or so? Again, Arrow knows it can't please all stakeholders. But it wants to avoid unnecessary criticism from those opposed to overly grand visions of positive futures that are based on unrealistic assumptions that most corporations and countries will, for the first time, actually honor long-term commitments (e.g., the Paris Agreement's focus on limiting global temperature increase to well below two degrees Celsius). If, though, many other corporations respond to the ESRS with strategies that paint

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specific pictures of what 2050 will look like, will Arrow Electronics appear less committed to global biodiversity?

A final tradeoff involves the repeated mention of “restoration” in definitions of biodiversity. Instead of challenging corporations to improve only the sustainability of their operations going forward, the most-common descriptions of global biodiversity strategy—including the ESRS—include what the EU calls “reversing the degradation of ecosystems.” This means that various governing authorities expect corporations like Arrow to focus some of its strategy on repairing past harms. But how much is “some” of its strategy? Maybe only carbon removal? Does the expectation stop at harm that Arrow caused to the environment, or is that irrelevant, such that it should focus instead on the most-important and/or most-obvious opportunities for restoration, no matter who caused the harm?

Other Considerations

Beyond these multiple, significant tradeoffs, several other factors should be considered before settling on the specifics of Arrow Electronics’ first global biodiversity strategy:

- A. The inspiration for developing the strategy now are recent developments and requirements coming out of the EU, where Arrow does a significant amount of business. But are other regions of the world also creating ESG-related requirements? If so, to what extent should they be factors in Arrow’s planned biodiversity strategy? If there are other regional standards, do they conflict with, or mesh with, CSRD? A few months ago, the TCFD recommendations were incorporated into the Sustainability Disclosure Standards published by the International Sustainability Standards Board (ISSB), part of the International Financial Reporting Standards (IFRS) accounting system. Despite this important development, some feel the two standards are based on different philosophies and will ultimately compete against each other to become the dominant global standard.
- B. Challenges abound even among the many organizations and leaders who are highly devoted to achieving ESG goals. Some in the ESG movement, for example, are very unhappy that ESRS and other reporting initiatives seem to be stealing too much of the attention, energy, and progress that are needed to address the real threats associated with climate change. One spokesperson put it simply, “Assessing climate risk is not the same as fighting climate change.” These forces believe strongly that focusing on reporting metrics should be the last step in the process, not somewhere close to the first.
- C. Speaking of process, Arrow must decide what percentage of its global biodiversity Key Performance Indicators (KPIs) will be process-oriented and what percentage will be outcome- or impact-oriented? While the final answer will be somewhat driven by still-incomplete ESRS standards, many who track corporate ESG efforts are looking to herald companies that favor impact over process.

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- D. One of the most-important concepts in corporate sustainability is externalities. To what extent should management of externalities be part of Arrow's global biodiversity strategy, if at all?
- E. Is there any connection between the global biodiversity strategy and Arrow's financial results? Should the strategy be designed with some recognition of or connection to the company's earnings, such that, for example, unexpected financial setbacks can trigger appropriate "downshifts" in discretionary sustainability efforts until the company returns to plan?

Your Challenge

Arrow Electronics is asking your team to propose what its first global biodiversity strategy should look like. Your detailed response should acknowledge, and build into the proposed strategy, all mandatory requirements of any relevant governments or supranational organizations. Beyond that, please address the tradeoffs and other considerations listed above, including briefly sharing why you settled where you did on each. Finally, what else should be a part of the strategy that isn't acknowledged above?