A review of the environmental goods and services sector in the United Kingdom

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Abstract: This paper proposes that policy makers and the Higher Education (HE) sector have a special duty to support the *Environmental Goods and Services (EGS) industry.* The EGS industry' market value was estimated at $484 billion in 1998. Legislation plays an important role in promoting industry demand. The HE sector has a unique role in the research and development of new sustainable processes, technologies and products, either through developing these autonomously or in collaboration with businesses. Costs hinder the diffusion of renewable energy technologies. Renewable energy sources need to be made viable by the government's introduction of taxation and carbon tariffs. This sector is further hindered by poor ability to seek international opportunities, poor adaptability of their business strategies, lack of managerial skills and poor ability to attract and retain high level human resources. This paper recommends that HE institutions and policy makers research the EGS industry to identify opportunities to support this sector and assist overcoming the above listed limitations.

Keywords: environmental goods and services; EGS industry; environmental goods and services industry; cleaner technologies; clean energy; environmental impact; resource efficiency; environmental footprint; recycling; cradle to cradle.

Reference to this paper should be made as follows: Catulli, M. (2008) 'A review of the environmental goods and services sector in the United Kingdom', *Int J. Environment and Sustainable Development*, Vol. 7, No. 3, pp.332–344.

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1 Introduction

This paper proposes that policymakers and the Higher Education (HE) sector have a special duty to support the *Environmental Goods and Services (EGS) industry*, defined by the Organisation for Economic Cooperation and Development (OECD, 1999) as the set of

> "activities which produce goods and services to measure, prevent, limit, minimize or correct environmental damage to water, air and soil, as well as problems related to waste, noise and eco-systems. This includes cleaner technologies, products and services that reduce environmental risk and minimise pollution and resource use" (OECD, 1999, p.9).

Diener and Terkla (2000, p.305) define the industry as the sector of activities

> "associated with compliance with environmental regulations, environmental assessment, analysis and protection; pollution control, waste management, and remediation of contaminated property; the provision and delivery of the environmental resources of water, recovered materials, and clean energy."

and the technologies and activities to deliver "energy and resource efficiency, higher productivity, and sustainable economic growth (enabling pollution prevention)". Demand for environmental technologies, defined as the technologies that provide improvements in environmental quality (Ramakrishnan, 2004) has always been significant, stimulated by widespread concern about the environmental impact of the economic activity. Common products have for a while been known to produce harmful effects, for example the motor car produces harmful emissions from the exhaust; white goods such as fridges utilise CFC gases, which can damage the ozone layer; and the use of asbestos in various common use products has had very dangerous effects on people's health. More recently, the Stern Report (2006) and the increasing awareness generated by the media on the issue of global warming has generated greater interest in sustainable business practices in the business sector. Part of this interest is due to claims by academics and practitioners that being green generates competitive advantage (Maxwell and van der Vorst, 2002; Porter and van der Linde, 1995; Stone and Wakefield, 2001), although these claims have been disputed (Telle, 2006).

The *EGS* industry is currently under researched. The purpose of this paper is to investigate the features of this growing industry, including its segmentation, capabilities and capacity of this industry in the context of the East of England. The main focus of this paper is on the private sector industry as developer of new 'cleaner' technologies, as it 'will be the main driver for these new technologies' (Stern, 2006, p.360). This investigation of the EGS private sector has a purpose to guide a programme to support this important sector implemented at the *University of Hertfordshire*, where a specific group, dubbed *UH Green*, has been set up for this very purpose.

2 Contribution to knowledge and rationale

As the sustainability agenda turns from relevant into urgent, businesses are increasingly demanding goods and services to support their implementation of sustainable business practices. This has made the *EGS* industry an increasingly important sector. The industry is strategically very important in delivering the changes necessary to address the issues identified, and this paper contributes to this agenda by mapping the industry and helping establish its capabilities and limitations. This will assist a redefinition of the industry by focusing on specific business oriented supply and therefore excluding consumer oriented provision, such as, for example, domestic waste collection. This exercise is difficult as the industry is very diverse and expected to go through rapid structural change, including the introduction of totally new activities (OECD, 1999). This study will be therefore invaluable in assisting the reclassification of the industry and in aiding policy decisions on devising support interventions to this industry by the HE sector. One of the aims is to identify specific gaps in the sector provision and capabilities in order to decide what support to target at this industry. This will add to current knowledge of the industry and point UH Green towards specific sectors needing support. Hopefully, this study will also assist other HE institutions and policymakers in targeting support to the sector.

3 The EGS industry

Encouraged by factors such as legislation, taxation and public opinion, businesses have started to offer new 'green' products to the market, sometimes with good intentions, sometimes in exploitative ways (Peattie and Crane, 2005). The establishment of international standards such as the ISO14001 environmental management standard has raised the stakes by creating a clear distinction between businesses that can demonstrate commitment to environmental management and those who cannot. To reduce their 'environmental footprint', companies have looked for external help (Diener and Terkla, 2000) and this has given rise to a significant, diverse and developed industry (ibid), with an estimated World market value of $484 billion in 1998. This is complemented by the size of the market for carbon permits: €22.5Bn worth of allowances was traded in 2006 (The Economist, 2006). Specific market statistics for the UK are not available. A figure of £6.41 Bn pa in 2004 is arrived at aggregating the waste management market – including recycling – and the specific recycling of metals (Key Note, 2006). The available statistics for renewable energy are in tonnes of oil equivalent (toe) rather than in currency. This makes it difficult to estimate the real size of the industry.

The move towards renewable energy for example, although still very small, has created a market opportunity for small to medium scale technologies delivering renewable energies (Godfrey, 2006). The problem in characterising this industry is that it is very diverse, spanning numerous industrial classifications, and including services and product technologies. It is also a sector in rapid structural change (OECD, 1999).

This paper concentrates on cleaner technologies and other services aimed at the business sector, and updates the industry's definition to include new environmental services, such as the provision of technologies to renew and recycle products and resources, and advice, education and training services. The definition excludes the provision of goods and services supplied to the consumer sector.

The *EGS* sector attracts considerable human resources, directly or indirectly employed by the industry, and generates specific professional competences (Diener and Terkla, 2000; Godfrey, 2006). At least 80% of the industry appears to be made up of SMEs, with a considerable number of start-up companies (Diener and Terkla, 2000). There are important exceptions, for example, some of the waste management companies are very large, international players such as *Onyx Environmental Group Plc* and *Cleanaway UK*, now part of *Veolia's* £1.1Bn operations, which employ 13,000 employees (Veolia, 2006); and *SITA Holdings UK*, part of *SITA* of France and employing 7000 people in the UK alone (Key Note, 2006). Size is important in waste management in particular because of the need to achieve economies of scale. The technology-based firms are complemented by ancillary firms, for example, financial services, insurance, accounting and law firms, in addition to training and educational institutions, that specialise in serving this industry. One of the features of this sector is the connection of some segments of the industry with the public services sector, for example waste management, refuse collection, recycling, etc. are delivered by companies that are contracted out to environmental services by local authorities (Key Note, 2006). The industry is also driven by other sectors, for example energy consumption, transport, economic activity, etc. and therefore affected by the state of demand in these sectors.

4 Main industry trends

The waste management and recycling industry is a mature industry, as major materials have been recycled for a while. The emphasis of the industry has thus far been to 'clean the mess' created by industrial processes, that is, a remedial effort rather than a redesign of the processes to prevent the damage. The waste management sector, however, is only a segment of the *EGS* industry. This industry is expected to go through rapid structural change, including concentration and privatisation (OECD, 1999). New technologies are expected to move the emphasis from remedial 'end of pipe' clean up activities, which concentrate on individual industrial processes, to preventative models which are orientated to design whole industrial systems, where industrial processes are designed to achieve closed loop, 'cradle to cradle' features (Diener and Terkla, 2000; OECD, 1999). Furthermore, the sector has been urged by governments and environmental agencies to design products and services that integrate environmental management with other business strategies that contribute to core businesses (Diener and Terkla, 2000; Gutberlet, 2000; OECD, 1999). All these pressures are stimulating considerable research and investment in new technologies to 'design waste out' of products and processes, with the participation of HE organisations. A very important trend is the coming to fruition of initiatives to 'spin off' the intellectual property, in the form of technologies and patents, from universities and other research institutions into the commercial sector (Rutherford

and Fulop, 2006). Life Cycle Assessment (LCA) features strategies to produce 'cradle to cradle', closed loop processes, and sustainable approaches to product (service) design and manufacture but maintains focus on these products' and services' performance to achieve customer satisfaction (Maxwell and van der Vorst, 2002; Nuij, 2001). Another trend, 'precipitated' by the adoption of ISO14001 is the management of supply chains for the achievement of the same. In terms of energy, hydropower seems an important growth area, with prospect revenues of $160Bn pa (Koch, 2002), and opportunities for small scale projects. Developing countries seem set to become an important market for any renewable energy project (Ibid). Education and training are sectors of activity that are set to grow, as both consumers and companies' employees need to be made aware of the ecological impact both of production and consumption (Gutberlet, 2000) and this may interest both the private and the public sector. The demand for Environmental Management Systems (EMS) supported by information systems is likely to increase significantly, for example in the transport industry (Rondinelli and Berry, 2000). This opens opportunities for consulting services. Some of these services, such as energy audits, are supplied by industrial sector associations or utilities, but there is already evidence that the private sector, for example, engineering firms, are more effective (Schleich, 2004). Finally, a disturbing trend consists of the rise of new specialised and organised eco- crime activities, including for example illegal hazardous waste trafficking (Massari and Monzini, 2004).

5 Driving factors

After an initial fast growth period, the *EGS* industry's growth rate seemed to have slowed down and become a quite stable industry, with signs of consolidation (Diener and Terkla, 2000; OECD, 1999). Recently a renewed urgency has been given to this agenda by scientific consensus on the gravity of environmental problems such as global warming. This consensus has been amplified by media and by various government commissioned reports, such as the Stern Report (2006). This in turn puts social pressures on businesses to comply with environmental standards. The EGS industry is driven and influenced by various factors that shape the demand for its services and goods. The driving factors include governments' environmental policies implemented by taxation and penalties (the 'polluter pays' principle), regulatory agencies, the action of pressure groups, customers' requirements, employees and public opinion. These industry drivers can prompt the rate of growth of this industry to accelerate again. The action of these driving factors is counterbalanced by the development costs of new technologies, which are more expensive than conventional technologies as economies of scale have not yet reduced the costs. Governments are expected to establish policies that stimulate the industry of generation of carbon neutral energy (Godfrey, 2006). These government policies include financial support in the form of grants to develop new technologies and the setting up of bodies that help shape the behaviour of businesses in researching and adopting these new technologies. Other forms of government intervention include targets, taxation and enforced regulation. In the UK for example the government set up specific recycling and composting targets – as opposed to other techniques to deal with waste such as landfill

and incinerating (Key Note, 2006b), and stated that renewable sources of energy will need to be developed (Key Note, 2006a). However, the UK support for the EGS industry has been questioned, as grants provided to support domestic installation of solar panels and wind turbines, already administered in a very confusing way, have been slashed (The Guardian, 2007).

Legislation, both national and EU, is set to play an important role to promote industry demand. For example, the EU directive 94/62 EC will stimulate demand for biodegradable, recyclable packaging (Catulli, 2007); The EU Waste Water Treatment directive (Key Note, 2006) and the End-of-Life Vehicles directive will all stimulate demand for recycling services. Regulations need to be supported by a matching economic policy. Renewable energy sources will be made viable by the government's introduction of taxation and carbon tariffs, which will put the burden of the damage carbon does on the polluters (Duncan, 2007). If governments keep enforcing these economic measures big businesses will drive the industry further by creating demand for cleaner technologies.

6 Industry segmentation

The OECD (1999) offers a comprehensive approach to the segmentation of the EGS industry, summarised in Table 1. The sector is divided into three main groups: the 'pollution management' group; the 'cleaner technologies and product groups' and the 'resource management' group. These three groups are divided in three sectors of activities; these are 'production of equipment and specific materials', 'provision of services' and 'construction and installation of facilities'. A third level lists all the specific environmental activities, for example air pollution control, wastewater management, solid waste management, etc. (OECD, 1999). Diener and Terkla (2000) segment the EGS industry into three main sectors, *the environmental engineering and consulting sector*, including environmental engineering, construction, remediation and consulting; the *waste collection and disposal sector*, which includes solid and hazardous waste and recycling services, and the *pollution equipment sector*, including monitoring instruments, information systems, and equipment for pollution prevention, control and remediation equipment. In reality the author feels that to these, other sectors of activity need to be added, for example the renewable energy sector, which competes against fossil fuel generated energy, and is segmented in sectors in competition between each other, such as wind power, solar cells, which have gone through three generations of technologies, solar tubes, another type of technology utilising solar power. Geothermal technology is still in its infancy, as is wave technology (utilising the energy generated by waves along coastlines). Other technologies do not generate energy, but help preserve it, vacuum tubes are an example. Energy storage technologies are also very important to compensate the transient nature of some of the above technologies. To this sector we need to add other 'specialist' sectors such as the training services sector and specialist advice, for example the marketing consulting sector aims at advising on how companies should position themselves in respect of the sustainability issue. In this paper, we propose a

segmentation strategy that refers both to Diener and Terkla's (2000) segmentation and the categories proposed by Ecodirectory (http://www.ecodirectory.org), a government backed organisation funded by Envirolink UK, the East of England Development Agency (EEDA) and ExDRA. The categories used by this organisation are summarised in Table 2.

Table 1 EGS categories – OECD

Main groups	*Activities*
Pollution management group	Air pollution control
Production of equipment and specific materials for	Waste water management
	Solid waste management
Provision of services for	Remediation and clean up of soil, surface water and ground water
Construction and installation for	
	Noise and vibration abatement
	Environmental monitoring analysis and assessment
	Environmental R&D
	Environmental contracting and engineering
	Analytical services. Data collection, analysis and assessment
	education, training and information
	Other
Cleaner technologies and products	Cleaner/resource efficient technologies and processes
Production of equipment, technology, specific materials or services for	Cleaner/resource efficient products
Resource Management group	Indoor air pollution control
Production of equipment, technology, specific materials or services for	Water supply
	Recycled materials
	Renewable energy plant
	Heat/energy saving and management
	Sustainable agriculture and fisheries
	Sustainable forestry
	Natural risk management
	Eco-tourism
	Other

Source: OECD (1999).

Table 2 EGS categories – Ecodirectory

Type of service
Air pollution control
Cleaner technology and processes
Contaminated land remediation
Energy management
Environmental monitoring/instrumentation
Environmental services
Marine pollution control
Natural environment management
Natural environment science
Noise and Vibration control
Renewable energy
Renewable materials
Waste management
Water and wastewater treatment
Consultancy and advice
Training
Other

Source: Ecodirectory.

For pragmatic reasons, and taking into consideration all three above exemplified models, the author proposes a simplified segmentation model consisting of five broad segments:

Environmental engineering sector: which includes environmental engineering, construction, remediation and cleaner technology and processes, contaminated land remediation and others.

Waste collection, disposal and processing sector: which includes solid and hazardous waste management, recycling services, renewable materials and others.

Pollution equipment sector: including monitoring instruments, information systems, and equipment for pollution prevention, control and remediation equipment, environmental monitoring and instrumentation, marine pollution control, noise and vibration control, and others.

Renewable energy sector: which include renewable energy technologies, and energy management and others.

Services, training and consulting sector: which includes environmental services, natural environment management, consultancy and advice and training and others.

The author considers the above segmentation strategy as provisional, and one of the items on his research agenda is a further refinement of this segmentation approach.

7 The Public and not for profit sector

The environmental agenda was promoted initially by the not-for profit sector and Non-Governmental Organisations (NGOs), such as for example *Friends of the Earth* and *Greenpeace*. Initially the relationship between these organisations and business, especially big business, was one of conflict. Recently though, as businesses gained awareness of the problem and its implications, the relationship has become one of collaboration (Deri, 2003; Esty and Winston, 2006). Companies started to develop strategies of seeking the support of these NGOs (Esty and Winston, 2006). The types of collaboration include advice and consultancy to businesses, and sponsorship to promote the sponsors' 'environmentally friendly' image. Governments in various countries have sought to influence business behaviour in various ways, and these include various forms of support. This has given rise to a host of government backed or autonomous not for profit organisations which perform various roles. Businesses associate together to lobby governments, but also to join forces for researching new technologies and processes, which is essential to achieve results (Schmidt, 2001). Organisations that are linked to business and the professions include, for example, The *Chartered Institute of Waste Management* (CIWM), which promotes knowledge of, and training and education on, waste management; The Environmental Services Association (ESA), which includes the sector's operators and also supply training in order to raise standards; and The Institute of Environmental Management and Assessment (IEMA) which also aims at promoting best practice. The HE sector has a unique role in the research and development of new sustainable processes, technologies and products. These new technologies are either developed autonomously by HE institutions, and then 'spun off' by setting up new businesses to exploit the intellectual property (Ramakrishnan, 2004; Rutherford and Fulop, 2006), or developed in collaboration between HE institutions and businesses (Maxwell and Van der Vorst, 2002; Ramakrishnan, 2004). New technologies and processes such as renewable energies are also developed in collaboration between HE institutions and utilities (Godfrey, 2006). There are numerous government and non-government organisations that support progress on the sustainability agenda as well as research and implementation of best practice by business, for example, the *Department for Environment, Food and Rural Affairs* (DEFRA, http://www.defra.gov.uk/) and the *Environment Agency,* (http://www.environment-agency.gov.uk/) are responsible for the implementation of most of the legislation and regulations in matters of environment; government backed organisations such as the *National Industrial Symbiosis Programme* (NISP, http://www.nisp.org.uk/) and the International Resources and Recycling Institute (IRRI, http://www.recycling-institute.info/) facilitate the interaction and collaboration between businesses and businesses and universities, as well as promoting research on environmental practices. In the UK, local authorities take responsibility for supplying some environmental services, such as for example waste disposal, collection and management, domestic waste collection, and street cleaning.

These activities are normally contracted out to specialised operators (Key Note, 2006a) Overall, this sector and its competence are therefore heavily supported by government organisations and NGOS.

8 Gaps in provision and general weaknesses

Generally EGSs are constrained in their expansion by various factors, including the size and recent set up of some of the operators. For example, costs are a constraint to the diffusion of renewable energy technologies; these technologies are not competitive in respect to conventional technologies, especially because of their development costs (Key Note, 2006b). This means that the success of these technologies in gaining market share depends on their costs and prices falling, which in turn depends on achieving economies of scale – a 'catch 22' situation. Furthermore some of these technologies, for example solar power, are already very standardised (Diener and Terkla, 2000), which makes it difficult for any of the suppliers to differentiate themselves from other businesses. These limitations can represent an opportunity for suppliers to this industry, for example, for the development of technologies to reduce these costs (Key Note, 2004, 2006). One reported weakness of the sector is a poor ability to seek international opportunities, which is a problem as these are very attractive (Diener and Terkla, 2000; Key Note, 2006). Industry players also find it difficult to adapt their business strategy to changes in the market (Diener and Terkla, 2000). For example, it appears that the sector has not as yet implemented the required shift in emphasis from cleanup to pollution prevention the OECD (1999) and Diener and Terkla (2000) advocate. These limitations may be a consequence of the small size of many of the operators in these segments, for example those involved in the recycling of metals, where the majority of the operators are SMEs: they may not have the skills and resources to invest in the technical developments necessary for the above mentioned change of emphasis or in international trade activities, or the ability to attract funding.

In many cases of start-up companies originated by the spin-off of technologies researched in HE establishments the 'inventors' of these technologies, when starting to run the company concerned, lack the necessary managerial skills to succeed (Rutherford and Fulop, 2006). This in turn prevents these companies taking advantage of important opportunities, such as that represented by China for both recycled metals and renewable energy sources (Godfrey, 2006; Key Note, 2004). In addition UK-based companies face intense competition from international operators (Key Note, 2004). Another reported weakness is the sector's poor ability to attract and retain high level human resources to the industry (Diener and Terkla, 2000). In the UK the waste management industry finds it difficult to attract and retain capable people, especially young people (Key Note, 2006c). The need for products and services that integrate environmental management with overall business strategies suggested by Diener and Terkla (2000) may put under resourced operators under pressure to quickly acquire additional competence and skills.

9 How are these weaknesses addressed at present?

Some effort has been made by the incumbent operators to identify new growth niches and geographical markets (Diener and Terkla, 2000). However, these new technologies need support by the government. In Australia for example, the Government and the renewable energy industry have set up an objective of achieving "a sustainable and internationally competitive renewable energy industry which has annual sales of $4Bn" (Godfrey, 2006, p.98). The sector is also supported in the rest of the World, and in the UK public sector organisations and NGOs support this industry, for example, grants are available to the development of new technologies and products from various regional, national as well as EU sources. Organisations such as NISP (see above) facilitate collaborations between business sector operators, and between these and the University sector. HE establishments have for a while been investing time and resources in collaborating with this industry, currently on the technical side (Maxwell and Van der Vorst, 2002; Ramakrishnan, 2004; Rutherford and Fulop, 2006). In general, some of the weaknesses of the industry have been addressed by the specific supply of business services by the government and HE sector.

10 Conclusions and recommendations for sector support by the HE sector and policy makers

It is evident that the EGS Industry is a major growth industry and it is strategically important so that it has attracted the attention and support of governments, the OECD, HE establishments and other bodies. The sector is diverse and well developed in terms of the size of the economic activity, and its diversity makes it very arduous to research. For this reason, it is recommended that University of Hertfordshire's UH Green, the HE sector and policymakers research the sector further to better define its features and needs. From research so far, it appears that the industry has numerous knowledge and competence gaps. These gaps may constrain the sector in its growth, and more importantly, in its timely development of suitable technologies that can support energy and resource efficiency. It is proposed that the HE sector and policymakers, and in particular UH Green, take a leading role in supporting this sector, and it is recommended that:

- Engineering and technological schools seek opportunities for collaboration with the private sector to complement their technical skills in order to jointly develop green technologies.
- Specialist environmental departments target the private sector for specialist training on best environmental practice.
- Business schools seeks opportunities for collaborations with companies in the EGS sector to support them in researching and exploiting international opportunities, as well as helping them develop integrate offering of environmental services and business strategies by supplying these companies with management and strategic skills, as well as supporting them in attracting human resources.

UH Green, other HE establishments and policy makers should therefore, research the EGS industry in their relevant region so to further investigate the needs of this industry and establish communication links with operators.

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