

Is the BBB Too Cozy With the Firms It Monitors?

A FEW YEARS AGO, Tonie Burns found herself at wits' end with her wireless company after it kept charging her for roaming services she says she didn't need. Like millions of Americans who can't get satisfaction through a company's customer-service department, she took it to the next level: "Hello? **Better Business Bureau?**"

Burns had already sat on the phone enough with Cingular, so the Shreveport, La., resident went to the BBB's Web site to report the dispute. The online complaint form — spanning nearly a dozen pages — asked her for details about the type of calling plan, contract length and which items from a list of 40 to 50 industry problem spots bugged her the most. To Burns, who asked the bureau to take her beef "to the highest level," it seemed extremely thorough.

It was thorough — but not for the reason she'd hoped. Though consumers aren't told when they slog through the forms, the BBB has been asking for extra information from unhappy cell phone customers, then giving or selling the data to some of the firms themselves. In 2005, about the time Burns complained, Cingular paid the bureau \$50,000 for its consumer-driven intelligence on the industry's problem spots. Verizon, a high-level corporate supporter with a representative on the BBB's board of directors (and with more than 13,000 complaints filed against it over three years), received the data as part of its partnership deal. BBB officials say they are trying to help cell phone companies better address their consumer problems, since the wireless industry has been perennially among the bureau's top complaint getters. And the fees, says Rick Weirich, product development officer of the BBB's national council, were just to defray costs. "It's not like anyone made a ton of money," he says.

Still, for Burns, the detailed complaint form seemed "a little intrusive" and, in the end, not very helpful. Cingular (now AT&T) never changed its stance and says today that it didn't overcharge her. Burns recalls that the BBB mailed her a letter declaring her complaint "resolved," which the bureau says was in line with its policy. Says Burns, "I was beyond frustrated."

Has your contractor skipped town? Did that cherry-red convertible turn out to be a lemon? For almost a century, Americans have looked to the Better Business Bureau as a powerful defender of consumer rights. Indeed, more Americans are familiar with the BBB than with government agencies like the Federal Trade Commission (81 percent compared with 61 percent, according to one study). Maybe it's because the bureau's famed torch logo is emblazoned on 450,000 businesses around the country. Or because it fields more than a million consumer grievances a year and hosts a massive database of company "reliability reports," which consumers use to look into that annoying plumber's track record. Add in its arbitration services and educational programs, the BBB says, and all this makes it "the leader in advancing marketplace trust."

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But in recent years the bureau has been fortifying its relationships with businesses in ways that might erode some of that trust. Selling data to companies is only the beginning. Unlike government agencies, the BBB (with 112 independent regional offices, loosely organized by a national council based in Arlington, Va.) bankrolls its operations almost exclusively with dues from member companies, pulling in \$131 million in chapter dues last year, more than double from a decade ago. To bolster its business ties, the national council has orchestrated everything from book deals to special awards with members. And, say some critics, both its complaint process and those famed reliability reports are designed in ways that are pro-business. Indeed, the BBB closes some cases when the consumer is still unhappy with the company.

National council CEO Steven Cole agrees that its system of banding businesses together to self-police can frustrate some consumers. But he says the BBB remains a staunchly neutral outfit that helps keep businesses honest, with both its high membership standards and its ability to air dirty laundry in its reliability reports. Still, some experts are skeptical. Daylian Cain, an

assistant professor at the Yale School of Management who has published several studies and a book on conflicts of interest in business, sees one in the BBB's funding structure. "Certainly," he says, "there's cause for concern."

THE SCENE: the National Press Club in Washington, D.C., this spring. The event: the BBB's International Torch Awards gala. It's a full evening of wining, dining and schmoozing, with Washington media celebs such as the late Tim Russert and National Public Radio's Nina Totenberg holding forth in a room packed with executives from megacorporations like IBM, Verizon Wireless and AT&T. After honoring Kraft Foods (for "advancing marketplace trust") and CarMax (for "marketplace excellence"), the bureau gives the night's top prize to online auctioneer eBay for "sustained superior performance that...shaped the definition and expectation of trust between buyers and sellers."

That isn't eBay's only valentine from the BBB. In 2007 the bureau launched a new publishing initiative with three titles, including a how-to book on starting an eBay business — a process Cole calls in the book's introduction "one of the most exciting entrepreneurial ventures you can embark on." To critics, the event (fully underwritten by corporate sponsors), the awards (CarMax and Kraft are "bronze partner" supporters) and the book show just where the BBB's bread is buttered. "That's one of the biggest things the organization struggles with in terms of its credibility," says Dennis Garrett, a board member of the Wisconsin BBB and interim dean of business at Marquette University. In fact, none of the speeches that night mentioned that eBay notched more than 3,300 consumer complaints to the bureau in the past three years.

A BBB spokesperson says there was no connection between eBay's accolade and the book deals, and spokespeople for Kraft and CarMax say their sponsorship didn't influence the awards. But such chumminess isn't entirely new in the annals of BBB history. According to bureau literature, as far back as 1912, General Mills was "an important source of strength" when the group was founded. Today, to become an accredited member, businesses must pay a local chapter anywhere from \$200 to \$10,000, depending on their size. The national council, meanwhile, reels in even bigger bucks with its partnership program, with some 228 companies paying from a few thousand dollars up to \$75,000 for, among other benefits, actual voting rights on some BBB programs. Chapter heads say the mandate to protect consumers hasn't changed, but "obviously it's a business first before anything else," says Jan Quintrall, CEO of the Spokane, Wash., BBB. "You have to take care of the business side first."

If it didn't, says Cole, the bureau would have to charge consumers — something it doesn't want to do. He also argues that self-regulation works because it's voluntary and that members who don't maintain BBB standards — things like full licensing and prompt customer service — risk being booted from the fraternity. But the bureau says only a small percentage of members actually meet that fate. (Among the refugees a few years ago: Cingular, after a string of unanswered complaints.) What's more, members appear to have a large say in its top-level decision making. In a study by Marquette University's Garrett, nearly 90 percent of board members come from businesses, compared with less than 5 percent from government agencies, universities and nonprofits. "This is, frankly, embarrassing," says Garrett, who thinks the BBB needs more community activists. Cole, who once ran Maryland's consumer-protection division, says that consumer involvement is important but more for feedback and "not necessarily on boards."

Still, the bureau has faced criticism that BBB membership offers a few too many privileges. Another Garrett study, published in *The Journal of Consumer Affairs* in 2006, analyzed 1,500 reliability reports from particularly complaint-prone industries and revealed that BBB employees tend to record the way its members handle disputes far more favorably than nonmembers. With auto dealers, 27 percent of members were deemed to have made a "good-faith effort" to address customer issues — nearly twice the number of nonmembers. With moving companies, the BBB credited more than three times as many members as nonmembers with making the effort. The bureau says this likely means that its accredited businesses try harder to tackle customer problems, but the report offered a different conclusion: "The BBB's alleged preferential treatment of its member companies is still an open question that deserves more scrutiny."

Each business day, several hundred curious and cranky Garden State consumers reach out to the BBB of New Jersey, a cluttered Trenton-area office with stacks of business directories lining the floor and file cabinets bulging with complaints. Desirea Struck, whose 14-line phone flashes constantly with calls, is one of seven full-timers who field requests and gripes about New Jersey businesses. One caller inquires about an exterminator who, Struck informs her, has prompted two complaints in the past three years. Another frets about money she's promised from a mail-in lottery. ("Sounds like a scam," Struck opines.) She also redirects calls to regulatory agencies; nearly 30 percent of the BBB's 1.1 million annual complaints, in fact, are forwarded to agencies "better equipped to handle the complaint," says a BBB spokesperson.

When she's handling grievances, 80 percent of which come in via the bureau's Web site, Struck follows a step-by-step process dictated by her computer's software program. First, she weeds out anything involving banks, insurance companies, landlords and employers — all outside the BBB's purview. The rest she forwards to the firms in question, with instructions to respond within 30 business days. Thereafter, Struck serves as a go-between, documenting and forwarding each volley in the ping-pong-like process. When a company responds to the consumer, she then gives him or her 10 days. No return hit from the complainant? Then she tags the file "assumed resolved." Still-aggrieved consumers can reopen their cases and start another round of written volleys. Yet Struck says if a company offers any compensation at all — say, a partial refund, a \$5 gift certificate or a repair — then it's game over. Even if the customer isn't happy, a rep can decide to mark the case "administratively closed."

According to the national council's Senior VP Nora Carpenter, the bureau takes this step only when the "consumer has chosen not to be satisfied" despite a business's best efforts. The bureau says it resolves 70 percent of its complaints overall, but critics wonder: to whose satisfaction? Not surprisingly, some people walk away from their BBB encounter empty-handed — and as frustrated with the bureau as they are with the company. That would include folks like Jeff Cole, a 40-year-old Indianapolis resident who says complaining to the BBB just put him back at square one. He had griped that a perennially broken laptop from Toshiba needed to be replaced, not just fixed, but the bureau was satisfied after the company offered yet another repair. "I felt abandoned by the BBB," says Cole. Indeed, he got a new computer only after SmartMoney contacted Toshiba, which now says it "regrets" not resolving the case sooner. The BBB has regrets too and says it was "atypical" for it to close the case when it did.

IT'S NOT AS IF the BBB hasn't heard its share of criticism before, including a fair amount from its own outspoken chapter presidents. One flash point? The selling of that wireless-company complaint data, a tactic the bureau is also considering using with other industries. William Mitchell, CEO of the nation's largest chapter, in Southern California, objects to the way the council puts consumers through the "maze of questions" about their problems when "the only use for this valuable information is to sell it to these companies." At the least, he adds, consumers should be told what they're doing. Another touchy subject: the council's national rebranding effort, intended to give a unified look and message to the 100-plus regional offices. According to **internal correspondence** SmartMoney has reviewed, five bureaus have been threatened with expulsion for experimenting with a consumer-friendly Web site that offers new features like social networking for consumers — but that, according to a national operations committee, competes with and undercuts the BBB's brand positioning. Jerry Shipman, CEO of the BBB of the Southwest, says he sees value in the national rebranding initiative but that "it does tend to stifle innovation." National council CEO Cole, who calls internal dissension "healthy," says it doesn't want to kick bureaus out for innovating; it just wants to make sure it's done under the BBB brand.

In five years, according to its strategic plan, the BBB hopes to double business membership. Some worry that will only increase pressure to approach its members less as a watchdog and more as a partner. Already there has been an in-house effort to alter the bureau's famed company reliability reports. The reports, accessed 47 million times annually by consumers, are formed when each bureau tallies its complaints against a firm and rates it "unsatisfactory" or "satisfactory," depending in large part on whether the BBB considers its grievances resolved. Some offices have tested a new format that assigns letter grades to companies and offers full complaint transcripts. But a national committee has a different idea: Let paying members avoid any grade or label in favor of being rated "accredited." Proponents call this a more meaningful moniker; Shipman and others say it would water down a valuable tool.

To some, such moves reflect a continuing battle to serve two masters equally: irate customer and business owner. The fact is, "self-regulation is tricky," says Art Taylor, president of the BBB Center, the bureau's new consumer-trust think tank. "If it goes too far, companies will use that as an excuse not to participate." And if it's too light, he adds, "then consumers will know this thing has no teeth." But sitting in his office overlooking a bustling downtown, Cole, the council leader since 2005, says the real goal is "to educate the consumer before they have a problem," and a financially stronger BBB has been doing just that. The question remains: As it hoists its torch for another 100 years, can a bigger and better BBB still be a friend to the beleaguered consumer? "Absolutely," Cole says. "We would not have lasted 95 years if we had no regard for the public."

The Business of the BBB

The Better Business Bureau walks a fine line trying to serve two often-warring masters: disgruntled consumer and business owner. Below, some of its more controversial issues:

Follow the Money

Companies pay between a few hundred dollars and \$10,000 to be a BBB-accredited member, and as the bureau grows, so does its reliance on those funds. Across its 112 regional offices, dues and advertising fees make up, on average, 90 percent of revenue. Some see a conflict of interest, but council CEO Steven Cole says the BBB wants members — not consumers — to pay for its programs.

Says Who?

The BBB says it "resolves" 70 percent of its complaints overall, but according to whom? BBB reps consider most cases settled when a company responds in some fashion — regardless of the consumer's satisfaction. Says council Senior VP Nora Carpenter, "At some point, someone has to say, 'We've all done our very best here, and we're done.'"

Here, There and Everywhere

Consumers check the bureau's reliability reports some 47 million times annually to scope out a business's track record. But the BBB lets many firms keep their records scattered among regional offices, rather than funneling them through one central bureau, blurring the full picture of their complaints. A homebuyer looking, say, to purchase from Lennar Homebuilders (which operates in 17 states) might see a "satisfactory" rating in Greenville, S.C., and miss the "unsatisfactory" one in Houston. "That's a legitimate criticism," says BBB spokesperson Stephen Cox.

Membership Has Its Privileges

Instead of declaring a firm "satisfactory" or "unsatisfactory" in its reliability reports, the bureau is quietly considering a new label: "accredited," which any business can acquire by becoming a BBB member. Cole says the business will still have to meet certain standards, but some chapter presidents are howling that troubled companies could use the label to hide problems.