To the Graduate Council:

I am submitting herewith a thesis written by Janie Mitchell Harris entitled "Voluntary Self-Regulation of the Advertising Industry: An Evaluation of the Better Business Bureau Efforts to Promote Business and Educate Consumers." I have examined the final copy of this thesis for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Master of Science, with a major in Communications.

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The Graduate School

VOLUNTARY SELF REGULATION OF THE ADVERTISING INDUSTRY: AN EVALUATION OF THE BETTER BUSINESS BUREAU EFFORTS TO PROMOTE BUSINESS AND EDUCATE CONSUMERS

A Thesis
Presented for the
Master of Science
Degree
The University of Tennessee, Knoxville

Janie Mitchell Harris

August 1983

DEDICATION

Although obtaining a Master's degree in Communications is a personal and cherished achievement, credit must also be given to the people who have supported my educational growth and success. Education has always been important to my family with the most steady and continual guidance stemming from my mother, Dora Mitchell Ward. To her, I extend my sincere appreciation for always encouraging me to pursue the interests and dreams of my choice.

I am also grateful to members of my family and those of my husband's family. They have continued to applaud my accomplishments and take an interest in my graduate work. Sometimes, it has been their sincere and loving interest that has given me much needed encouragement.

To my husband, Mark, I extend my love and thanks for sharing in the experience of going to graduate school at The University of Tennessee. There have been many times in the pursuit of my Master's degree and his pursuit of a law degree that we have truly depended on one another's strength, love, and friendship.

Thirty years ago, my father, James T. Mitchell graduated from The University of Tennessee in Knoxville. Although he was killed in an automobile accident when I was young, he influenced my life and the lives of my family. I am glad that I was able to learn in a place where he also had gone to school. In his memory I dedicate this thesis. And to my family, I dedicate my Master of Science Degree. I feel as though all the members of my family have shared in my educational experience and personal growth.

ACKNOWLEDGMENTS

The author would like to extend her gratitude to each member of the Knoxville/East Tennessee Better Business Bureau staff for providing their time and enthusiastic participation in this research project. The staff was always cooperative in providing necessary information for evaluating the operations of the Better Business Bureau. BrendaLee Pritchard, president of the Knoxville/East Tennessee Bureau, deserves individual recognition for her contribution, educational guidance, and continued assistance in this thesis.

The author would also like to thank the members of her thesis committee: Dr. Alan Fletcher, Dean Donald Hileman, and Dr. David Eastwood. Their suggestions and continued support of this research were of important value. The author would like to thank each member for his time and contributions.

ABSTRACT

The purpose of this study was to evaluate the status of self regulation of advertising at the Knoxville/East Tennessee Better Business Bureau. Specifically, the complaint handling procedures for answering to businesses and consumers in the area of advertising were analyzed. The Knoxville Bureau was chosen for this study because of its unique ability to serve the business community and consumers for 25 years.

Data were gathered by studying the daily operations of the Knoxville Bureau from March, 1983 to June, 1983. The author of this study evaluated official publications, newsletters, pamphlets, and telephone recordings. In addition, complaints, inquiries, file information, and correspondence to and from the Bureau were analyzed. Personal interviews were conducted with the staff, members of the board of directors, and the Better Business Bureau president, BrendaLee Pritchard.

The major findings of the research were that ethical advertising and selling practices of the Knoxville community were of high priority by the Bureau staff. Advertising complaint handling and regulation, however, were not as important as other problems areas handled by the Bureau for the local community. The Bureau lacked strength and large scale operation in its ability to police, control, or change problems in the area of local advertising. Ability to enforce advertising standards and ethical practices were the most pronounced weaknesses in the Bureau's complaint handling organization.

The Knoxville/East Tennessee Better Business Bureau remains a

visible, concerned, and community-oriented organization. And, despite the weaknesses of this Bureau discovered by the research presented in this thesis, the Bureau continues to have a positive and increasingly important influence on businesses and consumers in the Knoxville/East Tennessee areas.

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CHAPTER I

INTRODUCTION

Advertising provides information on the availability of products and services and is useful in making comparisons and purchase decisions by consumers. However, advertising has created much controversy and criticism. Although advertising increases public awareness and provides information for mass audiences, advertisements have been blamed for exploiting American consumers. Because of the large scale of advertising in the United States, it is not surprising that many people criticize the intrusive, persuasive, and sometimes offensive messages which they confront daily in newspapers, magazines, periodicals, radio and television stations, outdoor billboards, and car cards in buses, subways, and rapid transit trains.

Advertising is said to be manipulative because advertisements persuade people to buy things they do not want or need. Another criticism by consumer advocates is that much advertising is deceptive and misleading. Finally, consumers complain that much of the advertising to which they are exposed is boring, repetitive, and insulting to their intelligence. A decline in the credibility of advertising has increased the demand for self regulation and standards by both advertisers and government control.

Purpose and Significance of Study

Many members of the advertising industry believe that self-regulation functions better than outside regulations that can be stifling and cumbersome. Yet critics of advertising desire government regulation as a firm and effective means for silencing deceptive and misleading advertisements. It is the specific purpose of this thesis to review the organization's complaint handling procedures which have been formed to prevent and regulate deceptive advertising practices.

The complaint handling procedures of the Better Business Bureau are discussed from historical and current points of view. The analysis includes information about the formation, authority, standards, funding, policies, and procedures which relate to the self regulation of advertising. Self regulation appears to be an attractive response to the increasing hostility toward the advertising industry by consumer groups and governmental agencies. Since the 1900's, advertisers and concerned marketers have sought discipline on a voluntary basis. Yet the marketing community has also been accused of establishing advertising standards that favor the interests of business rather than guard the interests of consumers.

A groundwork for objectively analyzing the complaint-handling process of self regulatory bodies in relationship to advertising is provided in this thesis. Self regulatory operations constitute a forum for examining advertising controversies. At present, however, problems exist in policing advertisements and corporate behavior because self regulators have limited control and enforcement powers.

Statement of the Problem

Although Better Business Bureaus consist of many conscientious staff workers and business members who want to inform consumers about advertising and eliminate complaints, problems exist. Some previous studies have shown the quality of information on firms communicated by the BBB to consumers to be extremely poor. The information transferred is often misleading, inaccurate, and incomplete according to these studies. Unfortunately, the cycle for redressing consumer complaints made to the BBB can create dissatisfaction for both the buyers and sellers involved. The BBB often operates with time pressures, inadequately staffed offices, chaotically filed reports, and noncooperation from business and consumers. Specifically, BBBs are struggling between service to consumers, on the one hand, and financial dependence on business on the other.

Complaint handling procedures established for improving advertising are weakened by a communication breakdown in the marketplace. This evaluation considers: (1) Do the present organization, funding, standards, and operations of the BBB bridge consumers and businesses together? (2) Is the complaint handling process established by the BBB adequate for meeting the needs of consumers and business in the marketplace? (3) Are there alternative activities which would be more successful in safeguarding consumer protection as well as improving business practices? (4) What are the costs and benefits of advertising self regulation for consumers and business who want to redress their complaints via the BBB?

Limitations in this study exist because the BBB system is complex and constantly changing. For example, BBBs attempt to build public confidence in business and corporate advertising by handling complaints against individual advertisers, by answering public inquiries about the reliability of companies and everyday buying and selling transactions, and through an immense public education program designed to give consumers the facts they need to deal confidently with reputable businesses.[1] Evaluating the self regulation efforts of the BBB is difficult because of the diversity of more than 155 local bureaus in the U.S., as well as national and international levels of operation. The BBB system handled more than seven million complaints in 1982. Therefore, analyzing the entire BBB complaint-handling system is not feasible for this thesis. And, the results of studying a local BBB can not necessarily be generalized to all BBB offices and marketplace interactions.

In 1971, the advertising industry feared that government intervention might reduce advertising's effectiveness and creativity. Therefore, the National Better Business Bureau (NBBB) joined with the Association of National Advertisers (ANA), the American Federation of Advertising (AFA), and the American Association of Advertising Agencies (AAAA) to form the Council of Better Business Bureaus (CBBB). The primary goal of the organization was to establish public confidence in the reliability of advertising and to maintain a set of standards for the industry.[2] The BBB must protect consumers against misleading advertising and must protect advertisers against unfair business practices.

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[1]Smith, Ralph Lee, Self Regulation in Action: Story of the BBBs, 1912-1962 (New York: Association of BBB, 1962), p. 8.

[2]Stridsberg, Albert B., Effective Advertising Self Regulation, Advertising Self Regulation Proposal and Outline to be Sponsored by Advertising Clubs and Better Business Bureaus in Local Communities. (Internation Advertising Association, 1974), p. 159.

At the same time, the BBB must be cautious in taking action because of laws against restricting competition and fair trade.

In the 1974 proposal for advertising self regulation by the BBB, two new features were added to the organization's agenda: (1) The BBB wanted to include more meaningful enforcement procedures into the system; and (2) The BBB wanted to include more public representation into their activities and decisions. The BBB also recognized the need to develop an effective local system which addressed "grass roots" complaints by consumers.[3] After all, "the bulk of consumer complaints has to deal with local advertising situations--short-term, amateurish, or opportunistic activities on the part of local or regional merchants."[4]

The case-by-case decisions made by local BBBs and advertising review boards involve negative and positive factors affecting consumers and business. It is important to understand the strengths and weaknesses of the BBB's complaint-handling organization in order for improvement in self-regulatory action in regard to advertising to occur. Therefore, the following hypotheses will be evaluated in the primary and secondary research of this thesis:

1. The consumer-oriented as well as business-oriented activities of the BBB are limited and can not accomplish the entire task of advertising self-regulation.
2. The complaint-handling process of the BBB is too complicated and frustrating for many consumers who attempt to voice their complaints about advertising.

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[3]Ibid., pp. 159-160.

[4]Ibid., p. 26.

3. The BBB lacks involvement from business in the complaint-handling process because not all business people see the BBB as an effective advertising self-regulator.
4. Consumers lack involvement in the complaint process of the BBB, and representation on BBB panels is limited.
5. The complaint-handling procedure by the BBB is susceptable to bias and self-interests by members and BBB personnel.
6. Because of financial dependence on business memberships, consumers are not serviced as efficiently as needed when filing a verbal or written advertising complaint.
7. The BBB does not adequately reach the consumer of lower economic status who have been mislead and deceived by advertising.
8. The BBB lacks necessary enforcement procedures because there is a lack of open communication with legal authorities and cooperation with the government concerning advertising issues.

Review of the Literature

This thesis research includes secondary information about BBBs, self regulation in the United States, standards in the advertising industry constructed voluntarily, and channels at the local level which offer redress mechanisms for consumers who complain about advertising. Data were gathered by visiting and observing the local BBB's operations, by studying official publications, newsletters, pamphlets, and by analyzing the codes and standards of advertising constructed by the BBB. Correspondence with board members and staff workers is also included.

Permission by the president of the Better Business Bureau of Knoxville, Tennessee, BrendaLee Pritchard, allowed for investigating BBB transcripts, complaint letters, files, and other information transferred through the system relevant to this thesis. Confidential information and actual names and businesses were not incorporated into this thesis in some instances.

The BBB faces an almost unattainable goal of advertising complaint-handling at all levels. Consumers want protection from fraud, and yet, businesses want to save their first amendment rights. BBBs, however, do have the potential to lessen the hostility between consumers and advertisers. Consumers are obtaining group redress, lessening the confidentiality of local advertising cases, gaining consumer representation on self-regulatory committees, and cooperating with business with unified objectives of improving advertisements. Advertisements are changing in format, purpose, strategy, and reach. Therefore, the regulatory process is ever changing and challenging. The BBB is useful in establishing advertisement standards and offering means for redressing consumer and business grievances. However, the BBB does not solve all problems associated with advertising regulation.

Problems occur because consumers and businesses who are brought together to solve disputes have different standards and goals for what advertising should do and how it should be used. The problem with voluntary efforts such as the BBB in getting cooperation is that there is a battle for power, information gained is not dispersed widely enough among the public, and the cases are dealt with slowly and one-by-one. In addition, people do not understand that BBBs are not empowered or staffed to give legal advice, make collections, endorse products, or judge product quality. Instead, they operate on a common ground by policing the business community in a general way and by focusing their attention on unethical business practices. After researching the requirements needed for successful complaint-handling organizations, the Knoxville/East Tennessee BBB was found to have much potential for improving the integrity and advertisements of the marketplace. Yet, channels of information and communication are still needed between businesses and consumers before the BBB can become a model for answering consumer complaints and marketing needs.

Research Plan Followed

Field research includes analyzing transcripts of telephone recordings offered to consumers (called "Bell-Tips"), by listening to and reading complaints that concern advertisements, and by interviewing members of the BBB staff and board of directors at the BBB of Knoxville, Tennessee.

The groundwork of analyzing the BBB's complaint-handling cycle is established in this study. I systematically analyze the effectiveness of the BBB's acceptance, evaluation, investigation, and enforcement of complaints made about advertising in regard to consumers and business. The following criteria will be used in this evaluation:

1. Involvement of and liaison with all possible interested parties to create a real exchange of ideas and a sense of participation.
2. The development of a positive identity for the self regulation effort rather than a defensive position.

3. The firm, written commitment on the part of all participants--whether associations or individual firms--to join the self-regulatory effort and to reveal precisely the nature of their financial involvement.
4. The definition of precise areas of responsibility and clear-cut structures, whether these involve permanent staffs or volunteer committees.
5. The need for a constant effort to establish and maintain a clear reputation for independence from special interests.
6. The establishment of a program of structured communication between business and consumer when resolving complaints and controversies.

These procedures will be analyzed as I report on the accessibility, objectivity, prompt action, thoroughness, feedback, and accountability of the BBBs in answering to consumer complaints about advertising. If advertisers want less government regulation of their industry, then the present self-regulatory organizations, such as the BBB should be shown to be effective. If advertisers want self-regulatory efforts to succeed, then consumer complaints against advertising can no longer be ignored or silenced. Organizations for handling complaints will be more productive if their complaint cycles for business and consumers are critically investigated.

CHAPTER II

THE BETTER BUSINESS BUREAU: A HISTORY OF ANSWERING TO BUSINESS NEEDS AND CONSUMER COMPLAINTS

In the late nineteenth century, advertising emerged as an important industry in the United States. As advertising for such products as automobiles and medicine grew, concern for advertising ethics was felt by marketers and consumers. Businesses soon realized the immense selling power of advertising--"and unfortunately, the lesson was not lost on fly-by-night artists and gyps."[6] "Muckraking" journalists and publications such as Printer's Ink exposed advertising abuses by marketers which awakened the public to dishonest business practices. Consumers began to voice their complaints against "unscrupulous sellers of certain products" by demanding both government and self-regulatory intervention.[7]

Disgruntled consumers sought protection from marketers who were deliberately cheating people through their advertised products and business activities. Early attempts to aid consumers came through trade associations and advertisers who were concerned with the ever-increasing dishonesty and unfair competition existing in the U.S. marketplace. The BBB also evolved as a means for limiting advertising deception. The purpose of this chapter is to focus on the historical development of the BBB's complaint-handling organization and procedures

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[6] Feldman, Laurence P., Consumer Protection: Problems and Prospects (St. Paul: West Publishing Co., 1980), p. 1.

[7] Ibid., pp. 1-5.

which have matured to better meet consumer needs and answer problems concerning advertising.

Shortly after a 1911 convention, the American Federation of Advertising (AFA), set up local vigilance committees of advertisers to bring about honesty in advertising.[8] These committees listened to complaints, "evaluated advertisements, and reported those found to be fraudulent to local District Attornies."[9] According to Fredric Stuart in Consumer Protection from Deceptive Advertising, these committees were the forerunners to today's BBBs.[10] Interestingly, these committees were initially established to create and support a government agency for the control of advertising. However, the committees began to gain much more support for the idea of self-discipline by the business community. Existing laws were not powerful enough to bring about the much needed order and regulation in advertising.

Advertisers were concerned that consumers who were harmed by some advertising would discredit and disbelieve the honest advertising and actions of all businesses. According to BBB literature, the early activities of the BBB revolved around Samuel Dobbs, sales manager at the time, and later president of The Coca-Cola Company.[11] Because of legal action taken against the advertising of Coca-Cola by way of the 1906 Federal Pure Food and Drug Act, Coca-Cola was charged with false

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[8] Stuart, Fredric, Consumer Protection from Deceptive Advertising Series 10, III (Hofstra University Yearbook of Business, 1967), p. 84.

[9] Ibid.

[10] Ibid.

[11] Smith, op. cit., p. 7-11.

advertising. The charges were unfounded, but Dobbs remained concerned with the issues of advertising deception. By joining with other advertisers, he addressed public complaints that had risen because of advertising across a variety of businesses. He was supported by John Romer, a publisher of Printer's Ink and supporter of the vigilance groups, who helped create advertising codes and standards.[12] These men worked within the vigilance committees to deal with "cases of alleged abuse" between businesses and harmed consumers. Their work and these committees were the foundation of the BBBs which were created to suppress fraudulent advertisements and thus win the confidence of the public in advertisers.

In 1912, the early BBBs handled nearly 100 cases. In 1981, the local BBBs handled over 1,660,600 consumer complaints.[13] From the beginning, the BBB has believed in public education and curbing advertising abuses through voluntary efforts. The consumer movement evolved parallel to BBB development. Many consumers who were angered by poor advertising did not remain silent. For example, in the 1940's advertising complaints could be voiced through the following: The League of Women Shoppers, American Consumers, The National Consumers League, Cooperative Democracy, Consumers Union, Cooperative League of America, and Consumers Defenders.[14]

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[12] History and Traditions, A Publication of the Better Business Bureau (Council of Better Bureaus, Inc., 1973), p. 12.

[13] Ibid.

[14] Ibid.

Early attempts by the BBB were made to bring business and consumers together to resolve complaints and disagreements. For example, the first conference was held in Buffalo, New York in 1939 and the second in New York City, New York in 1940. The BBB seemed aware of harmful consequences to business that could be brought about by dissatisfied and unhappy consumers who had complaints against advertising.

Consumers were faced with other marketing problems due to World War II, and advertising was no longer the central focus of consumer complaints. Many businesses dropped their BBB memberships and emphasized wartime marketing. Also, the BBB became more concerned with marketing abuses associated with the war.[15] Yet, with the war's conclusion, consumers and the BBB regained concern for advertising because of an "outbreak in swindles" which came with the postwar economy's uplift in marketing. The BBBs began to try to rebuild the public's confidence in U.S. businesses through handling individual complaints against individual advertisers. Local and national BBBs began to address public inquiries about the BBB's concern for:

> The reliability of companies and everyday buying and selling transactions, and through an immense public education program designed to give the consumer the facts he needs to deal confidently with reputable businesses when he enters the marketplace.[16]

At the same time, the BBB system better organized itself into a complaint-handling organization in order to avoid additional government intervention in the business community and advertising industry.

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[15] Ibid., p. 16.

[16] Smith, op. cit., p. 17.

By 1946 the BBB consisted of two national groups, the National Better Bureau (NBBB) and the Association of Better Business Bureaus (ABBB). And, the 1940's and 1950's became a period of "growth, consolidation, and routinization during which most offices were established."[17] Efforts toward answering to consumer advocates who questioned "reputable" national corporations in the early 1960's were made. The NBBB and the ABBB merged in 1970 to create the Council of Better Business Bureaus (CBBB) at a time when "the demand for honesty in advertising had reached its current high level."[18] The CBBB was supported by the advertising industry because it provided consumer protection when businesses were threatened by possible FTC and FCC legislated regulation which might severely curtail their advertising. Another significant activity of the CBBB was the formation of the National Review Board (NARB), in 1971 which works in conjunction with the National Advertising Division (NAD) of the CBBB.

The NAD and NARB are important in understanding the consumer's ability and options for making complaints against national advertising. The NAD and NARB also serve as model organizations for local BBBs and Local Advertising Review Boards (LARDs). When a consumer writes in a formal complaint concerning a national advertisement, it is sent to the NAD for review, investigation, and evaluation. A consumer, consumer group, competitor, or the NAD itself can make the complaint concerning advertisements from newspaper and magazines to store displays

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[17] Eaton, Marion, "The Better Business Bureau," in No Access to Law by Laura Nader. (New York: Academic Press), 237.

[18] Stuart, op. cit., p. 74.

and product packaging.[19] The NAD screens the complaint to be sure it is of national or regional advertising concern and of relevance. The NAD then sends a request for substantiation to the advertiser if the complaints seems justified. If the claim of the advertisement is not substantiated, the advertiser is asked to change the ad or remove it from circulation. If the advertisers refuses NAD negotiation and guidance, the NARB panel is sent the advertising complaint and issue. The NAD and NARB of the CBBB have shown to be a major industry step designed to improve the accuracy and truth of national advertising and thereby enhance public confidence.[20]

The NAD staff which evaluates consumer complaints consists of full-time employees and part-time advisors who are marketers, advertisers, lawyers, and trade experts. The NARB consists of 60 volunteer members representing advertisers, advertising agencies, and consumers. "All the members are prominent business leaders, public figures, or leading educators and all serve without compensation."[21] The NARB consists of a five-member panel appointed by the CBBB chairman of the board. Each complaint involves case-by-case jurisdiction by the NARB and NAD. When the panel finds the advertisement complaint to have substance, action is taken to get the advertiser to modify or stop the advertisement. If a company refuses to take action to the decision, the findings and corporate behavior are released to the news media

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[19] Ibid., p. 109.

[20] Reid, Lorrain C., A personal letter from the CBBB's Senior Vice-President. (CBBB, New York City, New York) Written on February 16, 1983.

[21] Stuart, op. cit., p. 111.

and the FTC.[22] The NAD and NARB base their decisions on CBBB's advertising codes, standards, and precedent cases.

Local BBBs were established more than sixty years ago to handle consumer complaints about local business practices, but especially about advertising.[23] The bureaus deal directly with the advertiser in helping consumers find redress for their grievances. There are 157 BBBs located in cities throughout the U.S. which are associated with the CBBB, Inc., headquartered in Washington, D.C. When a consumer makes a complaint about an advertisement to local BBBs, the following information is asked by the BBB to be specified in written form:

1. The brand name of the advertised product or service
2. The name of the manufacturer
3. When and where the advertisement was seen or heard
4. The reason(s) for the complaint with any possible substantiation attached.
5. If the advertisement is in a newspaper or magazine it should accompany the complaint letter
6. If the advertisement is seen on television or heard on the radio, the station and time must be indicated as close as possible.

The BBB system responded to nearly 7 million requests for service during 1981: 5.2 million--consumer inquiries and 1.6 million--help

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[22] Ibid., p. 110.

[23] If You Have A Complaint About Advertising. . ., A public service bulletin from the National Advertising Review Board (New York City, New York).

with complaints.[24] The local BBB reviews complaints about advertising claims and representations. The BBBs also monitor and review local advertising which is disseminated primarily in the local community rather than regionally or nationally. The BBB makes the initial investigation, evaluation, and negotiation concerning a complaint. BBBs seek voluntary cooperation from business in order to promote business to consumers.

After May 4, 1981, local BBBs were given a new program for advertising self regulation which was developed by the AAF and the CBBB. Under the program, Advertising Review Committees, consisting of members of local advertisers and advertising agencies, as well as representatives from the local public, became available. These committees are available to local BBBs for consultation, advice, and decisions concerning cases of consumer-advertising complaints. The committees were also designed to aid in the public understanding of advertising self regulation at the local level and in consumer protection.[25]

> The local BBB is responsible for receiving or initiating, evaluating, investigating, analyzing, and holding initial negotiations with an advertiser on complaints or questions from any source involving the truth or accuracy of local advertising.[26]

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[24] Some Facts About the Better Business Bureau System, A publication of the Council of Better Business Bureaus, Inc. (Arlington, Virginia).

[25] Local Advertising Review Programs, A publication of the American Advertising Federation (Washington, D.C.) and the Council of Better Business Bureaus, Inc. (New York, New York).

[26] Advertising Evaluation Policy Statement, National Advertising Review Board, Adopted April 20, 1972.

The review units evaluate cases in which the BBB cannot successfully satisfy the consumer complainant. The review committee sends the advertiser involved: (1) A statement of the facts supported by an attached documentary and physical exhibits and; (2) An analysis of the facts giving reasons, conclusions, and recommendations.[27] The advertiser is given an opportunity for a counterargument, testimony, or to submit further evidence in his favor.

After the ARC's review of the cases, the BBB is given recommendation for action to take. The BBB considers the advice of the ARC, but the final decision and action toward the advertiser is the responsibility of the BBB. The BBB may take an action including the following:

1. Notify the advertiser in writing that the BBB will not pursue the matter any further. The consumer who complained is also notified about the closed case.
2. Notify the advertiser in writing that the advertisement has been considered misleading, or has the capacity to mislead. The advertiser is asked to modify or withdraw the advertisement within an appropriate time period.
3. If the advertiser fails to respond to the BBB's recommendation, the BBB may inform the media about the facts of the case.
4. The BBB may refer the matter to a government agency.
5. The BBB's release of the case to the appropriate agency may be released to the news media and interested parties.

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[27] Local Advertising Review Program, (publication of AAF and CBBB).

The local advertising self-regulatory process is illustrated in Figure 1. Unfortunately, consumer redress of complaints does not always occur within the BBB complaint-handling system to the satisfaction of consumers.

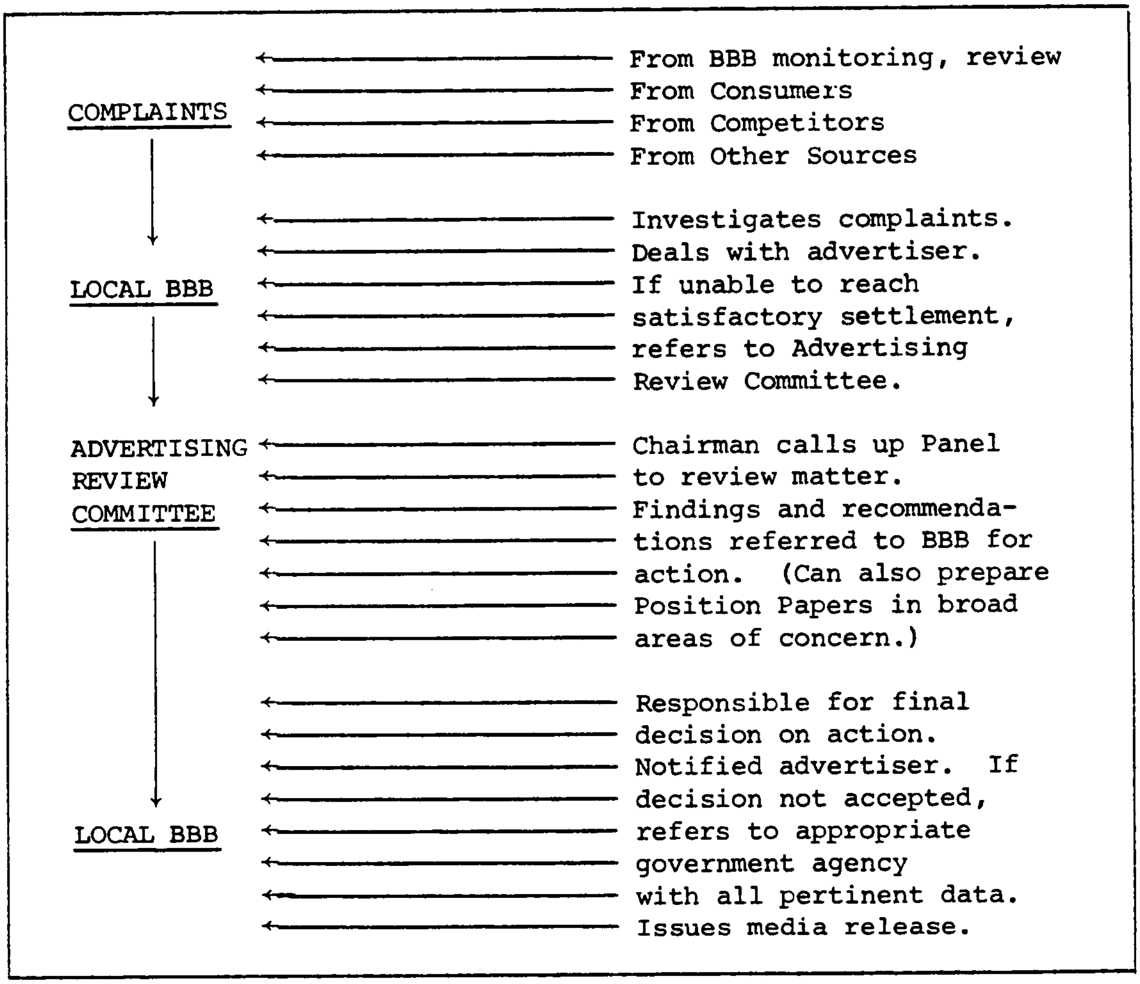

Figure 1. Better Business Bureau complaint handling and self regulation.

Source: Local Advertising Review Program: Guidelines, Criteria and Implementation, A publication of the American Advertising Federation and the Council of Better Business Bureaus, Inc., p. 20.

CHAPTER III

ADVERTISING STANDARDS: PUBLIC RELATION FOR BUSINESS AND PROTECTION FOR CONSUMERS

The purpose of this chapter is to analyze the standards in advertising created by the BBB, as well as other self-regulators, and how these guidelines affect consumers. Specifically, this chapter focuses on advertising standards that have been established to help consumers find solutions to their complaints concerning advertising. Can consumer needs for improved advertisements be met by the BBB? For at the same time, BBB standards are created in cooperation with the marketing and community needs of business. Attempts to control misleading, deceptive, and fraudulent practices through standards exist. However, the BBB is entangled in controversies of consumer-business self-interests.

Standards have been designed to help advertisers, advertising agencies, and the advertising media have more useful guidelines for more truthful advertisements. However, organizations such as the BBB have difficulty reducing complaints against advertising because of the problems in defining "truth" and "deception." Before standards can be established to serve advertisers and consumers, the BBB must be able to determine the extent to which advertisements are deceptive. The criteria for judging advertisements are very complex because much information can be placed between deception and truth. This complexity which regulators face is demonstrated in Figure 2. Self regulation may be needed so that advertisements will be designed closer to the "truth" end of the continuum, rather than toward the "deceptive" end. Many

THE TRUTH-DECEPTION CONTINUUM

FRAUDULENT________MISLEADING________FANTASY________TRUTHFUL________

Ad violates the law   Consumer literally interpret

Ad creates false beliefs

Discrepancy between claims and product performance

Actual performance and qualities shown

- -False comparative prices
- -Extra charges not disclosed
- -Unqualified guarantees and warranties
- -"Bait" advertising or selling
- -Layout of ads misrepresentative

"Puffery"

- -Erroneous impressions
- -Phony testimonials
- -Superlatives
- -Hanging comparatives
- -Ungenuine endorsements

Business dishonestly competes

Ads contribute to accidents

Figure 2. The truth-deception continuum.

Source: This chart was partially based on class discussions in Advertising 4360, Winter 1982, taught by David Wesson at The University of Tennessee, Knoxville.

members of the advertising industry believe that self-discipline functions better than outside regulations that are often difficult to enforce and regulate.

The battles for truth and against deception in advertisements of the early 1900's were weakened by lack of enforcement. It was difficult for lawyers to prosecute fraudulent marketers because of legal costs and obstacles. Federal legislation emerged as one effective regulator of the industry. In 1914, the Federal Trade Commission Act contained in Section 5 the following: "Unfair methods of competition in commerce are hereby declared unlawful."[28] However, during the early 1900's, the FTC's jurisdiction over false and misleading advertising did not apply to consumers who sought redress for their grievances. But, in 1938 the original FTC Act was amended by the Wheeler-Lea Act which said that any unfair or deceptive acts or practices in commerce would be deemed unlawful, regardless of the fact that injury to competition was not present.

Legislation from then until the 1970's concerning advertising abuses was minimal. For example, "Most of the legislation during the period of 1960-1970 dealt with consumer protection in other areas such as truth in lending and auto standards."[29] Fairly recent accomplishments of the FTC have been the requirements for advertising substantiation and rules discouraging misleading advertisements directed toward children and the elderly. Some consumers have proposed tighter government control over advertising.

Advertising standards and government enforcement are difficult because of the slow case-by-case jurisdiction. The FTC has its limitations. For example, the lengthy process involved in analyzing advertisements brought before the commission is highly complex. The FTC staff must determine the following:

1. The intelligence level of the consumer to be used as the standard for evaluating the understanding of the advertisement.

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[28] Kintner, Earl W., A Primer on the Law of Deceptive Practices (New York: Macmillan and Co., 1971), p. 16.

[29] Sabatino, Robert, "Federal Government Agency Activities in Consumer Protection From Deceptive Advertising," Consumer Protection From Deceptive Advertising. Ed. Fredric Stuart. (Hofsta Yearbook of Business, 1974), p. 5.

2. The standards to be applied when evaluating the representations or promises in the advertisement itself.

3. The methods to determine the truth or deception in the advertisement's representation.[30]

At the same time, the FTC must regulate the business practices of many corporations across the country. The FTC's activities have decreased in the areas of advertising.[31]

Currently, a more conservative political mood on the part of Congress, government agencies, and President Reagan exists. Thus, deregulation is a factor affecting advertising legislation. For example, constraints such as bans on comparative advertising and the advertising by professionals have been removed. And, because some people feel that the FTC should no longer dictate the public's interest, self-regulatory organizations have regained momentum in regulating deceptive businesses and deducing the laws made to curtail advertising's creativity.

In the early 1970's, the advertising industry was an area of concern for marketers because of the increase in consumer complaints. The industry feared government intervention might reduce advertising's effectiveness. In 1971 the National Council of Better Business Bureaus (NCBBB) was formed.[32] However, the controversy over appropriate

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[30] Bernacchi, M. D., "Substantive False Advertising Standards Discretion and Misinformation by the FTC," Journal of Advertising (Winter, 1976), p. 24.

[31] Boddewn, J. J., "Advertising Regulation in the 1980's: The Underlying Global Forces," Journal of Marketing, 46 (Winter, 1980), p. 34.

[32] The NCBBB was formed as a combination of the Council of Better Business Bureaus, the Association of National Advertisers, the American Federation of Advertising, and the American Association of Advertising Agencies.

standards for the advertising industry continues, despite the formation of this self-regulatory organization because of the consumer-corporate conflict of interests.

Better Business Bureaus and other self-regulatory bodies face the challenge of creating high standards in advertising and selling. Yet, the BBBs have been the target of critical attacks despite efforts to issue basic advertising standards as guidelines. For example, critics feel high standards can be maintained <u>only</u> by constant vigilance, scrutiny, and legislation by the government.[33] In order for self-regulation to gain power, standards and the link between businesses and consumers must be evaluated. The Knoxville BBB has been chosen for this thesis because its efforts are very popular among the marketing community, and its twenty-five years of existence have allowed for the time needed to evaluate its efforts.

Costs and benefits for the business community in self regulation via the BBB must be measured in terms of standards that the BBB has created and widely circulated. For example, corporations who follow the advertising standards will have to be more careful watchdogs of their advertising practices. And, consumers may become concerned with an increase in prices of better advertised products.[34] The BBB has a dual reputation, as a friend to business people and consumers alike.[35]

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[33] Sabatino, op. cit., pp. 54-78.

[34] Ferguson, James J., "Comments on 'The Impact of Advertising on the Price of Consumer Products'," <u>Journal of Marketing</u>, 46 (Winter, 1982), p. 28.

[35] Rosenthal, Congressman Benjamin S., "Report on the Better Business Bureaus in the U.S.," <u>Congressional Record</u>, 117, Part 36, (December 13, 1971), pp. 4781-47795.

Both parties can file advertising complaints to the BBB at the national and local levels. The complaint process involves participation on the part of consumers, the BBB, and the businesses involved in the market transaction in question. Conflicts arise because standards issued by the BBB are created to enhance the practices of businesses in a manner acceptable to consumers.

BBB advertising standards cover a wide variety of advertising practices which are designed generally, as well as specifically, for a wide range of services and products. The basic principles of BBB self-governing standards are as following:

1. The primary responsibility for truthful and nondeceptive ads rests with the advertiser.
2. Ads which are untrue, misleading, deceptive, fradulent, falsely disparaging of competitors, or insincere offers to sell, shall not be used.
3. Any advertisement as a whole may be misleading although every sentence separately considered is literally true. Misrepresentation may result not only from direct statements but by omitting or obscuring a material fact.[36]

The problem with standards is that consumers and business have different considerations for what advertising should do and how it should be circulated to mass audiences. Unfortunately, standards are often ineffective. Groups of people have difficulty complaining together, and any progress is slowed by time-consuming complaint mechanisms they face. Consumers, even in an objective arbitration, take on

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[36] <u>Better Business Bureau's Code of Advertising</u> (Council of Better Business Bureaus, Inc.), p. 5.

an "inherently weaker bargaining power and position" than corporations.[37] Businesses may have advantages over consumers in marketplace confrontations because of time, resources, knowledge, legal contracts, etc.[38] The neglect of standards has often been seen as a misunderstanding on the part of consumers.[39] If the case does not justify the time and energy of the regulating committee, then it is dismissed despite the consumer's argument.[40] Consumers must also be willing to go through a long, tedious, and often trying experience when entering the complaint process of both self-regulating and governmental bodies.

Standards also lack enforcement. Sellers can get away with quite a number of questionable business practices. Even as members of a voluntary self-governing organization such as the BBB, businesses can dismiss or ignore consumer complaints.[41] After a company agrees to listen to the consumer, their actions are no longer investigated by the BBB.[42] The rate of consumer satisfaction is not measured by most BBBs because it is an impossible task.[43] Although a large number of consumers depend on the BBB for addressing their advertising complaints, some people feel the BBBs are of no service to the buying public. For example, when BBB member businesses fail to redress consumer grievances,

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[37] Nader, Laura. "Old Solutions to New Problems," No Access to Law: Alternatives to the American Judicial System (New York, Academic Press), 1981, p. 58.

[38] Nader, Ralph. The Consumer and Corporate Accountability (New York: Grossman Publishers), 1973, p. 85.

[39] Goodman, Jordan E. "Confessions of a Better Business Bureau Complaint Taker," Money, 110, No. 9 (September, 1981), pp. 136-146.

[40] Ibid.

[41] Ibid.

[42] Ibid.

[43] Ibid.

the BBB has no legal recourse or threatening means for standards' enforcement.

In the 1971 study of Benjamin Rosenthal, the standards of the BBBs were found to be noneffective in having a positive impact on the welfare of consumers. He concluded that bureaus were trapped in an almost insurmountable conflict of interests between service to consumers, on the one hand, and financial dependence on business, on the other. Congressman Rosenthal believed that the standards, policies, and practices of self-regulatory agencies should "request federal, state, and local law enforcement operations in their area more carefully police anti-consumer practices."[44] Self regulation has the potential for corporate favoritism.

At the same time, consumers fail to realize that the BBB and many regulators cannot make sure that <u>all</u> advertisements in the market follow set standards of their choice. Even the BBB is not "empowered or staffed to give legal advice, make collections, endorse products, or judge prices and product quality."[45] The BBB exists to promote business and acts as a corporate public relations firm. Difficulties in maintaining standards arise because not all businesses feel that the BBB or other self-regulatory standards for advertising are beneficial.

Many corporations feel that they are not "all-purpose mechanisms" in which they can produce and market products as well as provide complete information in every advertisement.

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[44] Rosenthal, op. cit., p. 4785.

[45] Levy, David. "The Better Business Bureau: Whom Does It Really Protect?" <u>Washington Post</u> (November 7, 1971), p. 16.

> The primary function of a corporation is to carry out effectively its basic economic responsibility, which is the production of goods and services that people want and need with a consistent level of quality at a fair and reasonable price.[46]

Sometimes, advertising standards and cooperating with the BBB organization do not coincide with corporate profit and sales objectives. Advertising does create a substantial positive influence on sales, and standards often moderate its inducement of people to buy. And yet, marketers have the potential to increase advertising's usefulness to consumers.

Despite the business people who feel that standards are cumbersome and that self regulation is nonthreatening, improvements in advertisements have been made. General standards and performance have improved in quality in the past decade by government, business, and self-regulatory participation.

> Consumer protection's most evident regulatory manifestations are increasing requirements for ad presubstantiation and preclearance, in reversing the burden of proof on the advertiser, in demands for more informative ads, in the banning of various claims and wordings, in the mandatory inclusion of certain messages, and in corrective advertising.[47]

Consumers are realizing that they are not "helpless pawns in the hands of greedy businessmen."[48] By voicing their opinions and calling for the use of advertising standards, businesses are listening and responding through improved advertisements. Marketing that focuses on ethical

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[46] Goodpaster, Kenneth E., and John B. Matthews Jr. "Can a Corporation Have a Conscience?" Harvard Business Review, 60, No. 1 (January-February, 1982), p. 133.

[47] Ibid., p. 16.

[48] Nelson, Phillip. "The Economic Value of Advertising," Advertising and Society (New York: University Press, 1974), p. 47.

advertising, product quality, and product performance may help provide consumers with more useful marketing information.

It is possible that standards can lessen deception and misleading claims in advertisements. Therefore, consumers have more of an opportunity to view advertising as a resource for gaining more information, and some of their fears about being cheated can be reduced. However, advertisers must believe that they will benefit from the improvement of their advertising. Fortunately, the managements of most major corporations have come to share an appreciation of:

> How much at risk the legitimate and longstanding rights to pursue private business objectives may be if those objectives, and the business practices, are not perceived to be in the public interest.[49]

Yet, if consumers fail to act in favor of standards and improved advertisements, businesses alone can not be held accountable for the lack of information circulated in the marketplace. The primary goal of the BBB regarding advertising is to guide business and protect consumers. The BBB tasks have been very difficult. For example, business faces a technologically complex and highly competitive marketplace in which consumers are widely dispersed and varied. Selling products involves a great deal of time, money, resources, energy, creativity, and risks. One risk is following a set of standards for advertisements while other marketers profit from deception. Fortunately, some consumers are increasingly questioning their passivity, silence, and the lack of worthwhile information they have available.

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[49] Sneath, William S., "Is Corporate Social Responsibility a Dead Issue?" Business Society Review (Spring, 1982), p. 5.

Establishing standards involves a continual battle between self-interests and differences within the marketing system. Some consumers feel meek against corporate giants. However, standards are helping the advertising industry, and progress continues. Possibly consumers can work for obtaining group redress and individual solutions to their advertising complaints through present regulatory systems. The BBB and its standards are representative of progress and potential for consumers and businesses. Maintaining high standards and improving advertisements more than likely will require the activity and interest from all marketing participants in order for advertising to increasingly become a vital information and communication tool.

CHAPTER IV

THE QUALITY OF INFORMATION IN ADVERTISING AND MECHANISMS FOR CONSUMER REDRESS

Some advertising critics claim that consumers are given no useful information on which to make their marketing decisions. Although billions of dollars are spent each year on advertising, "It is not at all clear what advertising does for or to consumers."[50] Advertising has been labeled misleading and confusing because it is not an impartial source of information. Instead, advertising is a marketing tool for a flow of information from business to consumers. The business-to-consumer link through information and persuasion occurs in order for profit and increased sales to occur. Information about products and services is supported to help consumers make purchase decisions and comparisons according to consumer advocates. The common result, however, is that consumers have far less than perfect or useful information."[51] Also, complete information requires costly resources. Information acquisition about varied products and distribution to dispersed markets is expensive and very difficult.

Advertising can provide information in the availability of products and their features to mass audiences which otherwise might be impossible. Within the purpose of this chapter is the consideration

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[50] Swagler, Roger M., Consumers and the Market (Lexington: D. C. Heath and Company, 1979), p. 117.

[51] Nelson, op. cit., p. 47.

of advertising as a tool for improving information so that it is much more useful to consumers' marketing needs. This chapter focuses on the means for obtaining consumer redress through the BBB after false information has been advertised.

It is difficult to distinguish between the information and persuasion of advertisements. As Walter Taplin stated:

> The logical and practical difficulties involved in any attempt to separate information from persuasion . . . arise from the fact that the two concepts shade into each other. Any dividing line between information and persuasion must be artificial, an arbitrary mask made for the purposes of discussion.[52]

However, critics claim the persuasion should be separated from information. Advertisers, on the other hand, may use the persuasive elements in advertisements. For the seller, there is conscious attempt to influence the buyer's decision-making process. The weights of persuasion and information depend on several factors: (1) the type of product; (2) the consumer's familiarity with the product; and (3) the extent to which a seller's product is differentiated from other products of the same type.[53] Some critics claim that the use of any persuasive elements is manipulation by marketers. Rather, consumers are influenced by product-utility associations to buy things that they do not need or want. For example, there is a natural temptation by television advertisers to "use a picture and sound to create a mood or an image rather

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[52]Pearce, Michael, Scott M. Cunningham, and Avon Miller, Appraising the Economic and Social Effects of Advertising, Marketing Science Institute Staff Report, (October, 1971), p. 421.

[53]Feldman, op. cit., p. 124.

than providing information."[54] Advertisements can be very entertaining and persuasive and still provide little information.

Should persuasion be eliminated or regulated in advertisements? Would this make advertisements more informative and useful as desired by consumers? Because of the selling nature of advertising, few marketers would be willing to provide informationally complete and functional advertisements, void of persuasive components. Instead, it might be more useful to understand that persuasion can have both positive and negative uses in marketing techniques. "Is persuasion--the attempt to influence and control--itself questionable or is it the ends toward which that persuasion is directed?"[55] When a marketer influences consumers through dishonest, threatening, overpowering, or manipulative means of persuasion, then advertising practices should be questioned. In these cases, regulation of persuasive advertising is needed.

A critic of advertising, Arnold Toynbee, once stated that most advertising is unacceptable. His reasoning was as follows:

> Insofar as it succeeds in influencing people's minds, advertising conditions them not to think for themselves and not to choose for themselves. It is intentionally hypnotic in its effect. It makes people suggestible and docile.[56]

On the other hand, Phillip Nelson argued that "consumers are not completely helpless pawns in the hands of greedy businessmen."[57] Persuasion

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[54] Swagler, op. cit., p. 120.

[55] Pearce, op. cit., p. 4.8.

[56] Toynbee, A. J., "Is It Immoral to Stimulate Buying?" Printer's Ink, (May 11, 1972), p. 7.

[57] Nelson, op. cit., p. 49.

itself is not illegal or necessarily harmful as a device for selling. Counterarguments by sellers who do not want to have persuasion eliminated or strictly regulated have been raised. Again, they state, "Consumers are not helpless receptors of advertising information who have merely to be exposed to an advertisement in order to act on it."[58] Rather, the meaning people associate with advertisements depend on their individual preferences, tastes, and perceptions which are influenced by their needs. Also, the structure of the economic system of the U.S. allows for a seller's right to persuade as well as inform. Consumer advocates are not able to restrict sellers from using persuasive techniques in their advertisements. Also, consumers can not always demand the type or amount of information placed in advertisements and expect their wishes to always be legally enforced.

Regulators of advertising must reduce misleading and fradulent advertisements which affect consumers and business daily. However, it is difficult to determine what the regulatory remedy should be in order for truthful, more informative advertisements to be created.[59] Regulators, for example, must evaluate the issues involved with the following question:

> How are consumers to be insulated from the persuasive influence in advertising without at the same time impinging on the First Amendment rights of free speech of a sizable segment of society?[60]

The BBB faces business and consumer conflicts-of-interests when making judgments about the manipulative aspects of advertising. However,

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[58] Feldman, op. cit., p. 128.

[59] Ibid., p. 129.

[60] Ibid.

blaming poor quality advertisements for the scarcity of consumer information will not solely solve regulatory controversies and advertising complaints.

Consumers often seek redress for their grievances concerning the information they receive through advertisements through the BBB. They have either been "persuaded" or "informed" falsely about a product or service and want to find remedy to their unsatisfactory purchases or actions due to the advertisements. Although regulators continue to debate over the issues of fair, truthful, informative, and tasteful advertisements, consumers want immediate solutions to their problems if unanswered by business. Unfortunately,

> Advertising, though it wields an immense social influence, comparable to the influence of religion and learning, it has no social goals and no social responsibility for what it does with its influence, so long as it refrains from palpable violations of truth and decency.[61]

Also, it is difficult to substantiate consumer criticisms as well as corporate defenses. Most of all, it is difficult to substantiate the effects of advertising. It depends on how much and what kinds of advertising, what products are involved, what media are used, and the kinds of consumers to whom the advertising is directed.[62]

As the authors of a Marketing Science Institute report stated, consumers and self-regulators, such as the BBB, face several obstacles.[63]

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[61] Potter, David M., People of Plenty: Economic Abundance and the American Character (Chicago: University of Chicago Press, 1954), p. 3.

[62] Pearce, op. cit., p. 1.7.

[63] Pearce, op. cit., pp. 1.6-1.8.

For example, businesses and consumers have different models of how the advertising industry should operate to meet consumer needs and sell the products. Consumers face certain difficulties in corporate confrontations:

> For the majority of American consumers, mechanisms for the resolution of controversies involving consumer goods and services are largely unavailable, inaccessible, ineffective or unfair.[64]

One solution to the information-persuasion dilemma is for consumers to demand more information from advertisers and marketers who produce products and services. But in order for them to do this, they must become more alert to and familiar with various advertising tactics according to Betty Furness, a Presidential advisor in 1968. She stated:

> The consumer should read each advertisement with a critical scrutiny. Is it really a bargain? What might be the hidden costs in such a bargain--delivery, installation, or even defective or inferior merchandise? Or is it simply a lure, enticing the shopper into the store?
>
> The consumer should also try to keep himself as well informed as possible through talking with other shoppers, reading publications such as Consumer Reports, pamphlets prepared by governmental and consumer agencies, and other information available through the public library.[65]

Consumers can acquire certain information before making their purchases through calls, letters, and other inquiries to the local and national BBBs. According to the BBB, consumers and business must somehow come to terms with not only defining, but regulating, truth, deception, disclosure, and puffery. And, businesses and consumers must find

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[64] Congressional Record S. 957, 29 June: S10143, 1978.

[65] Bishop, James, Jr. and Henry W. Hubbard, Let the Seller Beware (Washington, D.C.: The National Press, Inc., 1969), p. 163.

a cooperative means for determining to what extent advertisments should carry the burden of providing complete information for shopping decisions. The problems revolve around basic questions:

1. Who shall speak for the consumer when he seeks redress and by what means shall it be obtained?
2. How much product information should be made available to consumers, and by whom; and at what point should a seller subordinate self-advocacy to the provision of objective information?
3. Will the right of consumer choice be diminished or enhanced by the implementation of consumer protection measures?[66]

Other forms of communication may be needed in which consumers get the information that is needed, as well as the improvement of advertisements.

Despite the criticisms of today's advertising, progress has been in making more consumer-oriented advertisements available. For example, at the government regulation level, the Federal Trade Commission has initiated programs for corrective advertising, counter-advertising, advertising substantiation, and regulated childrens' advertising. Also, increased regulatory and consumer interest in the subject of deceptive advertising has stepped up many self-regulatory activities. The BBBs work in many areas where the FTC has had difficulties, such as corporate-consumer arbitration.[67] What is needed parallel to these improvements is the means for <u>effective</u> consumer redress of their complaints.

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[66] Feldman, op. cit., p. 6.

[67] Feldman, op. cit., pp. 139-153.

Consumers who have been harmed by false or misleading advertising have laws and regulations to protect them. There are channels for making complaints via government agencies and self-regulatory bodies. Unfortunately, the complaint cycle for consumers is difficult and often unfair.[68] The complaint process can be thought of as the following:

> Sellers owe buyers delivery of whatever is offered and bought; when this delivery is not accomplished, for whatever reason, the buyer has been disserved, and a process, probably involving the making of a complaint, ought to alert the seller to the fact that it has not yet met its obligations to the buyer.[69]

The complaint process involves perception of a problem, voicing of a complaint, and the evaluation of the complaint. According to the research findings of Laura Nader, consumers bear heavy burdens for their complaint. The possibility of having advertisements become more informative or having their complaints answered seems difficult to achieve when confronting the regulatory system. In the chapter, "Old Solutions for Old Problems," Laura Nader describes why people hesitate in making complaints. The reasons include the high cost of legal services, lack of knowledge about redress mechanisms, the policy of "Caveat Emptor" (Let the Buyer Beward!) which still exists, and the assumption that consumers and businesses are equal before regulatory organizations.[70]

The consumer who has been harmed by an advertisement can seek

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[68] Nader, op. cit., pp. 57-63.

[69] Best, Arthur and Alan R. Andreasen, "Consumer Response to Unsatisfactory Purchases," Law and Society Review, Vol. III (Spring, 1977), p. 118.

[70] Nader, pp. 57-65.

redress from three sources: (1) Internal Mechanisms of a corporation - the dispute is handled between the business and the consumer establishing a two-party negotiation; (2) Nonbinding Third Parties - these serve as intermediaries between business and consumers and should be accessible, easy to use, informal, and speedy; (3) Legal Bodies - these include small claims courts and arbitration panels in which decisions are legally binding as well as enforceable.[71] For the purpose of this thesis, the third party complaint-handling organization of the BBB is studied. For example, when consumers complain to the BBB, they must face certain difficulties.

There are positive and negative aspects to going to third party negotiators with consumer complaints concerning information quality and quantity in advertising. For example, third parties are often hindered by corporate power, confidentiality of consumer complaints, and the focus on single cases when making decisions.[72] Also, many of these organizations do not have independence from businesses. The BBB serves three functions which are to service businesspeople and consumers, to regulate advertising, and to educate consumers. Unfortunately, the Bureau has no power to directly enforce a settlement of a complaint.[73] Also, as discovered by the research of Marion Eaton, BBBs can be of little assistance to an individual complainant without the cooperation of the firms involved.[74] Consumers who want their complaints answered

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[71] Ibid., pp. 72-86.

[72] Eaton, op. cit., pp. 233-279.

[73] Ibid.

[74] Ibid.

by the BBB must realize that the BBB exists through business sponsorship. The Bureau must attempt to settle advertising complaints, but at the same time, must create a good impression of business.

Consumers information can be gained from sources other than advertisements, and this fact is known by the BBB. Therefore, the BBB conducts consumer education programs, some of which deal with advertising. The organization wants to instruct consumers through education programs. The organization wants to instruct consumers on wise shopping habits, warn consumers about fly-by-night schemes, and explain legitimate business practices.[75] The Bureau can only improve advertising through efforts that compliment the business community. And, complaints about advertising can only be handled with business cooperation. However, it is the consumer education program of the Bureau which may prove to be most valuable in providing consumers with needed information. Third-party negotiation involves disputes between parties that have strong self-interests. However, third-parties can also train consumers to be more alert in analyzing advertisements and understanding shopping skills and product decisions. "The actual impact of the BBB's revitalized education program has yet to be gauged, but it may come to be much more important and useful to the public."[76]

Consumers lack information for making many of their marketing decisions. And yet, government and self regulators are progressively improving advertisements. In order for their efforts to create more information for consumers, more study is needed on the consumer response to their activities. Consumers who desire better information from

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[75] Ibid., p. 267.

[76] Ibid.

marketers may not be voicing their opinions because complaining about advertising is costly and difficult. Therefore, improving the complaint process through third-party sources may be one way to improve advertising and the information distributed. Advertisements and business-consumer relationships may continue to improve if communication channels can be found which meet their differing marketing needs. The BBB has the potential for being a channel for information and communication between business and consumers.

CHAPTER V

CRITERIA FOR EVALUATING THE COMPLAINT HANDLING SYSTEM OF THE BETTER BUSINESS BUREAU

Consumer redress and protection from deceptive advertising often depend on a complaint cycle in which businesses must answer to consumers and address consumer dissatisfaction. Frustration on the part of consumers often occurs because some businesses ignore, violate, or resist confrontations concerning marketplace transactions. The local BBBs are designed to promote self regulation and improve advertisements at the "grass roots" level. When consumers complain to the BBB concerning a company's advertising, the BBB is equipped to analyze the issue and cycle the complaint directly to the company involved. The BBB often helps consumers by offering prompt, local action in which businesses and consumers can solve their controversies through an intermediary organization.

The purpose of the BBB's self-regulatory activity and complaint handling system is to establish public confidence in the reliability of advertising and to maintain a set of standards for the industries. There are people who, in the interest of consumers, complain that the BBB works against the public interest. For example, consumer activists may not always believe that the BBBs protect the consuming public against deceptive advertising and from self-interests of corporations.[77]

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[77]Neelankavil, James P. and Albert B. Stridsberg, Advertising Self Regulation: A Global Perspective (New York: Hastings House, 1980), p. 2-5.

Some guidelines for evaluating the activity of the BBB in regulating local advertising must be established.

In Advertising Self Regulation: A Global Perspective, Neelankavil and Stridsberg established some principles that can be used in analyzing self-regulatory bodies. In this case, these principles will be used to evaluate the complaint-handling system of the Knoxville/East Tennessee BBB. They designed the following criteria which are used in judging the effectiveness of the Knoxville Bureau's operation. In discussing the public benefits of the BBB, the following characteristics should be included:[78]

1. The body must constitute a forum for examining openly and in detail the advertising controversies.
2. The body should assure objectivity in the examination process.
3. The body should contribute to the public understanding of how advertising works and strengthens public confidence in the reliability of advertising.
4. The body should protect its members from unfair competition and harmful trade practices.
5. The body should promote involvement of and liaison with all possible interested parties to create a real exchange of ideas and a sense of participation.
6. The body should have a firm, written commitment on the part of all participants.

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[78] Ibid., pp. 10-32.

7. The body should define the precise areas of responsibility and clear-cut structures within its operation.
8. The body should perform a constant effort to establish and maintain a clear reputation from special interests.
9. The body should have a program for reaching audiences outside the advertising industry.
10. The body should have participants who represent consumerists and businesses.
11. The body should have a clearly defined relationship for working with government bodies when necessary.
12. The body should, when documenting and evaluating questions and complaints must contribute the following:
    a. accessibility
    b. objectivity
    c. prompt action and due course
    d. thoroughness
    e. feedback
    f. accountability
13. The body should make a continuous effort to expose staff and members to ongoing advertising activity outside the framework of strictly legal decisions.
14. The body should seek the guidance of professional advertising people into the day-to-day administration of cases and complaints.
15. The body should continually work to establish the best

procedures for imposing the decisions concerning advertising regulation. The following are possibilities:

a. moral pressure

b. media releases

c. withdrawal of recognition or membership

d. public exposure

e. legal recourse

And yet, even when these fifteen guidelines are adhered to, problems still arise in the complaint handling process. The Knoxville/East Tennessee BBB will be evaluated by the above guidelines. The problems that continue to exist despite BBB efforts to improve advertising by self-regulatory methods will be discussed. The question to be answered is--How effective are the complaint-handling procedures of the Knoxville/East Tennessee BBB in meeting the needs of consumers and marketers of the local community?

CHAPTER VI

ADVERTISING SELF-REGULATION AND THE COMPLAINT HANDLING PROCEDURES OF THE KNOXVILLE/EAST TENNESSEE BBB

The National Better Business Bureau and the local bureaus were created in response to advertising abuses, complaints, and deception. It is the local BBBs that were established to monitor advertising and other forms of sales promotion that exist within a community. According to a BBB publication, the majority of advertisers will voluntarily make whatever revision the Bureau considers necessary in their advertising.[79] Consumer education programs, publications, media releases, and telephone responses to inquiries are other means for addressing advertising problems by the BBB. One function of the BBB system is to sustain high standards of truth and accuracy in advertising. BBBs work with business in an effort to maintain corporate integrity as well as consumer confidence in the marketplace.

Local BBBs exist in principle cities throughout the United States and are gradually becoming internationally located. They are independently and locally financed but work in direct cooperation with the national BBB offices. The BBBs believe that they provide the following services:

1. The BBB helps maintain a market environment in which business can operate profitably.

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[79] What About Advertising? A BBB Publication (Better Business Bureau of Greater Pittsburgh, Inc., 1969), p. 1-3.

2. The BBB help maintain a favorable business climate.

3. The BBB helps safeguard a community's buying power.

The BBBs attempt to protect business and the public. The BBBs also believe they foster ethical advertising and selling practices, alert consumers to bad advertising practices, and disseminate much needed consumer information. In order to analyze more closely the strengths and weaknesses of the BBB, a specific bureau was studied in this thesis. The complaint-handling process, information disseminated concerning advertising, and the daily operations of the Knoxville/East Tennessee Bureau are evaluated and presented in this chapter.

The BBB of Greater Knoxville/East Tennessee, Inc., was founded in 1958 and presently celebrates its 25th year of operation. It services an estimated population area of 1,000,000. The businesses also serviced within the 70-mile radius of the Bureau total approximately 27,800. The BBB President, BrandaLee Pritchard, and seven other employees make up the regular staff. Members of the staff have a variety of responsibilities in order to manage the diverse functions of the bureau for business and consumers. The small staff exemplified its strength by handling over 89,355 inquiries and over 5,884 written complaints during 1982.[80]

According to BrendaLee Pritchard, 1982 was "a most unusual year for this BBB" due to the housing problems which came with the 1982 World's Fair. This specific year is important to mention when

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[80] Pritchard, BrendaLee, correspondence with Allen L. Beatty, Council of BBBs, Inc., Arlington, Virginia, April 6, 1983.

evaluating the BBB because the staff and members had to deal with a crisis situation in their immediate marketplace. Many of the problems of 1982 were related to consumers obtaining false advertisements and information which led to some extreme cases of consumer dissatisfaction. The BBB became a primary source for addressing the problems.

The BBB and the 1982 World's Fair

In an article in the Knoxville Journal, the BBB was said to have shouldered an avalanche of complaints about "shoddy overnight housing" for the World's Fair visitors. Most of the people who voiced their complaints felt that they received misrepresentative information concerning motel, hotel, and campground lodging in Knoxville. For example, two tourists from Milan, Missouri made early reservations for housing based on advertisements they had read. They were expecting to stay two nights and two days in a hotel room for $71 a night. Much to their surprise, "It seemed to be nothing but a cow pasture," when they arrived. The Bureau had to often handle more than 60 complaints per day concerning substandard or unfinished accommodations as well as health hazards faced by tourists visiting Knoxville. And yet, the BBB was applauded by the local media for being the "most effective route for obtaining redress" concerning World's Fair problems and deceptions.

Beautiful accommodations often turned out to be terrifying once tourists arrived to their destinations. For example, BrendaLee Pritchard told of some complaintants who brought the BBB photographs of overflowing toilet seepage, dead animals, and unsanitary facilities they faced in their housing. In a Washington Post article of 1982, the following was written:

> One man told the Arkansas Attorney General's office that his campsite was "like living in a cave," and said that the advertised kennel was a rope attached to a stake in the ground.[81]

The BBB of Knoxville had to go beyond routine procedures for handling these massive complaints and the drastic nature of the problems.

In the World's Fair controversies over housing, the BBB had to take some strategic actions in order for the Knoxville marketplace to retain its national and local integrity. The BBB applied pressure for immediate reform by addressing housing operators directly. When no effort to answer the complaints was made, the BBB worked closely with health and tourist offices and the media. The BBB staff, according to BrendaLee Pritchard, was continually encouraged and supporting in handling these complaints. The BBB also offered an open-door policy throughout the fair to Knoxville residents and tourists. About 40 media conferences were given (by telephone for out-of-town radio and television stations) in order for consumers to become more alert to the situation.[82]

Unfortunately, the BBB had to work within limitations when confronting the 1982 problems and overwhelming number of advertising abuses. For example, certain business activities do not fall within the scope of Bureau operations. The BBB is not an agency of the law;

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[81] "Nine States Get Complaints About World's Fair Lodging," Washington Post, July 1, 1982, p. 9.

[82] Pritchard, op. cit., April 6, 1983.

it does not enter into matters of pricing; it does not handle rental problems; it does not have or give credit information; and it does not endorse, approve, or recommend any person, firm, organization, product, or service.[83] Instead, the BBB can only give out information based on information in their files pertaining to companies. And, this information can not be an endorsement or guarantee of satisfaction. The BBB staff can report only that the company has a record of failure to respond, a failure to cooperate, or a pattern of failure to cooperate with the BBB in eliminating misleading or deceptive advertising practices.[84] The BBB can give only basic information concerning the company's officers, founding date, number of complaints made in the last three months, and whether or not the company is a BBB member.

In 1982, this Knoxville/East Tennessee Bureau made a nationwide effort of listening to and the cycling of consumer complaints. If the Bureau was unable to address the problems, the appropriate sources were contacted. The BBB's power to serve as an intermediary was and continues to be increasing through lessons learned by the World's Fair experience.

One year after the fair, the BBB office continues to answer to dissatisfied consumers. A staff member has been assigned to serve consumers with World's Fair problems which are still unsolved. The Bureau also supplies consumers and the Attorney Generals' Offices across the country with necessary information in helping consumers be

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[83] Activities Not Within the Scope of BBB Operation, A Better Business Bureau Publication.

[84] What Your BBB Does For You, A Better Business Bureau Publication.

reimbursed. Unfortunately, the task is time consuming and costly considering that of April 6, 1983, the advance reservation agencies owed consumers almost $1,000,000.[85] The BBB survived the crisis and continues to have national support despite the extreme pressures involved in handling such massive complaints concerning advertising.

Services of the Knoxville BBB

According to BrendaLee Pritchard, "Self regulation is the order of the day."[86] Rather, the business community has the capability for governing itself if it knows how. She believes that the true responsibility of the BBB is to offer guidance. And, the responsibility of the business community is to take that guidance seriously. The BBB, when business feels it is inappropriate to offer feedback to the consumer, serves as a middle ground when controversies arise. Her goals for the Knoxville Bureau are based on the idea that the BBB promotes a "healthier business community and a healthier consumer response to things that they buy and the people they buy from in the marketplace."[87]

The complaint-handling cycle of the BBB is designed to protect businesses, but at the same time must protect consumers. Despite the limitations mentioned, the BBB does provide value to the community. The BBB furnishes a free telephone service for consumer and business inquiries and complaints. Reliability reports are available upon

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[85] Pritchard, op. cit., April 6, 1983.

[86] Pritchard, BrendaLee, personal interview, Knoxville Better Business Bureau, June 15, 1983.

[87] Ibid.

request. The BBB serves as an information service to help consumers locate more proper agencies for dealing with problems beyond the BBB structure. The BBB also renders complaint-handling assistance through arbitration and mediation panels. Most of all, the BBB offers counseling in regard to advertising and performs advertising review if necessary.

Advertising and the Knoxville BBB

The BBB believes that it is the consumer who has been harmed by an advertisement that should make the complaint. The local Bureau handles the majority of complaints and inquiries by telephone. According to BrendaLee Pritchard, the majority of complaints made against advertising total 5-10% of the BBB workload. However, the Knoxville Bureau does not handle national advertising complaints since these go directly to the Council of Better Business Bureaus. The complaintants are usually between the ages of 25 and 40 and predominantly white. When asked if the minority market is reached with BBB information, BrendaLee Pritchard commented that, "It becomes a vicious cycle." Rather, the minority markets often revolve around "mom and pop" stores, shopping is done within a very close radius, advertisements are less useful, and the people there who do not know any better are "victims of their own problems."[88] However, the BBB does not discriminate against minorities in answering complaints. Any individual who calls the BBB follows a standard complaint-handling procedure. Unfortunately,

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[88] Pritchard, BrendaLee, personal interview, Knoxville Better Business Bureau, May 2, 1983.

many minority individuals are unaware of the BBB or other consumer sources for redress of their grievances.

In publications of the BBB, advertising is described as a tool for "wise consumers." The Knoxville Bureau staff gives consumers more pre-purchase information and counseling in regard to advertisements than the handling of consumer advertising after-purchase complaints. Many of the pamphlets and booklets are available by visits to the Bureau or can be sent by mail upon request. Overall, these publications support the need for advertisements by consumers and businesses. For example, the Bureau believes that advertisements can help:

1. They provide information on new or unknown items.
2. They give details on performance or special characteristics of existing products, especially those that change from time to time.
3. They supply daily price information of vital interest to the inflation-conscious consumer, including timely information on legitimate and money-saving "specials" and sales.
4. They also tell consumers the location of specific sellers, thereby saving them time and money in finding certain products and services.[89]

While visiting the Knoxville BBB, the staff was receiving many calls from persons who had received letters from a subscriber magazine. The letter read, "Congratulations! Because your phone number ends in the digit 0000, you have won the right to obtain a lifetime--repeat

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[89] Guide to Wise Buying. A Better Business Bureau Publication, (New York: A Benjamin Company Book, 1980), pp. 12-13.

lifetime--subscription" to this magazine.[90] A female caller complained that she had paid $4.95 for this "lifetime" subscription only to discover that the advertisement was fraudulent when she received another bill. Other callers complained that they had purchased a product through the mail because of a television, radio, newspaper, or magazine advertisement. Unfortunately, products never arrived or they differed from the advertised product.

The Knoxville Bureau can better help these consumers if they call before the purchase. Counseling is free, and the Bureau has a continual supply of information on companies because of a nationwide exchange of information and news releases across the BBB system. The staff, as noted while visiting the Bureau, can help buyers analyze advertisements. For example, the staff through BBB standards and such publications as The Do's and Don'ts of Advertising by the BBB are better qualified to help consumers do the following:

1. Separate information from puffery.
2. Recognize meaningless coined words and no-promise promises.
3. Identify misplaced emphasis.
4. Recognize "guilt-producing" advertisements.
5. Bring up useful questions in regard to price advertising.[91]

The BBB also distributes information to businesses concerning advertising practices. Specifically, advertising standards and practices are

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[90] Telephone communication. Knoxville Better Business Bureau, May 13, 1983. (Caller's name withheld.)

[91] Ibid.

detailed in such publications as Advertising Standards for: Men's and Boy's Apparel; Automobiles and Trucks, and Carpet and Rugs. All BBB information is available for members and nonmembers.

Unfortunately, as admitted by the Knoxville BBB staff, it is difficult to help consumers who have been harmed by advertisements. Many consumers have difficulty recalling which media, what time, and what part of the advertisement caused them problems after their purchase. Often, a print advertisement is lost, and the unhappy consumer becomes irrate with the staff member because of his/her frustration. Therefore, the local BBBs across the country are attempting to guide advertisers for improved, less deceptive advertisements.

A major area of concern by consumers and the BBBs has been with advertising directed toward children. Again, the Knoxville Bureau has pamphlets available for members and nonmembers concerning guidelines. The BBBs want advertisers to understand that children have a different level of knowledge, sophistication and maturity than adults. Therefore, this younger audience processes the messages of advertisements differently than adults. The Knoxville Bureau can easily consult the Children's Advertising Review Unit which was founded in 1974. This unit monitors on a continual basis the print, television, and radio advertising directed to children under the age of twelve. These guidelines are also available free of charge and upon request from the Knoxville office. While studying the Knoxville Bureau, no complaints of this nature were made. Many consumers, including concerned parents, are unaware of this group within the BBB system which responds to inquiries made about children's advertising. The Knoxville Bureau recognizes this as a weak area at present in their advertising regulation activities.

The CBBB's Review of the Knoxville Bureau

The Knoxville/East Tennessee Bureau, like all local BBBs, is reviewed at least triennially by the CBBB to determine its compliance with the Standards for BBBs which have been established by the Board of Directors of the Council.[92] The Knoxville Bureau, upon completion of the questionnaire, realized many of its strengths and weaknesses. Interestingly, in regard to this thesis, many of the weaknesses were found in the area of advertising. For the purpose of this thesis, only the section of the questionnaire dealing with advertising will be specifically addressed.

First, it is important to review the standards that the CBBB has established for all BBBs to follow in regard to advertising regulation. For example, Standard 26 states that each Bureau should have a regular review and shopping of advertising in local media and for correcting advertising which does not meet BBB standards. Standard 27 states that each Bureau should have a program for investigating possible marketplace fraud and deception and when detected, should take corrective steps to protect the public. And, Standard 28 states that each Bureau should have a program for handling consumer complaints.

The Knoxville BBB believes that it meets Standard 26. Rather, a review of advertising is done "in acting on complaints and done as

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[92] Council of Better Business Bureaus, memorandum to BrendaLee Pritchard and the staff of the Knoxville/East Tennessee Better Business Bureau, March 9, 1983.

time allows." The Bureau presently rates its advertising review program between four and five on a scale of ten. Also, there is no one person at present at the Bureau who has the responsibility for the Bureau's advertising review activities. However, only about 15% of the BBB work schedule is spent on advertising review activities. This seems to be due to the lack of interest by consumers and businesses who address the BBB with their problems. The Knoxville market does have advertising abuses, but these seem minimal compared with the other types of consumer complaints cycled by the Bureau. Also, the financial support by businesses to the BBB allows for little allocation of capital to advertising review activites. It would be costly and time consuming to review the local advertisements found in newspaper, radio, television, in-store displays, and outdoor billboards. The Knoxville BBB is not adequately staffed to address this problem area fully at this time.

However, the BBB does have an advisory (preventive) program of reviewing proposed advertising copy <u>in advance</u> of its appearance to assist advertisers and agencies. BrendaLee Pritchard and the Knoxville staff have a working relationship with local advertising agencies in regard to advertisements being created using BBB guidelines. The Bureau also distributes the Advertising Standards of the BBB to bureau members.

The Knoxville Bureau is aware of the advertising review programs being established in many other bureaus. However, at present, the Bureau does <u>not</u> have its own review committees. Briefly, the Local Advertising Review Units consist of members whose principal affiliation is with local advertisers and advertising agencies, together with representatives from the general public.[93] These units are made available to local bureaus for consultation and advice.[94] They are also valuable in advising the BBBs on individual as well as general cases. For example, members of these units may submit papers concerning current advertising issues which better prepare the BBB and staff to consumer concerns in regard to advertising. The Local Advertising Review Units which do exist aim their efforts toward "familiarizing local publics with advertising self-regulatory standards, and in developing support for BBB activities."[95]

The Bureau, however, does have a program for investigating possible marketplace fraud and deception and maintains Standard 27 according to the Knoxville BBB President. The Bureau ranks its complaint program among all its activites as a ten on a scale of ten. The Knoxville Bureau wants to enable customers to resolve their problems and to enable companies to recognize and eliminate problems.[96] Again, the 1982 World's Fair tested this complaint handling process. Of the 5,884 written complaints that year, 4,294 were concerning the housing issues of deception and misrepresentation. Complaint records are

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[93] Local Advertising Review Program: Guidelines, Criteria, and Implementation, A publication of the American Advertising Federation, Washington, D.C., and the Council of Better Business Bureaus, Inc., New York, New York, pp. 2-6.

[94] Ibid.

[95] Ibid., p. 2.

[96] Council of Better Business Bureaus, op. cit., March 9, 1983.

maintained, and there is someone primarily responsible for the complaint-handling program at the Knoxville Bureau.

Previous Research of Rosenthal in Relation to Present Research of BBB

Although the Knoxville Bureau ranked its complaint handling procedures as a ten (on a scale of ten), previous research by Benjamin Rosenthal provides conflicting results. He had found in his 1971 study that BBB reports are often "misleading, inaccurate, and couched in vague generalities."[97] For example, he knew of 25 firms who had been disciplined by federal, state and local law enforcement bodies. When requesting information from the BBBs of four cities, only one BBB operator made reference to the legal action taken against these companies from the reports. Rosenthal also presented inherent weaknesses in the system concerning BBB reports. The limitations of the BBB reports in regard to how much and what kind of information have been previously mentioned. However, Rosenthal specifically pointed out that all BBBs suffer because of the following:

1. An unrealistic overemphasis on whether a firm cooperates with the Bureau rather than on its actual marketplace activities. According to Rosenthal, this causes BBBs to report more favorably on firms with many resolved complaints than on firms with a very few unadjusted complaints.
2. Time pressures on staff members may cause them to summarize voluminous material in a firm's file with failure to answer the consumer's complaint adequately.

[97] Rosenthal, op. cit., p. 47782.

3. Failure of almost every Bureau to systematically receive and incorporate in their files reports from federal, state, and local law enforcement agencies.

4. Erroneous and incomplete reports on the integrity and reliability of business firms, lull consumers into a false sense of security and sometimes lead to costly experience with disreputable firms.[98]

These weaknesses were specifically analyzed while evaluating the Knoxville/East Tennessee Bureau.

The Bureau was limited in what statements were made to consumers, and telephone complaintants were not completely satisfied with BBB answers to their inquiries. Vague statements such as the following were made through the two-way conversations between BBB staff members and the inquiring public:[99]

> I do not know as far as legalities go, but you should talk with the manager first, your attorney second.
>
> We cannot legally enforce . . . we are a third-party negotiator.
>
> We are not allowed to tell you the nature of the complaints.
>
> I can not file a complaint until you write us a letter of experience.
>
> You need to contact the company at least one time concerning your complaint before we can process your complaint.
>
> We are not a legal agency.

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[98] Ibid.

[99] Telephone communications, Knoxville Better Business Bureau, April and May, 1983.

> This company does not meet BBB standards. (Specific standards of the BBB which were not met were not mentioned.)
>
> This company you inquire about is too new to have customer experience. Do you want me to send this company a business questionnaire and start a file on it?
>
> The BBB advises caution. (The reasons for advising caution were not given to the caller.)
>
> In addressing a caller about her insurance contract, the BBB stated, "We can not interfere with that company's policy regarding common law coverage."
>
> We do not deal with credit.
>
> We are unable to verify that the company you inquire about exists. (Even though fraudulent business practices were discovered concerning this false company, the BBB could not give consumers complete information without more written complaints and damages on file.)
>
> This is neither a statement or an approval.
>
> Always take time to read what you are signing . . . you are obligating yourself.
>
> If you signed the contract, there is little that we can do.

Rosenthal was correct in characterizing comments such as these as "vague" in many instances. But he failed to mention why the BBB must follow the policy of limited information release.

<u>Legal Constraints Keep BBBs from Telling All They Know</u>

Rosenthal's study in 1971 presented the limitations of the BBB in providing information to consumers concerning complaints that the organization processed. It is important to consider the reasons why BBBs cannot tell consumers complete, fully detailed accounts of complaints concerning advertising by telephone or written correspondence.

The Knoxville BBB is a private institution and receives no funding from the city, state, or federal government. A firm which has been defamed because of remarks made by the BBB staff members qualifies for judicial proceedings against the BBB. If a company can prove that either libel or slander have been committed against the firm, then recovery for damages may be obtained in many instances. Difficulties arise in how much and what kind of information the BBB should and can release from their files.

> The task is to find the right balance to be drawn between the protection of one individual against real injury to his reputation and the protection of the interests of all of us in freedom of speech.[100]

The company, if harmed by BBB statements, would only have to prove that the following may have occurred: (1) Defamatory statement; (2) Publication (communicating that statement to a person other than the plaintiff); (3) Fault (amounting at least to negligence); or (4) Special Harm (of either monetary nature or actionability of the statement).[101]

The BBB staff could also make mistakes in the written and oral reports which would lead to untrue statements made about a company. Actually, if the BBB, in an attempt to guide or counsel a caller, stated a personal opinion that was false, the opinion could be classified as defamatory. A corporation could be defamed if the statement "tend(ed) to prejudice it in the course of its business or to deter other from dealing with it."[102] The business would only have to prove that the BBB hurt the business directly.

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[100]Prosser, William L., John W. Wade, and Victor E. Schwartz, Torts: Cases and Materials (Mineola, N.Y.: The Foundation Press, Inc., 1976), pp. 961-962.

[101]Emanuel, Steven, Torts (New Rochelle, N.Y.: Emanuel Law Outlines, 1976), pp. 312-329.

[102]Ibid.

In a case of slander, the plaintiff would only have to show that he/she suffered "special harm" of a monetary nature. And, to prove libel, damage by written or printed matter, the plaintiff could file for damage whether or not a specific financial harm occurred. Of particular importance to the BBB are the two categories of verbal statements which could create legal problems:

1. Statements imputing criminal behavior to the plaintiff.
2. An allegation that adversely reflects on the plaintiff's fitness to conduct his/her business, trade, profession, or office.

Also, because the BBB releases some information to the media, BBB employees must be cautious that false statements about individuals and companies are not channeled to the public. Finally, the BBB is a private business-sponsored organization and would not be granted privileges by the courts for making defamatory statements. Presently, the Knoxville BBB could not afford to pay compensatory damages to companies if legal controversies were to arise.

Documentation and Evaluation of Complaints and Inquiries

Rosenthal also discredited the manner in which file information was reported to consumers from the BBB staff. According to the staff at the Knoxville Bureau, the filing system suffers from out-of-date filing procedures. When a caller requests information, the staff member must go to a file cabinet and sort through hundreds of alphabetically ordered company files. Some of the companies are cross-referenced under headings, and these must be checked as well. Unfortunately, some of the files are packed full with letters, articles, and BBB correspondence between the customers and the businesses. The process of gaining information from the files, therefore, is coded for convenience. The consumer is given summary statements about the company which are very general. Any detailed information from the files is rarely given to the caller.

The process is fairly slow and does limit the amount of time spent with the phone caller. According to BrendaLee Pritchard, the filing system will become computerized in the near future. At present, the staff members use manual typewriters and lack the convenience and time-saving benefits of computer terminals. The terminals could allow the staff to retrieve information much more quickly, efficiently, and up-to-date.

According to BrendaLee Pritchard, when staff members deal with complaints and inquiries, "It is possible for bias to creep in." For example, "They know that a membership is a precious commodity in that it pays their salary." [103] She also stated that her employees are mature and balanced people, and they "must keep in mind that members are not to be protected, but they are to be given the same kind of measuring stick that is given everybody else."[104]

When asked if the Knoxville Bureau favors or serves the special interests of its members, Pritchard responded negatively. The staff believes that BBB members are more stringently tasked to follow advertising standards than nonmembers. She did state that the BBB "takes good care of its members." Rather, the BBB, when consumers make a

[103] Pritchard, op. cit., June 15, 1983.

[104] Ibid.

complaint against a member, goes to extreme lengths to get complete and accurate information about what has happened. Members are given five days to solve the dispute, and if done, written records of the complaint are not made. BBB members may benefit because the BBB provides an efficient reaction to resolving the complaint in the consumer-BBB-business cycle.

Pritchard was aware of the BBB's potential for bias and admits to the possibility of personal involvement in the cases. A delicate balance is held between the BBB's protection of corporate interests, consumer needs, and its own self-regulatory structure.

Enforcement Procedures and Communication With Legal Authorities

The Knoxville Bureau was found to have a positive, highly respected relationship with the Knoxville city police and government offices. Information, when relevant, is exchanged between the organizations when deception or misrepresentation occur. However, Pritchard runs her BBB in Knoxville based on the idea that, "There is no need for enforcement if you are working on the basis of self regulation."[105] The central enforcement of her bureau is accomplished through arbitration. In cases of arbitration, the BBB decisions in addressing consumer-business conflicts are legally binding because both parties agree to abide by the decision beforehand. The arbitration capabilities of the Knoxville Bureau have grown tremendously in the last ten years. At present, arbitration decisions made through the BBB are becoming more recognized by the business and consumers of the community.

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[105] Ibid.

An example of recent arbitration efforts of the Knoxville Bureau is with the automobile industry. As of January 6, 1983 Nissan/Datsun, General Motors, and Volkswagen allow for BBB arbitration/dispute resolutions to dominate their consumer relationship programs.[106] The arbitration program uses informal mediation by Bureau staff and, if necessary, voluntary arbitration conducted by a panel of trained volunteers.[107] At present, the BBB of Knoxville is gradually perfecting their role as an arbitrator. Revisions to procedures and the publicity needed to alert consumers about arbitration availability will gradually evolve. The BBB staff seemed anxious and excited about their ability to serve consumers and businesses, and at the same time, have their decisions gain in importance to all involved.

Consumer Involvement With BBB Procedures

Self-regulatory organizations should have consumer representation and feedback concerning their structure and complaint-handling procedures. At present, the Knoxville Bureau's consumer participation is not working at the needed capacity. Volunteers are called upon to serve on arbitration panels, but the organization of consumer involvement lacks the attention of the Knoxville Bureau. The staff seemed aware that consumer participation is important to self regulation success. However, consumer involvement on committees and in making BBB decisions does not have priority in the major concerns of the BBB personnel. The BBB is a business sponsored organization. However, if

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[106] BBB News: Silver Anniversary, 25, No. 3 (March/April, 1983) Better Business Bureau of Greater Knoxville/East Tennessee, Inc.

[107] Ibid.

the public requested greater participation, the BBB would be more alert to consumer needs. At present, consumers go to the BBB with their problems, but there is less interest in working within the BBB to solve their problems before they have the opportunity to occur.

CHAPTER VII

CONCLUSION

Self regulation has directed the Knoxville/East Tennessee Bureau toward establishing and developing relationships between businesses and consumers. The Knoxville Bureau can not eliminate deception and misrepresentation of advertising completely by its members or nonmembers. There is not an agency in existence which could perform such as complicated and costly task. What this local BBB can do is to allow for a forum which openly and in detail analyzes advertising controversies.

As of May, 1983, Tennessee's Knoxville Bureau has existed 25 years in service to the marketing community. Its long-lasting relationship with the community was saluted by Lamar Alexander, Governor of Tennessee. He commended the Bureau as well as responsible companies and consumers who work to "maintain a clean marketplace."[108] This BBB has shown to be continually striving to perfect its self-regulatory structure. It does serve consumers and business, despite the variation in self-interests of the two groups. The Knoxville Bureau continually answers to consumers who request information or who submit complaints. The BBB of Knoxville has shown its intense support of advertising standards. The staff and President, BrendaLee Pritchard, were very aware that their Knoxville market needed regulation, information,

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[108] News Release: Silver Anniversary Issue, A Publication of the Knoxville/East Tennessee Inc., Better Business Bureau (May 9, 1983).

and genuine attention from the BBB. The Knoxville BBB provided evidence that the ethical advertising and selling practices of the community were of high priority through their complaint-handling process, media releases, and over a hundred publications that were available upon request.

Although advertising complaint handling and regulation were not outstanding activities of this specific bureau, the staff exemplified a strong interest for changing their advertising activity. The staff showed a very positive attitude in wanting to inform themselves as well as the market they serve about how advertising works. The Knoxville Bureau at present understands that in handling complaints, they are responsible for protecting the consumer against misleading advertisements and the advertisers from unfair practices of a competitor. The BBB has in its favor a quick, easy-to-use complaint cycle. This specific Bureau was especially oriented toward setting standards, taking effective action to anticipate or handle advertising controversies, providing arbitration of complaints, and for attempting prompt, objective resolutions of disputes.

The Knoxville Bureau is not the one answer to advertising problems which arise between business and the consuming public. For example, the BBB can not enlist the participation and cooperation of every business in Knoxville. The BBB can not enforce all businesses to comply with the detailed advertising standards it provides. The BBB can not legally enforce the members who do finance its operation to follow their guidelines for complaint handling. The members of this organization differ in their needs, financial contributions, activity, and understanding of the BBB. Therefore, the BBB must continually deal with this variation in commitment from its members. Also, the BBB lacks sanction powers or the ability to "apply those it has because its decisions are followed unevenly."[109]

As discovered by this research, the Knoxville BBB can not always maintain open, clear communication channels between those involved in controversies. Sometimes, there is actually nothing the BBB can do to help the business or consumer involved. And, even though the BBB has many diverse publications to alert and educate the public, the information is often not used. The BBB lags behind in the efficiency of its operation because of out-of-date processing equipment. And, the BBB can not always be aware of changes in regulation or advertising which are greatly affecting consumers.

The Knoxville Bureau wants to improve its advertising activity. Pritchard considers advertising complaint handling and information as an increasingly important issue confronting her staff. The greatest weakness of this bureau in regard to advertising complaint handling was its lack of Local Advertising Review Units. The BBB of Knoxville has not fully recognized the need to develop an effective local effort in improving Knoxville's advertising. The BBB has not effectively established these units which would review and decide appeals from decisions of the Bureau in cases dealing with truth and accuracy in local advertising.[110] This BBB accepts advertising complaints, but

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[109]Neelankavil, op. cit., p. 11.

[110]Advertising Self Regulation, Sponsored jointly by advertising clubs and BBBs in local communities, (1974), pp. 159-161.

lacks strength in the evaluation and action upon controversies. For example, this BBB does not perform shoppings or other investigatory steps needed to negotiate with advertisers when seeking voluntary cooperation.[111]

The BBB staff lacks experience in evaluating advertising and claims substantiation. Yet, with the additions of the Review Units, the BBB would have the increased participation from local advertisers, advertising agencies and public members. These panel members would be autonomous and independent of any and all other persons and organizations related to the BBB.[112] These LARBs would help this Knoxville Bureau better receive, initiate, evaluate, investigate, analyze, and negotiate with an advertiser on complaints or questions from any source involving the truth or accuracy of local advertising.

Advertising is an emerging issue of importance facing the Knoxville/East Tennessee Bureau. The staff must actively monitor the community's advertising in order for complaints to be better evaluated and processed. The relationship between the BBB and the marketplace participants must be continually strengthened. Rather, consumers must know that the BBB can actually service their needs and find answers to their problems. Despite the weaknesses in this BBB mentioned, the organization does have a positive, powerful influence on the Knoxville community. The market is rapidly changing, and the BBB is aware that it must do the same in order for it to be used and needed. An upheaval in the Knoxville marketplace continually arises because of the deception, fraud, and misrepresentation that exist in advertising messages

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[111]Ibid. [112]Ibid.

sent from businesses to consumers. However, the Knoxville Better Business Bureau remains a visible, concerned, and community-oriented self-regulatory organization. Interestingly, business and consumers are increasingly dependent on the BBB for answers and information. And, the BBB is increasingly dependent on the cooperation and support from the community members.

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