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- ousting the Los Angeles chapter that grades local businesses.

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March 13 — For generations, Americans turned to the Better Business Bureau to find out if the local grocer was cheating customers or if the neighborhood dry cleaner was mishandling clothes.

But this week the 101-year-old consumer watchdog turned its sights on one of its own — ousting the Los Angeles chapter that grades local businesses. BBB of the Southland was expelled after years of internal strife and a slew of audits by the Council of Better Business Bureaus.

The chapter, which was the organization's largest and covered Los Angeles, San Bernardino, Orange and Riverside counties, was accused of demanding that businesses pay membership fees in exchange for good ratings. It even reportedly issued an A-minus rating for a fake business named after Hamas, considered a terrorist group by the U.S. government.

It's the latest problem facing the Arlington, Va.-based Better Business Bureau, which has struggled to stay relevant as consumers turn to Internet sites such as Yelp and Angie's List.

"They have a spotty past and this is just one more situation that's going to lead people to believe there's problems there," said Scott Hauge, president of the advocacy group Small Business California.

The Better Business Bureau was once the pinnacle of consumer protection, with a brand known worldwide. The nation's businesses scrambled to get a plaque with the BBB's endorsement. It was also revered by consumers, who would threaten to report small-business owners to the BBB if they felt wronged.

These days the organization's influence has been waning. In 1987 the BBB received

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she considers reliable.

"Most people don't say, 'I'm going to look up the BBB to see if there are any complaints.' Instead they go on Yelp," said Lee, 37, of Los Angeles. "People feel that review sites are more accessible and come from our peers."

But falling out of popular favor isn't the BBB's only problem. The Council of Better Business Bureaus said the Los Angeles area affiliate failed to comply with several standards, including guidelines relating to accreditation, reporting on businesses and handling complaints.

After severing ties with the Los Angeles chapter, the national group said it would operate a "virtual BBB" until a new local group is established. Other BBB staff members from around the country will take on local responsibilities in the interim and businesses will be allowed to continue to use the BBB seal.

The national organization conducted three audits in addition to hearings that looked into alleged "pay to play" practices as part of the two-year probe that eventually led to the local group's expulsion, BBB spokeswoman Katherine Hutt said. The last time a BBB chapter was expelled was in Miami 25 years ago.

"There were numerous attempts to try and bring the BBB of the Southland into compliance with our standards and policies," Hutt said. "It was a thorough and, quite frankly, painful process to come to this conclusion."

Hutt declined to go into specific findings, citing a confidentiality agreement.

In 2010, ABC News reported that a group of Los Angeles business owners critical of the BBB paid dues for several fake companies, including Hamas. A leader of the BBB of the Southland said that at the time the Hamas business was being presented as a youth camp and the name was pronounced differently.

The dummy businesses were accepted by the BBB of the Southland, given ratings and

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promises to offer the same services it provided before, Chief Executive Kiry Peng said.

He defended his group, saying it was following national policies that made it impossible for businesses to get the highest ratings unless they were paying, or accredited, members.

The BBB and the Business Consumer Alliance will be competing for the same customers. The national BBB said it would continue to serve its member businesses, although all its Southern California members will have to go through a re-accreditation process in the future. Meanwhile, the new Business Consumer Alliance said it would carry over the members it had as the BBB of the Southland.

Every local BBB chapter is an independently run nonprofit. Peng said the parent organization sets the policies members follow and holds the rights to the name.

He also said the national organization could run into legal troubles if it uses information that was collected by the BBB of the Southland.

“Names, addresses and certain information is public,” Peng said, “but we do have complaint data that’s certainly intellectual property.”

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Times staff writer Ricardo Lopez and Times researcher Scott Wilson contributed to this report.

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Small Business

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