

(March 11, 1929)

The Better Business Bureau

BY MR. H. J. KENNER.

THE PRESIDENT:—The increasing menace to the public of fraudulent practices in business and finance has necessitated the establishment of organizations to co-operate with and implement the activities of the law officers of the Crown in the detection and suppression of dishonest and irregular business undertakings.

During the last few years, Better Business Bureaux have operated with marked success in many cities in the United States. Their services in tracking illegitimate business and, at the same time, compiling reliable unbiased information for the guidance and education of the public, have won for them the highest respect and confidence of the communities in which they operate. A year or so ago, a Bureau was established in the City of Montreal and has been carrying on with very considerable success and, quite recently, a similar Bureau was organized in Toronto.

We have the opportunity to welcome as our guest today, Mr. H. J. Kenner, Manager of the Better Business Bureau of New York. At our invitation, he made a special trip to Toronto—a courtesy which we very highly appreciate. I have very much pleasure in introducing Mr. Kenner who will address us.

MR. KENNER:—Mr. President and gentlemen of the Canadian Club. There is no greater business asset than public confidence. And that self-evident truth applies not only to the individual business but to the collective business of the community. Far-sighted business men, realizing that fact, have in recent years, set about protecting this precious commercial and financial asset, real as it is, though intangible, by organizing what they deemed a wise, necessary and profitable activity in the public interest, and

urged by the desire of legitimate business to keep its house in order.

Seventeen years ago or more, advertising interests of the United States and Canada began to patrol the paths of paid publicity in the selection of truth in advertising. They declared that truth is the cornerstone of all honourable and successful business; and in the year 1914 in this City of Toronto they held one of their annual conventions and awarded the Baltimore Truth Trophy—an award to the Advertising Club in a city which did most in a year toward advancing the cause of truth in advertising—to the city of Minneapolis. And in September, 1914, it was my privilege to become the first full-time paid manager of the Vigilance Bureau, later called the Better Business Bureau for Minneapolis. With the exception of two years, 1917, 1918 and part of 1919, I have been a Better Business Bureau Manager ever since, and, my message is to unfold the practice of the Better Business Bureau work as it has developed in these fifteen years.

There are now in the United States and Canada forty-seven principal cities which have these organizations. There is a total of about three hundred full-time workers. Business is investing annually about \$1,000,000 through voluntary subscriptions to this work. In 1922 a group of representative financial and business leaders in the City of New York, realizing that the good name of New York was being seriously menaced by fake brokerage activities and stock swindling evils, particularly inspired in that work by the epidemic of bucketshop failures which had taken place in New York in 1921 and early in 1922, determined that they in New York must root out all the indifferent business men in the larger cities of the United States who had not taken up Better Business Bureau work. They determined that the Better Business Bureau was the answer to their problem. So seven years ago it was my privilege to undertake the managership of that organization in New York where I have been ever since. Leadership in that movement was that of the New York Stock Exchange, the Investment Bankers Association, the New York group of leading commercial banks, trust companies and other interests; and later in 1925, merchants and manufacturers

determined they wanted a share in this activity and for the past four years the merchandise section of the Better Business Bureau has been functioning. Perhaps the New York point of view about this work is best expressed by the President of the New York Stock Exchange, Mr. E. H. H. Simmons, who speaking to the real estate men of New York last month said, "No business in this country, however basic and however legitimate at heart, is altogether free from what President Roosevelt called a 'lunatic fringe' of parasites who attempt fraudulently to benefit by the well-earned reputation for honesty and equitable dealing established by legitimate and well-managed business firms. The cure for this stubborn swindling evil seems to lie in constant vigilance and complete co-operation between private business and our public authorities, stimulated and concentrated in just such an efficient fraud-fighting agency as the Better Business Bureau."

Better Business Bureau work, as you perhaps know, is divided into three main parts: securities, real estate and merchandise. In New York we are functioning actively in all three. This is true of most of them all over the country. The work is one of practical action. It proceeds from the individual to the specific cause of the general proposition. Thus it takes actual practices whatever they may be, one by one, with the idea of getting correction by moral suasion, or by use of publicity by exposing malpractice to the public view, or by getting a punitive result by placing facts before the proper authorities and getting local action in public interest.

An example, perhaps the most outstanding one in late years, of action through co-operation with the authorities, is that of Jacob Simon Herzig, who called himself George Graham Rice, who promoted the sale of a number of cheap mining stocks throughout the United States. His most spectacular promotion was that of the Idaho Copper Corporation which owned properties of doubtful value in the State of Idaho that were listed on the Boston Curb Exchange. Through the aid of irresponsible brokers the price of the stock which started at 53 cents a share got up to \$6.25 in about eighteen months or two years. He used the most ingenious stock swindling system our country has

known. He used this publication which took six cents to go by first class postage and mailed 600,000 of these papers known as the "Wall Street Iconoclast", costing \$36 a week for postage. The publication had as its slogan "The Truth no Matter Whom it Helps or Hurts". It reported alleged stock market information sometimes dealing with facts about United States Steel, General Motors and United States Rubber, and sandwiched in between were laudatory articles about things in which Mr. Rice was interested. A considerable amount of this space was used against the Better Business Bureau. Mr. Rice had many followers who believed he was crusading on their behalf. As propoganda, he was exposing alleged crookedness on the part of others. It was that kind of philosophy which made him appear disinterested and which gained for him a host of followers throughout the United States and Canada. Rice was a past master at following up this publication with telegrams. He sent messages to hundreds of different people. He spent as much as \$7,000 on telegrams in one night and would telephone at night to get lower rates.

He fought stubbornly against the Federal authorities and the Attorney General of New York State who proceeded against him and spent \$750,000 in one year for lawyers' fees. He finally was brought to book by the United States Government and was convicted of fraudulent use of the United States mail and sentenced to nine years in Federal penitentiary. He was also fined but he is appealing the case which will be argued in April this year. Rice has not only been a stock swindler, but he has been a leader in the tipster sheet system. One of his best imitators was Charles Beadon, who issued "Trend of the Market" and the "Stock Market Reporter" under the name of Horace Browne. Any salesman who got on the telephone was Horace Browne and high pressure methods with dynamiting were used in all parts of the country. He dealt in Canadian mining stocks. His first venture in Canada was Rubec Mines. The stock cost him forty cents a share and he got the price up to \$3. The price on March 5 according to The Northern Miner was six cents a share.

Then followed the National Power and Development Corporation. He paid seventy cents a share for this stock

and ballooned them up to \$23 a share, by the tipster sheet and dynamiting methods employed by salesmen. That was followed by Simard United Mines which included the stocks of the National Power and Development Corporation. Finally a blow was struck against Beadon by the Post Office Department and although he was released on bail, he has not been found. And if Mr. Beadon does return to New York, I think it is beyond question he will find himself serving a prison sentence. His work did not prosper in Canada for by that time the Better Business Bureau in Montreal had been active. It is necessary that business join hands with the Government in bringing this type of destructive operator to the bar of justice. In the George Graham Rice case, New York retained the services of an expert criminal prosecutor who had been in the Attorney-General's office. It cost a considerable amount of money to have him. There were an indictment and array of facts of importance to the Government prosecutors. That could be done in the Province and the Dominion here. There is another tipster sheet operator, but few remain in New York and they will survive only a few months. Stock crooks fear the law and also fear dissemination of information to prospective investors. The Better Business Bureau can, by giving information and by the education of the public, cut into their profits until it hurts. In New York we have not only aided prosecutors, but we have answered enquiries and given facts from the Bureau there to everyone who enquires in person, by telephone or by letter, bearing on the activities of questionable types of companies. We have given out that information to banks, brokerage houses, by advertising and newspaper articles and by educational information in all parts of America. Towards the end of last year, Good Housekeeping magazine carried an article on "Wildcats Up-to-Date," by Elizabeth Fraser. That was followed by an article in the Saturday Evening Post, also by Miss Fraser, that reached probably 10,000,000 readers in the United States and Canada and marked a considerable waning of this tipster sheet system which I have described. The Saturday Evening Post article called, "The Dynamiters" was reprinted by the Better Business Bureau, Montreal.

The tipster sheet publications have had short shrift at the hands of your Postmaster General. About a year ago "The Financialistic Debater" and others were barred from the mails. Talking with H. J. Donnelly, Solicitor-General of the Post Office Department at Washington, the other day, he told me that he had a vast respect for the power of the Post Office in Canada. You have more liberal powers whereas in the United States, we have not only to have an investigation, but it is only after a hearing that the mails can be barred for fraudulent uses. He told me of a case in which thirsty ones were disappointed in Canada. An advertiser sent through the mails letters offering twelve quarts of genuine, pure, Canadian rye for \$18. This was several years before the price of contraband was so high. Many of our thirsty citizens thought that was worth trying and they sent \$18 and received twelve quarts of roasted rye grain. This was a fancy price to pay for a product of Canadian soil. So our Post Office Department had to deny the use of the mails to them. We hope you will reciprocate and close the mails promptly against United States crooks who prey upon your citizens.

I think perhaps you will want to know something of the functions of the Better Business Bureau. I will illustrate a case handled by the Bureau recently. It was a case of a stock offering in a chain of food stores. An advertisement had appeared in a leading New York newspaper. Almost immediately after its publication we received enquiries from banks, newspapers and brokers about the offering. We had some facts; we quickly got more and we found that the statements in the newspaper advertisement were misleading. A circular had been sent to seven thousand names with misstatements. We found that irresponsible dealers of a very objectionable type were connected with the promotion, so we immediately reported the facts to the newspaper who said "we will not publish more advertising until it is right." Banks said that they did not like the look of it and would have nothing more to do with it. We got in touch with the advertising agent and an interview was arranged with the underwriter who said, "I am going to send out a retraction to these people

who received the circular and revise the advertising that will meet your views and make other changes in the financial structure." That is an example of moral suasion at work. The next step would have been to have turned the facts over to the Attorney-General of New York State and requested that he proceed at once to make a public investigation into the matter.

There is another example which occurred the other day when the officials of a mining company came into the office. They had 500,000 shares of stock they wanted to sell. They had made arrangements with the dealer. We had no derogatory facts but advised caution. We glanced over the contract and pointed out that it was a very imperfect contract, as it did not protect the company and prospective shareholders and it did not provide against re-assignment of the contract. We pointed out features that should be put into the contract. The Better Business Bureau does not engage in the practice of giving legal advice, but on an occasion of that kind it can point out information. It never charges a fee for services. That is work of a worth while nature.

An impression seems to exist in some quarters that Better Business Bureaux are against new enterprises, particularly against mining companies. Nothing of the sort is true. The mining industry obviously is a legitimate industry, though it is speculative in many aspects. In a country such as Canada, where the mining industry is still in swaddling clothes, where the surface has just been scratched, business interests will find it a good investment to support Better Business Bureaux in the principal Canadian cities. The vendors of "blue sky" stocks follow the new fields of industrial development. They were to the forefront when Dr. Cook and his satellites were having their hey day in the Southwestern States. I understand one of Dr. Cook's compatriots is in Toronto selling stock. They exploited the fields of rubber, motor cars, radio, motion pictures and now they are following the gold rush in the air, and exploiting the public's great enthusiasm for aeronautical enterprises.

The merchandise side of the work is one of the prin-

cial fields of Bureau activity and the main idea is to maintain accuracy. A merchant may know he is honest; he does not always know he is accurate. Many thousands of inaccurate statements by reputable firms have been found, and repetition prevented, by the New York Bureau. As a result, public confidence in these businesses is higher. Furniture, radio, furs, musical instruments, textiles and practically every phase of business is guarding against inaccuracy. Another function the Bureau often performs is to provide facts for its members concerning one-time advertising schemes, programs and the like, or doubtful media of any kind as well as concerning organizations or projects seeking donations on a public welfare or charity appeal. This service saves many thousands annually for the Bureau membership.

Wisely administered, a Better Business Bureau becomes the trusted representative of legitimate business in its community. As time goes on, larger and larger responsibilities gravitate to it. Likewise, those who share in the fruits of this effort assume obligations that cannot lightly be put aside. I refer to the obligations of leadership, which means that the man of commercial or financial ability and power must give great thought to the force of his example. It counts much for good or ill. His business house is set upon a hill; it is a sort of glass house, where all that goes on is closely observed by the small business houses on the slope or in the valley. Many are tempted to throw stones at it. Even small abuses in all business are to be held in check. Real leaders admit and assume their responsibilities in leadership in this respect.

You have honored me by inviting me to appear before you today where many more important men have spoken on themes of high import. I trust your interest in my subject may lead you to examine yet further into the benefits that will inure to Toronto when you fully equip your Better Business Bureau for well-rounded service to your citizens and your financial, commercial and industrial institutions. Organization is the servant of business. To my mind, a Better Business Bureau is a public servant in the house of business. To conclude, may I summarize

what I consider the basic principles of the work, as follows:—

A Better Business Bureau's purpose is to increase public confidence in the printed and spoken word of business and to reduce unfair competition.

It acts on its own facts, disinterestedly.

It examines both sides of a question fairly.

It deals in information, not opinions; it avoids controversies.

It strives to be constructive and it is not consorious.

It endeavors to change the point of view of an erring business man by friendly contact with him; to turn even an unscrupulous man into one who deals fairly.

It helps to lower selling costs by reducing the causes of resistance to legitimate sales efforts.

It renders illegitimate methods unprofitable by, constructively, making them a matter of wider public knowledge.

It works in the public interest to the advantage of business as a whole.

It does not grind private axes for business nor for members of the public.

It deals with non-members as fairly as with members: it is as considerate of the small business man as of the big one.

It is fearless without being fanatical and it places principle above expediency in any situation.