MARKET STRUCTURE AND COMPLIANCE:
WHY JANITORIAL FRANCHISING LEADS TO LABOR
STANDARDS PROBLEMS

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ABSTRACT

This paper examines how business structures and market conditions create pressures for non-compliance with basic labor standards regulating wages and hours by examining the use of franchising in the janitorial services industry. The janitorial services sector ranks high on lists of workplaces with widespread violations of labor standards. The particular form of franchising that has become common in the industry, coupled with the intensity of product market competition and low entry barriers, create conditions where it is difficult for many franchisees to comply with requirements of the federal Fair Labor Standards Act given the prices they charge customers. We examine this by analyzing cost structures for typical franchisees and information on prevailing rates for services in local markets. The expansion of franchising places additional downward pressure on prevailing prices, thereby reinforcing conditions that generate noncompliance. We conclude by briefly discussing possible remedies to address these findings.