

THE EFFECT OF TRADITIONAL AND MODERN POLICIES ON TERMINATION OF EMPLOYMENT CONTRACT*

Omed A. ISMAIL**

Abstract

This paper is looking for the best model of articulating termination rules of employment contract by referring to the most popular policies on this regard. Meanwhile, it tests how the provisions of such policies affect termination rules in terms of rigidity and flexibility. An acceptable degree of rigidity and flexibility of termination rules can be tested based on the possibility of combination between the basic argumentations of job security policy and what has been promoted by labour market flexibility in a new era. The policy of job security in regards to the termination of employment has taken a various forms. One form is termination costs including severance pay, notice periods for employees and compensation for dismissal based on the seniority. From an individual perspective, it is crucial for employees to be protected from the employers' arbitrariness, while, from an economic perspective, the rate of employment and job turnover can be affected negatively. A balance, then, is needed by reducing the degree of job security provisions to an acceptable level according to the policy of flexibility in the labour market.

Keywords: *job security, workers' right, flexibility, termination rules, employment composition, severance pay.*

1. Introduction

The formulation of rules and regulations is highly effected by policies and regimes followed by a state in reaction of political, cultural, economics, and social needs from time to time. Philosophically, the law can be investigated within the context of above categories to examine its root and the logic of its adaptation. From this point, the governmental policies and patterns for the process of articulating law also might be analyzed in light of political and social needs, meaning that the distinguish between different policies which impact formulating

law in a state to another, depends on social, economic and political changes.

The variety of policies, however, can serve different aspects, and reflect the strategy of government in dealing with labour markets. In this regard, the number of regimes and policies that could affect regulating the subject of termination of employment contract is numerous.¹ Accordingly, termination rules of employment contract may differ in terms of rigidity and flexibility due to the different policies involved with labour markets. Rigidity and flexibility in termination rules, then, can be interpreted by referring to adopted policy in responding to the social variables. The classification of involved

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** PhD Candidate, University of Debrecen, Marton Géza Doctoral School of Legal Studies.

¹ Axel, B., Bengt, F., & Leif, J., (1997) "Labour Market Regimes and Patterns of Flexibility: A Sweden-Canada Comparison", Archiv Förlag, p. 35.

policies at that area to distinguish between the traditional and modern one, rely on the historical background of emerging those policies in the past and ongoing effect on the future of enactment towards sustainable developments.

It is apparent that the major policies provided in the field of labour law, are the policy of “job security” and “labour market flexibility” in which the termination rules of employment contract, internationally or locally, can be regulated. Though, the boundaries between job security and labour market flexibility are complex, and debatable, theories and justifications concerning both of them are clear. It is worth mentioning that job security initiates from the point aims at providing more protections to workers, in contrast, labour market flexibility tends to reduce the level of protections based on different argumentations.² An examination of the basic elements of job security and labour market flexibility, with examining the necessity of emerging such those policies, will respond the real questions about how rules of termination of employment contract have been changed and developed in different ways and in multiple periods between states. Another question also could be answered is to what extent should employees be protected under those policies from not been fired unfairly in the job, and the negative or positive impact for providing

such a high protection of employees on labour market activities.

2. “Job Security” and Termination of Employment Contract

The most common policy that would impact termination of employment contract is the policy of job security, which establishes its argument based on the necessity of providing social and legal protections for employees in their relationship with employers. It is essentially intended to provide protection for employee, since loss of his job will causes loss of his and his family’s livelihood.³ In general, job security requires government imposing adequate regulations to reduce the ability of employers to hire and fire employees.⁴ Considering what has been said above, Molz has defined employee job security as “the degree to which an employee can be certain of retaining his job in the future.”⁵

Accordingly, this policy is used “to protect workers against labour market risks”⁶ where the protection legislations are needed to protect workers against arbitrary dismissal. The term of employment protection legislations (EPL), then, refer to the entire set of legislations, regulations, and court rulings that place some restrictions to the employers’ willing in the employment contract. Such those regulations and restrictions are, of course, serving workers in

² Tamas Gyulavari, Gabor Kartyas, (2015), “*The Hungarian Flexicurity Pathway? New Labour Code after Twenty Years in the Market Economy*”, Pazmany Press – Budapest, p. 47.

³ See Termination of employment instruments, Background paper for the Tripartite Meeting of Experts to Examine the Termination of Employment Convention, 1982 (no. 158), and the Termination of Employment Recommendation, 1982 (no. 166), prepared by; International Labour Organization, International Labour Standards Department, Geneva, 18–21 April 2011, p. 3.

⁴ Adriana D. Kugler. (2004). *The Effect of Job Security Regulations on Labor Market Flexibility. Evidence from the Colombian Labor Market Reform*. University of Chicago Press, Volume ISBN: 0-226-32282-3, p. 183. Available at: <https://www.nber.org/chapters/c10070.pdf>. Accessed: 28-02-2019.

⁵ Molz, R. (1987). *Employee Job Rights: Foundation Considerations*. Journal of Business Ethics, 6(6), 449-458. Retrieved from <http://www.jstor.org/stable/25071683> Accessed: 27-03-2019.

⁶ Clark, A., & Postel-Vinay, F. (2009). *Job Security and Job Protection*. Oxford Economic Papers, 61(2), new series, 207-239. Retrieved from <http://www.jstor.org/stable/20529416>. Accessed: 27-02-2019.

one hand, and negatively impact labour market on the other hand.

The significant factors of job security and the root of its foundation can be analyzed by referring to the humanitarian aspects and the nature of employment contract. Many scholars have argued the linkage between job security and human rights which are fundamental for human being.⁷ The historical background of how the policy of job security has been arisen for employees over the decades in the past may support this outlook and justify joining between job security and human right issues. It is also evident that the number of violations committed by employers against employees' rights was the main factor to elaborate much protective legislation based on the necessity to provide enough protection to employees' rights. Perhaps this connection is the strongest argument that has been taken into consideration in enacting international rules⁸ and regional or national regulations relating to termination of employment contract.

Another argumentation may contribute at that area is concerned with sole property rights in the job, an early argumentation that examines the laws of termination of employment by exploring property rights whether it belongs to employee or employer.⁹ The influence of property rights assumptions can extremely help to underpin the different perspectives of employment termination laws that otherwise such those

laws seem to be conflicted, and remain unanswered.

Thus, the argumentations used to support and legalize job security, as well as to analyze rules and regulations codified based on the policy of job security, can be reached in the following points:

2.1. An Argumentation Related to the "Humanitarian Aspects"

Discourse on job security in this regard is always involved with the basic concept of human rights. Analyzing job security from humanitarian perspective is an essential starting point to reach out the fundamental roots of this policy. This argument is based on the notion that economic interests and managerial prerogatives of employer do not justify violation of fundamental rights of workers in job. In this sense the basic aim of job security is to enhance the employee's right to be treated with dignity and to not be offended at work.¹⁰ It requires, then, the notion of 'good faith' and 'mutual trust and confidence' in the contractual period between employer and employees.¹¹ Another perspective that would be raised in this respect is so-called 'Industrial democracy' by focusing on workers' right of information and consultation prior to dismissal.¹² This means that mutual trust and good faith imply the obligation of informing and consulting employee, otherwise the termination of his/her contract will be void.

⁷ See, for example, Shabannia Mansour M., Hassan K. (2019) *Job Security and Temporary Employment Contracts: A Theoretical Analysis*. In: Job Security and Temporary Employment Contracts. SpringerBriefs in Environment, Security, Development and Peace, vol 9. Springer, Cham. https://doi.org/10.1007/978-3-319-92114-3_1 Accessed: 21-03-2019.

⁸ Such as international standards of employment termination set by ILO through the Termination of Employment Convention, 1982 (no. 158) ratified by 36 states, and the Termination of Employment Recommendation, 1982 (no. 166).

⁹ Catherine Barnard, Simon Deakin, Gillian Morris, (2004), "*The Future of Labour Law Liber Amicorum Sir Bob Hepple QC*" Oxford and Portland Oregon, p. 101.

¹⁰ Wanjiru Njoya, (2007), "*Property in Work: The Employment Relationship in the Anglo-American Firm*" Industrial Law Journal, Volume 36, Issue 4, December 2007, ISBN 0-7546-4587-8, p. 6.

¹¹ Johnson v Unisys [2003] 1 A.C. 518; Eastwood v Magnox Electric plc [2004] 1 R.L.R. 733.

¹² Wanjiru Njoya (2007), previous source at 7.

In the past, termination rules of employment have been frequently analyzed by concentrating on employees' right to have dignity in life and a decent work promoted by social justice and equality in the life of workers. Going back to the historical point of view, the cruel situation of workers and how they were treated by employers indicates the need of labour laws to be integrated with job security provisions to protect workers, and ensure their basic rights to life and decent work. In the middle ages, for instance, the employment relationship has quite renounced from the humanitarian trends when the worker had been treated by the employer as commodities needed for work.¹³ This posture was continued till embarking renaissance era in which values of humanism have been integrated with employment relationship and reformulate the concept of this relationship in the light of modernity "including ideas of work as a source of dignity ... and to facilitate participation in society and the dignity of family life."¹⁴

An early contribution to connect job security of employees with basic human

rights is made by a significant numbers of philosophers and scholars in reaction to changes that occurred in the ideology of employment relationships. Perhaps, the contribution of Mayo,¹⁵ Abraham Maslow,¹⁶ and Frederick Herzberg¹⁷ are quite enough to share in this respect. To rebut Tylor's theory,¹⁸ Mayo proved that workers are encouraged by having their social needs, rather than only by payment in a job, and he claimed that the best motivation of employees is by creating a circumstances where managers and employees have engaged in better communications with mutual trust and feeling safe in job.¹⁹ Mayo's theory, finally, recommended that recognition, a sense of belonging, and job security are main factors to motivate employees at work.²⁰ Maslow also has emphasized on decent work and human motivations of employees at work.²¹ He started his famous theory²² with the view that individuals have multiple needs, particularly; five needs of individuals must be accomplished.²³ Physiological needs, which they are required for survival, come in the first level, such as water, food, and oxygen. Once physiological needs have been

¹³,Adnan Al-Abed, Yousif Elyas, (2013), Labor Law, Al-Atek for publishing, first edition, Cairo."

¹⁴ Blyton, Paul Robert and Turnbull, Peter John 2004. The dynamics of employee relations. 3rd ed. Management, Work and Organisations, Basingstoke: Palgrave Macmillan, p. 5.

¹⁵ Elton Mayo was an Australian born (26 December 1880 – 7 September 1949). He was psychologist, organizational theorist, and industrial researcher.

¹⁶ Abraham Maslow was an American by birth (April 1, 1908 – June 8, 1970). He is a famous psychologist who was best known for providing Maslow's hierarchy of needs.

¹⁷ Frederick Herzberg was an American psychologist (April 18, 1923 – January 19, 2000). His most famous theory is Motivator-Hygiene theory, and his most famous book is "One More Time, How Do You Motivate Employees?"

¹⁸ Frederick Winslow Taylor was an American by birth (March 20, 1856 – March 21, 1915). He was a mechanical engineer who sought to improve industrial efficiency. His theory is based on the idea that workers are motivated mainly by payment neglecting the other factors, such as job security.

¹⁹ T. Christopher Greenwell, Leigh Ann Danzey-Bussell, David Shonk, (2014), "*Managing Sport Events*" Human Kinetics, p. 55.

²⁰ *Ibidem*.

²¹ Sari Edelstein, (2011), "*Nutrition in Public Health*" Jones and Bartlett Learning, Third Edition, p. 362.

²² The theory is known as "Maslow's hierarchy of needs." Even though the theory focused on motivations in workplace, it incorporated with psychological needs of employees as a basic human needs at work.

²³ Ranjay Gulati, Anthony J. Mayo, Nitin Nohria, (2014), "*Management*" South-Western Cengage Learning, First Edition, p. 465.

satisfied, the safety and security needs come in the second level and become a second motivational factor.²⁴ To motivate employees at work, therefore, they must feel that their jobs are secure because if they notice a lot of lay off in job, they will have a fear of losing their job, this is mean employees no longer being able to satisfy employers just for being unmotivated at work.²⁵ Job security, thus, is one of the most important security need for employees in this level. The third level will take place after satisfying physiological and safety needs, and this is what call “Belonging and Love” according to Maslow.²⁶ Employees in this level seek to feel comfortable with others at work, especially, managers and supervisors. “Self-Esteem” and “Self-Actualization” are coming in the highest levels of needs, in which employees will be motivated to be productive and to do what exactly expected by employers.²⁷ In sum, Maslow’s theory tells us that employees cannot be operated properly unless their foundational needs are met and treat them as a human being, a worker will not grow or move to higher levels of welfare without these essential needs including secure job. Frederick Herzberg developed the argument, and he presented job security as a hygiene factor surrounded the work, rather than the work itself which he called motivational

factors.²⁸ According to Herzberg the hygiene factors such as job security and working conditions are satisfiers and essential for the existence of motivations in workplace where dissatisfaction observed if they do not exist.²⁹ Despite the fact that Maslow's theory and the other mentioned theories are not without flaws, but still they are valuable for assessing human basic needs and employees as well.³⁰

Job security from this perspective must be recognized by modern states as a certain social and labour rights at work, which states are bound to respect. An action towards this realization requires states three levels of obligation: (1) respect the right of job security is an obligation from the first level; (2) protect the right of job security comes from the second level; (3) fulfill this right is in the third level.³¹ The first level can be achieved through acknowledgement and legal articulating by state to promote job security in the related legislations. Moreover, the state must not interfere with any action which may impose limitations or restrict the right without a compelling justification.³² Whereas, the second and third level require states to do more action, especially, by preventing violations from third parties (e.g. employers) either by imposing commitments on employers or providing remedies in case of violation.³³

²⁴ Pieter A. Grobler, (2006), “*Human Resource Management in South Africa*” Thomson, Human Resources in South Africa, 3rd edition, p. 217.

²⁵ Taormina, R., & Gao, J. (2013). *Maslow and the Motivation Hierarchy: Measuring Satisfaction of the Needs*. The American Journal of Psychology, 126(2), 155-177. doi:10.5406/amerjpsyc.126.2.0155.

²⁶ Primeaux, P., & Vega, G. (2002). *Operationalizing Maslow: Religion and Flow as Business Partners*. Journal of Business Ethics, 38(1/2), 97-108. Retrieved from <http://www.jstor.org/stable/25074781>. Accessed: 29-03-2019.

²⁷ Adler, S. (1977). *Maslow's Need Hierarchy and the Adjustment of Immigrants*. The International Migration Review, 11(4), 444-451. doi:10.2307/2545398. JSTOR, www.jstor.org/stable/2545398. Accessed: 29-03-2019

²⁸ Harold Koontz, (2010), “*Essentials of Management*” Tata McGraw-Hill Education, eighth Edition, p. 291.

²⁹ Charles A. Sennewald, (2003), “*Effective Security Management*” Butterworth-Heinemann, Fourth Edition, p. 120.

³⁰ Yvonne A. Unrau, Peter A. Gabor, Richard M. Grinnell, (2007), “*Evaluation in Social Work: The Art and Science of Practice*” Oxford University Press, p. 125.

³¹ Bob Hepple, “*Rights at Work*” International Institute for Labour Studies Geneva, p. 21.

³² *Ibidem*.

³³ *Ibidem*.

2.2. An Argumentation Related to the “Property Right over the Job”

At this level the argument for drafting termination of employment rules in accordance with the policy of job security depends on defining job as a property right for employees, this means the argument will be switched from the basic human needs in a decent work to the property right itself such as the other assets that humans may own. Likewise the other properties, the job cannot be retaken from the possession of employees unless by a spectrum of legal procedures established by law. Therefore, the same legal safeguards enshrined for real property should be provided to the job as an intangible personal property of employees. This argumentation has been often used to prevent unfair termination of employment because it requires due process in which an employee could not be fired without being notified for the reasons; otherwise, wrongful dismissal seems to be claimed.³⁴

As regards to the ownership of job in favor of employees, the best contribution was made by Collins, when he gave grounds for job security by referring to ‘the property rights in the job for employees,’ and justified the idea that workers should enjoy greater job security, compared to what has been accorded to them based on the doctrine of ‘termination at will’ in the common law system.³⁵ Moreover, he found three levels surrounded to the job security elements by indicating to what can be arisen from property rights; firstly, inappropriate taking

of the job by the employer could be challenged and counted as void where a natural right of reinstatement must be considered, secondly; the forceful taking of the right causes a compensation and a demand for the loss of economic value derived from the right, thirdly; such the right also impliedly requires fair procedure in case of taking the property³⁶.

Some theorists denounce the notion of property rights in the job for employees, and they argue from the side of owner’s right over the capital and physical assets in an enterprise, which entitles owner the right to apply or withdraw those assets from the production process³⁷. An economist’s view has also contributed in that respect considering worker as a small part of production process³⁸. Even though, this view is immoral that makes no difference between the worker and the raw materials of production process, it has influenced judicial assumptions in many cases relating to employment law. This is why counter argument exist at that point, and an assumption of the property rights in job for employers is underpinned by some judicial statements. To understand many UK judges’ attitude, for instances, the assumptions of the property rights of employers in different cases can help to explain an implementation of easier standards to determine fairness of the dismissal, rather than what required by ILO standards³⁹. In *Malik v BCCI*, the court held that “the implied obligation as formulated is apt to cover the great diversity

³⁴ Molz, R. (1987). *Employee Job Rights: Foundation Considerations*. Journal of Business Ethics, 6(6), pp. 449-458. Retrieved from <http://www.jstor.org/stable/25071683> Accessed: 27-03-2019.

³⁵ Collins, H. (1992), *Justice in Dismissal: The Law of Termination of Employment* Oxford, Clarendon Press, p. 88.

³⁶ *Ibidem*.

³⁷ Coleman, J. L. (1984), *Economics and the Law: A Critical Review of the Foundations of the Economic Approach to Law*, Ethics (July), pp. 649-679.

³⁸ Jensen, M. G and W. H. Meckling, (1979), *Rights and Production Functions: An Application to Labor-Managed Firms and Codetermination*, Journal of Business (October), pp. 469-506.

³⁹ Catherine Barnard, Simon Deakin, Gillian Morris, (2004), *The Future of Labour Law Liber Amicorum Sir Bob Hepple QC*, Oxford and Portland Oregon, p. 103.

of situations in which a balance is struck between an employer's interest in managing his business as he sees fit and the employee's interest in not being unfairly and improperly exploited."⁴⁰ On the one hand, the holding in that case seems to be just and quite fair due to considering a balance of the implied term. But on the other hand, the factors of balancing interests indicate that the court's primary consideration for this balance is the property rights of employer in an enterprise as a dominant factor. In practice, the management of business as the employer sees fit will provide a wide scope for managerial prerogative because the ownership of business according to this judicial thinking is vested solely to the employer. The ownership in this context, then, gives the employer the right to manage not only over the physical property, but rather on the entire body of the firm including employees. A further, the right of managing business can be balanced only by not practicing it unfairly to not exploit the employee, which may not require a strict standard to review by the court due to the right of employer in managing his/her business.

From another side of view, a property right as described by legal systems empowers its holder to practice all the core rights; including an exclusive use and prevent others from interference as well as a right to dispose of one's property. These prerogatives of the right holder derived from the nature of the property right, which consists of a spectrum of rights against other people as well as create implied obligations

from the side of other people towards the right holder.⁴¹ This may extend the control of property right owners over employees, particularly, from the sense of an economic outlook that states "the work is done in return for a wage."⁴²

In the context of employment relationship, the impact of the property rights of employers could be used as a basic analysis that underpins an acceptance of employment at will, in which employers are free to enter into contracts, they are also free to terminate contracts⁴³. The concept of termination at will doctrine was absolutely endorsed and governed the rights of employees in many jurisdictions, such as in the U.S. until recent decades, when constraints on firing workers involved in certain court decisions to restrict the will of employers and to minimize the circumstances of worker dismissal⁴⁴. According to the variety of court rulings, therefore, restricting the employer's prerogative to discharge workers has constituted legal exceptions on employment at will. The established exceptions by common law system can be introduced in three main categories; an exception related to 'implied contract,' another one concerned with 'public policy,' and the last one related to 'covenant of good faith and fair dealing.'⁴⁵ What notably important in the exceptions is, the traditional meaning of employment at will doctrine has been explicitly changed in a way requires the employer to be bound by at least not to discharge workers for reasons prohibited by

⁴⁰ [1997] IRLR 462, HL.

⁴¹ Harris, J. W. (1996), *Property and Justice* Oxford: Clarendon Press, p. 130.

⁴² Catherine Barnard, Simon Deakin, Gillian Morris, (2004), *The Future of Labour Law Liber Amicorum Sir Bob Hepple QC*, Oxford and Portland Oregon, p. 104.

⁴³ Cochran, T. G. (1972), *Business in American Life: A History*, (Mcgraw-Hill, New York).

⁴⁴ Miles, T. (2000). *Common Law Exceptions to Employment at Will and U.S. Labor Markets*. *Journal of Law, Economics, & Organization*, 16(1), 74-101. Retrieved from <http://www.jstor.org/stable/3555009> Accessed: 10-04-2019.

⁴⁵ *Ibidem*.

law.⁴⁶ Such exceptions also gradually integrated between employment at will doctrine and the minimum standards of due process in favor of employees. This is simply because the employer will adhere to respect statutory rights of workers in the workplace, and the workers will have a guarantee against arbitrary treatment.⁴⁷

By taking both sides into consideration, the assumption of property rights in the job for employees or for employers, one can notice that the argument from both sides will not go far away from the need of workers to job security. Since the due process is an essential factor of job security to protect workers from being cruelly fired in the job, the discussion from both of the sides indicates the necessity of articulating due process in case of termination of employment. From the assumption of the property rights in the job for employees, it is self-evident that employees must not be separated from their personal assets unless by fair procedures recognized by the law. Any violating of fair procedures by the employer in taking away the job from his/her possession in this case; will lead to an employee's inherent right to reinstatement.

As we have noted, the due process still can be raised from the assumption of the property rights for employers which is one of the basic justification of 'employment at will' wherein employees may get dismissed from the job even for no reason. This is due to several exceptions made on the absolute right of the employer to terminate the

contract. The exceptions are not merely restrictions but provide a level of guarantee and the right of workers to challenge the termination decision within fair procedures. It is also noted that the right of due process here is not based on the employee's property rights but rather depends on the right to be treated fairly in the workplace.

However, the employees' due process rights may be violated either by taking the job as their own property right without legal procedures or by terminating them arbitrarily from the job as a sole property right for the employer. In such a case, the employee can have a valid claim for wrongful termination. These standards lastly will guarantee a high level of job security in articulating the rules of termination of employment contract.

2.3. An Argumentation Related to the Nature of "Employment Contract"

A further discussion to support job security of employees is the nature of the employment contract itself and the way of implementing this contract, in which the parties have unbalanced power. The employment relationship, then, is characterized by "inequality of bargaining power" between the parties.⁴⁸ At the first glance, inequality of bargaining power can be seen at the time of holding the contract, whereas the employer to bargain a contract or agreement has more and better choices than the worker.⁴⁹ A good example of that situation is a common case in which a worker applies for an exclusive job in his/her

⁴⁶ Roehling, M. (2003). *The Employment At-Will Doctrine: Second Level Ethical Issues and Analysis*. Journal of Business Ethics, 47(2), 115-124. Retrieved from <http://www.jstor.org/stable/25075131> Accessed: 11-04-2019.

⁴⁷ Robert K Robinson, Geralyn McClure Franklin. (2015). *Employment Regulation in the Workplace: Basic Compliance for Managers*. Routledge, 2nd edition, p. 350.

⁴⁸ The phrase of "inequality of bargaining power" has been used for the first time by the British philosopher, John Beattie Crozier in his famous book "The Wheel of Wealth: Being a Reconstruction of the Science and Art of Political Economy on the Lines of Modern Evolution" (1906) Part III, chapter 2, 'On the tendency to inequality', p. 377.

⁴⁹ Shell, G. Richard. (1993) *Contracts in the Modern Supreme Court*. California Law Review, vol. 81, no. 2, pp. 431-529. JSTOR, www.jstor.org/stable/3480756. Accessed: 24-04-2019.

specialist at a company, but the company has a great number of applicants with the same specialty. This normally vests greater power to the company in negotiating on the agreement and the chance to reject the deal considering the huge number of applicants in mind. In addition, the company in that bargaining will gain a position seems to be superior for imposing favorable terms and conditions. And then, the worker has no chance to discuss for being reluctantly agreeable on, otherwise, he/she will lose the chance to obtain the job.

The concept of inequality of bargaining power was soon described as a dominant attribute of employment contract, and recognized by a significant number of legal scholars and court's ruling. In describing the notion, Kahn-Freund⁵⁰ wrote,

"The relation between an employer and an isolated employee or worker is typically a relation between a bearer of power and one who is not a bearer of power. In its inception it is an act of submission, in its operation it is a condition of subordination, however much the submission and the subordination may be concealed by the indispensable figment of the legal mind known as the 'contract of employment'. The main object of labour law has been, and ... will always be a countervailing force to counteract the inequality of bargaining power which is inherent and must be inherent in the employment relationship."⁵¹

Kahn-Freund has rightly pointed out that inequality of bargaining power is inherent in the employment contract that paves the way to dominate the power of the

employer over the employee. The condition of subordination in this contract is another application of this fact that restrict the freedom of workers and require them the duty to obey rules made by employers. Therefore, inequality of power also exists between employers and employees in terms of the rights and obligations derived from the contract. The managerial prerogatives always empower employers to command, and the condition of subordination enforces workers to obey the rules that have been established by employers to govern their entities.⁵² Kahn-Freund has also truly reached out to the main objective point of labour law that must focus on the limiting of inequality of power to not be abused in practice.

The fear of misusing inequality of power by the employer apparently exists from the commencement of the contract, if the law does not limit its range. In the first place, it can be seen within arbitrary conditions stipulated in the contract, such as arbitrary conditions for terminating the contract that may compel the worker to not terminate the job even under unusual circumstances. By contrast, the contract may include such terms that allow the employer to terminate the agreement in an easy way without any cost. A further fear in this contract that will likely turn to the reality comes from the dependence, the condition that obliges the worker to compliance the rules and regulations of the employer in an enterprise, otherwise non-obedience may justify terminating an employee from the job.

⁵⁰ Sir Otto Kahn-Freund was a professor in labour law and competitive law at the London School of Economics and the University of Oxford.

⁵¹ Cited by Sue Richardso, (1999) *Reshaping the Labour Market: Regulation, Efficiency and Equality in Australia*, Cambridge University Press, p. 79.

⁵² Rajah, M. (2019). *From Third World to First: A Case Study of Labor Laws in a Changing Singapore*. Labor Law Journal, 70(1), 42–63. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&AuthType=ip,uid&db=lgs&AN=135012247&site=eds>.

Since the employment contract is portrayed by inequality of bargaining power at the time of holding the contract, and then by subordinating condition at the time of operation, the contract needs to be balanced by law. This nature of the contract has been considered for a long time as a justification for the implication of compulsory terms into the employment relationship.⁵³ It has also become a justification for a variety of court's ruling in non-enforcement of the contract, particularly, when the contract includes arbitrary terms against the worker.⁵⁴ This interference by law in the employment relationship is logically and morally accepted because the nature of the contract undermines the freedom of contract, resulting from the principle of agreement must be kept "Pacta Sunt Servanda."⁵⁵ Such the principle basically requires having a proportionate amount of freedom between contractual parties. This is what does not exist in the employment contract, where bargaining power is continuously unequal. From this end, the worker often must be secured by law and enjoy a great level of job security articulated by law, rather than the contract. Otherwise, the possibility for termination at any time, and at the initiative of the employer is extremely high.

3. "Labour Market Flexibility" and Termination of Employment Contract

The term of flexibility in the labour market has emerged along with economic efficiency as an economic approach in response to the rigidity in the market resulted from the policy of job security. Later, the term has become a dominant modern policy considered by the government with respect to labour law.⁵⁶ Generally speaking, the argumentation over labour market flexibility has begun in the 1980s within the European Union as reaction for high levels of unemployment rate in those member states that adopted social protections of employees in a form which obstacle the operation of labour markets.⁵⁷ The policy, then, requires reducing the range of job security provided to workers through a spectrum of protection legislation. In regards to that point, evidence from numerous European countries, has proven that firms under fewer regulations regarding hiring and firing will provide more job opportunities for workers. In the United States, where employers are free –with rare exceptions- to terminate the employment contract, the debate on labour market flexibility was not extremely exist compared to Europe.⁵⁸ This means that Americans were already familiar with the flexible

⁵³ *Ibidem*.

⁵⁴ Frankel, R. (2014). The Arbitration Clause as Super Contract. *Washington University Law Review*, 91(3), 531–587. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&AuthType=ip,uid&db=lgs&AN=95833539&site=eds-live> (Accessed: 23-04-2019).

⁵⁵ Davison-Vecchione, D. (2015) 'Beyond the Forms of Faith: Pacta Sunt Servanda and Loyalty', *German Law Journal*, 16(5), pp. 1163–1190. Available at: <http://search.ebscohost.com/login.aspx?direct=true&AuthType=ip,uid&db=lgs&AN=110647350&site=eds-live> (Accessed: 24 April 2019).

⁵⁶ Rajah, M. (2019). "From Third World to First": A Case Study of Labor Laws in a Changing Singapore. *Labor Law Journal*, 70(1), 42–63. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&AuthType=ip,uid&db=lgs&AN=135012247&site=eds-live> (Accessed: 23-04-2019).

⁵⁷ Simon Deakin, Hannah Reed, *The Contested Meaning of Labour Market Flexibility: Economic Theory and The Discourse of The European Integration*, ESRC Centre for Business Research, University of Cambridge, Working Paper no. 162, p 1. Available at: https://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/working-papers/wp162.pdf (Accessed: 24-04- 2019).

⁵⁸ Carlo Dell Aringa, (1991). *Labour market flexibility: The case of Italy*, International Institute for Labour Studies, P.O. Box 6, CH-1211 Geneva 22, Switzerland.

approach in labour market, and they “believe that a layoffs and a weak job security are the price that must be paid for a healthy economy.”⁵⁹

However, the first question that soon comes to mind is whether the policy of labour market flexibility is an alternative to job security and could replace it in modern labour law. In other words, the question can be asked, does the approach of labour market flexibility inhibit job security? The answer to that question depends on whether the establishment of this policy is to defeat the argumentation of job security policy, or it just to undermine the range of its scope. What is clear from the historical background is the emergence of flexibility in the market did not rely on conflicted argumentations with what discussed for job security. Rather, it relies on some basic economic argumentations, and its approach can be rationalized from a purely economic perspective. One can notice the approach of flexibility in the market is to re-examine the scope of employment protections based on job security, rather than dampen it. From the reasons that led to the construct of this approach, our hypothesis can be more proven, and those reasons could be discussed in the following points;

3.1. Unemployment and Worker Turnover

In the early 80s, the job security regulations have been tested with a variety of challenges considered by economic

perspective.⁶⁰ The challenges have initiated with examining provisions that aim to decrease the ability of firms to hire and fire employees. While severance pay, compensation for dismissal, and other job security regulations were purposely enacted to protect workers and to prevent employers from unfair termination, these regulations have also negatively impacted workers by reducing their ability to find new jobs.⁶¹ The assumption that job security forms to hire and fire workers will reduce employment is widely accepted; by contrast, the demand for labour market flexibility by reviewing these laws is strongly enhanced. This is an outcome of restrictive rules which drive employers to think about costs in case of the dismissal, and taking on new staff.⁶² Then, the result will be, of course, lower levels of job vacancies and labour turnover.

To be more specific, the job security regulations and its negative influence on the employment dynamics can be pointed out by referring to the challenges that countries face while promoting job creation. Such challenges will be arisen along with the application of regulations backed by job security, particularly, the application of regulation of fixed-term contracts, the average costs of notice periods, and severance payment for employees as a compensation for termination.

Some specific research shows that fixed-term contracts are essential for employment growths, since they offer many job opportunities and allow business to respond the unforeseen fluctuations in the

⁵⁹ Houseman, Susan N. *Job Security v. Labor Market Flexibility: Is There a Tradeoff?* Employment Research 1(1): 1, 3. [https://doi.org/10.17848/1075-8445.1\(1\)-1](https://doi.org/10.17848/1075-8445.1(1)-1) (Accessed: 25-04-2019).

⁶⁰ Adriana D. Kugler, (2004). *The Effect of Job Security Regulations on Labor Market Flexibility; Evidence from the Colombian Labor Market Reform*, University of Chicago Press, Volume ISBN: 0-226-32282-3, URL: <http://www.nber.org/chapters/c10070> (Accessed: 27-04-2019).

⁶¹ *Ibidem*.

⁶² Hogan, S., & Ragan, C. (1995). *Job Security and Labour Market Flexibility*. Canadian Public Policy / Analyse De Politiques, 21(2), 174-186. doi:10.2307/3551592. JSTOR, www.jstor.org/stable/3551592. (Accessed: 26-04-2019).

labour market.⁶³ With fixed-term contracts, firms can replace employees on maternity or sick leave, holiday, and hire employees with developed skills to accomplish specific projects.⁶⁴ In addition, this type of contract induces employers to hire unskilled workers, especially young people who have been under struggle to find job, this pave a way for new workers to entry the job easily, allowing them to obtain “experience and giving access to professional networks that will eventually help them to find permanent jobs.”⁶⁵ While fixed-term contracts have these benefits to dynamic the market and to promote job creation, strict regulations on fixed-term contracts as enhanced by job security will distort such benefits and decrease the rate of employment. This is the plausible reason that makes some European countries cope with fixed-term contract even for works that have permanent nature which provide more flexibility in market, such as Denmark, United Kingdom, Germany, and Ireland.⁶⁶

From another side, the average costs of severance pay and notice periods for employees who have been terminated from the job make employers to assess termination costs based on those factors, and to calculate how termination costs are expensive. The assessment of termination costs will be more expensive in those countries where termination rules require more compensation in case of unjustified dismissal. In Spain, for instance, the maximum compensation can be reached to

12 months’ salary of the worker, if the employer can justify the dismissal, while the amount might be increased up to 42 months’ salary when the employer has failed to provide sufficient reasons for dismissal, and turns to be unjustified.⁶⁷ The termination costs, then, are the most fear that employers take it into account in firing employees. The situation could be more difficult in case of redundancy where a group of workers might be fired following the downturn of the economy; this situation increases costs more and more. Consequently, the higher redundancy costs reflect a negative impact on employers’s decision when hiring new staff during an upturn of economy, because firms may think about redundancy costs when they are forced to lay off workers in the future.⁶⁸ This is what curbed hiring new workers and decrease the rate of employment under job security regulations.

The World Bank⁶⁹ released a data titled “Employment Flexibility Index: EU and OECD countries, 2018” reflecting a quantitative comparison of regulatory approaches on employment regulation in EU and OECD countries. The data depends on hiring policy, the ability to access fixed-term contracts, working hours, termination rules and redundancy costs.⁷⁰ It aims to classify EU and OECD countries based on specific criteria of employment flexibility. According to the data, higher ranks of the “Employment Flexibility Index” indicate more flexible labor provisions.

⁶³ ILO. *Flexibilizing Employment: an Overview*. International Labor Office, Geneva, 2003.

⁶⁴ Employment Flexibility Index 2018, Lithuanian Free Market Institute, p. 4.

⁶⁵ *Ibidem* at 5.

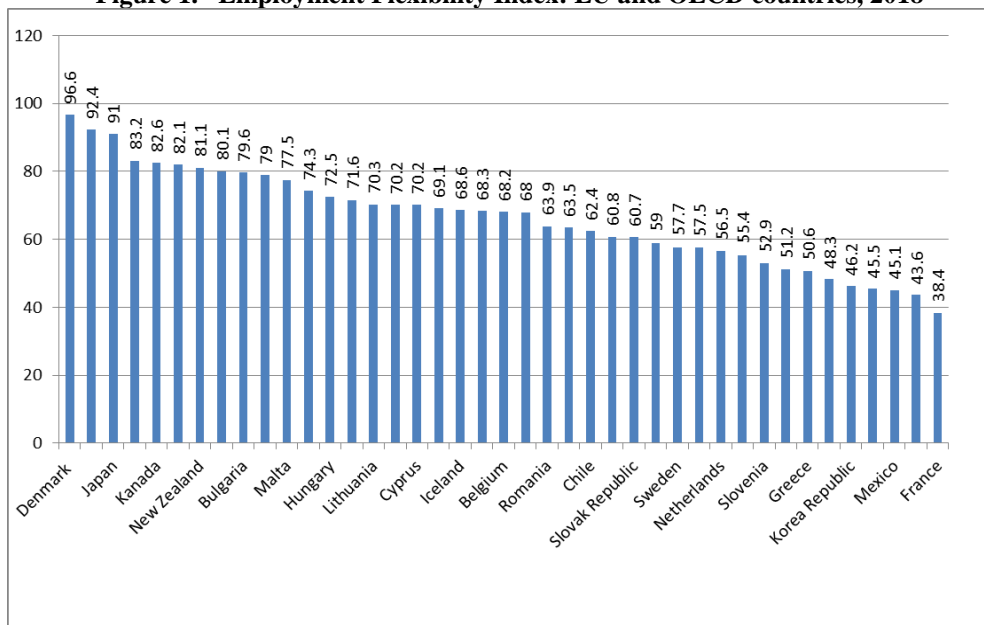
⁶⁶ *Ibidem* at 23.

⁶⁷ European Commission Directorate General Employment, Social Affairs and Equal Opportunities Unit D2, (2006) *Termination of employment relationships Legal situation in the Member States of the European Union*, p. 78.

⁶⁸ Dolado, J., García-Serrano, C., & Jimeno, J. (2002). *Drawing Lessons from the Boom of Temporary Jobs in Spain*. The Economic Journal, 112(480), F270-F295. Retrieved from <http://www.jstor.org/stable/798375> Accessed: 23-05-2019.

⁶⁹ An international organization, consists of five institutions, and mainly aims to aims to reduce poverty in the developing world.

⁷⁰ Employment Flexibility Index 2018, Lithuanian Free Market Institute, pp. 4-5.

Figure 1. "Employment Flexibility Index: EU and OECD countries, 2018"⁷¹

The data ultimately shows that many European Countries have started flexibilize regulatory policies on employment strategy and reduce the level of protection, particularly, in regards to regulation on fixed-term contracts, termination rules and redundancy costs. In the total ranking, Denmark, the United Kingdom, Ireland, Czech Republic, Bulgaria and Switzerland possess from the top ten positions. Meanwhile, some European Countries, especially, France, Luxembourg, and Portugal remain in the lowest level due to retain many restrictive rules on hiring and firing policy with high level of protections provided to employees.

By taking Denmark as a sample, it is noted that it ranked first for labor legislation flexibility, mostly due to the following reasons:

- Fixed-term contracts are absolutely allowed even for permanent works, there are

also no limitations on the duration of such contracts;

- No compulsory rules apply on minimum wage;
- Redundancy is allowed based on the law and does not require any costs;
- Employers are not forced to retain or reassign workers in cases of redundancy;
- No requirements exist for employers to inform and to get approval from the competent authorities so they can dismiss employees up to nine people⁷².

In contrast, by taking France as a European Country that maintains lowest rank from the perspective of flexibility approach, the reasons mainly are underlining in the following points:

- Fixed-term contracts are absolutely banned for permanent tasks, it is merely allowed for temporary tasks;
- Even for temporary tasks, the duration and the renewal of fixed-term contracts are

⁷¹ *Ibidem* at 6.

⁷² *Ibidem* at 8.

restricted up to maximum 18 months;

- Employers are required to retrain or reassign workers before dismissal;
- Mandatory rules are in force to inform or consult a competent authorities before terminating a group of nine redundant workers;
- Employer are also restricted by priority rules in case of reemployment after redundancy;
- The average costs of notice period is provided by law which is equivalent to “8.7 salary weeks for workers with 5 or 10 years of tenure”;
- Severance pay also exist for redundant workers equivalent to 8.7 salary weeks for workers with 5 or 10 years of tenure.⁷³

3.2. Dualism in Employment Composition

As we have seen in the first level, how job security provisions minimize job creation and then negatively impact on the rate of employment by limiting the ability of workers to access new jobs. Further debate in this area has been made from the corner of job security provisions and its negative impact on the employment structure as a whole. The structure of employment under job security will be gradually divided between young and old workers in a manner that bias employment in favor of old ones.⁷⁴ This impliedly means that job security

provisions may stand against young workers and discriminatory treat the different categories of workers in the outcome.

Researches show that negative influence of job security on youth employment refers to the linkage between termination costs and tenure.⁷⁵ A significant number of literatures examine the impact of job security on youth employment from this regards. Lazear (1990) points out to some evidence that prove inverse relationship between job security provisions and the rate of employment from young-to-older workers⁷⁶. Later on, Nickell (1997) adds further evidence on employment partiality towards young workers in countries where job security provided in a high level.⁷⁷ Bertola, Blau, and Kahn (2002) also insist on that the rate of employment under job security will be decreased for young workers relative to other groups.⁷⁸

The fact that the linkage between terminations costs and tenure bias employment against young workers can be tested in many countries where the period of notice and severance pay increase with job tenure. The test may consider how termination costs increased in such countries based on the seniority of workers and give more protection to senior workers. On the other hand, this means that young workers, who have shorter tenure relative to others in firms, are less protected. In practice, firms always tend to fire workers with a minimum costs, especially, when firms are reluctant to

⁷³ *Ibidem* at 17.

⁷⁴ Carmen, P., & Claudio, E., (2007), “Job Security and the Age Composition of Employment: Evidence from Chile”, *Estudios de Economía*. Vol. 34 - N° 2, Diciembre 2007. Págs. 109-139. Available at: <https://scielo.conicyt.cl/pdf/ede/v34n2/art01.pdf?fbclid=IwAR229HF6mJKwa92CPXIh9OtrhQIRT03RR0LnYWyZnaRKvV7uDBbrG7DGTI> Accessed: 24-05-2019.

⁷⁵ *Ibidem*.

⁷⁶ Avner, B., & Anat, L., (1993) “Job Search by Employed Workers: The Effects of Restrictions” World Bank Publications, p. 15.

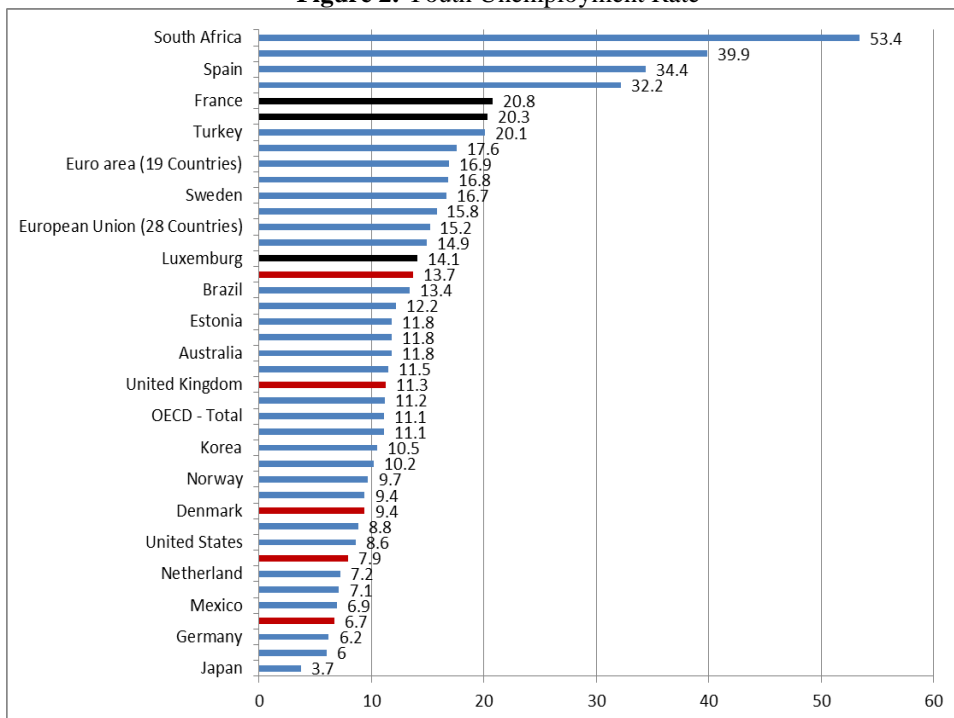
⁷⁷ Edited by Tito, B., Agar, B., & Lars, C., (2001), “The Role of Unions in the Twenty-first Century: A Report for the Fondazione Rodolfo Debenedetti”, Oxford University Press, p. 205.

⁷⁸ Francine D. Blau, Lawrence M. Kahn, (2002) “At Home and Abroad: U.S. Labor Market Performance in International Perspective”, Russell Sage Foundation, p. 149.

downsize the employment during downturn. The consideration of minimum costs, of course, inspires firms to terminate workers with shorter tenure who cost less severance payment. Thus, termination costs based on tenure and seniority rules as designed

pursuant to job security requirements are likely to have a contribution in increasing the potentiality of dismissal for young workers. The following data may test and prove what have been said in this section.

Figure 2. Youth Unemployment Rate⁷⁹



The data proves the fact that job security provisions bias employment in favor of old workers and increase the rate of youth unemployment, considering two groups of European counties in conjunction with figure 1. Even though, the data indicates the rate of youth unemployment in 41 member states of OECD, we only focus on two small groups of states that deemed to be relevant with our purpose in this study.

The first group (Red colored) includes Denmark, the United Kingdom, Ireland, Czech Republic and Switzerland in the top ten ranks of employment flexibility, particularly, in respect of redundancy and termination costs, while the second group (Black colored) includes France, Luxemburg, and Portugal that have the lowest rank of employment flexibility according to figure 1.

⁷⁹ Annual data released by OECD in 2018 on youth unemployment rate in OECD countries. Available at: <https://data.oecd.org/unemp/youth-unemployment-rate.htm#indicator-chart> Accessed: 27-05-2019.

Table 1. Youth unemployment rate in the first group countries in 2018

Flexible countries in figure 1.	Youth unemployment rate according to figure 2.
Denmark	9.4 %
United Kingdom	11.3 %
Ireland	13.7 %
Czech Republic	6.7 %
Switzerland	7.9 %

Table 2. Youth unemployment rate in the second group countries in 2018

Rigid countries in figure 1.	Youth unemployment rate according to figure 2.
France	20.8 %
Luxemburg	20.3 %
Portugal	14.1 %

Generally speaking, the comparison between table 1 & 2 proves that unemployment rate among young workers is much higher in second group countries where job security provisions are highly valuable and requires too much costs in case of terminating workers based on tenure. Comparatively, the rates get decreased in the first group countries in which the flexibility approach restricts the provisions of job security. Ultimately, this proves the hypothesis telling that job security regulations bring the dualism in employment composition by treating young and old workers in different manner.

Conclusion

Based on what have been discussed in this paper, it is evident that the policy of job security and labour market flexibility both have notably impacted on the articulation of termination rules of employment contract in most countries. The rigidity or flexibility of termination rules refers to the state preference on adaptation one of these policies and its argumentations. It is also evident that both policies have been emerging out as reaction to the social needs and economic changes in the market. The

policy of job security gets involved with termination rules and has elaborated its requirements along with human rights issue of employees at work. The notion of human rights at work initiated from the workers' desire to have decent work, where they should be treated as a human being, and to not be abused by the employer's prerogatives. This is what brought strict requirements for termination of employment in order to prevent the employers from unfair termination. While some court's ruling insists on employees' fundamental right in retaining their job, the application of some job security provisions (not all) may clash with purposeful expectations of enterprises in reducing unemployment and providing equal opportunities for workers regardless the age. With taking the both sides of argumentations into consideration, this paper finds and suggests:

1. The policy of job security and labour market flexibility cannot be introduced as counter policies each against other. They rather indicate governmental reactions under different circumstances, where the adaptation of each one of them is necessary for answering those circumstances in that stage.

2. The basic argumentations of job security are quite different in logic and principles from the augmentations that brought the policy of flexibility into force. The policy of job security, mainly, depends on the human rights argumentations of workers, which require protection rules for workers, so they could not be terminated from the job unfairly, whereas, the flexibility in the market depends on the argumentations of labour market fluctuations with the application of job security provisions.
3. The policy of job security might not be abandoned by the government due its connection with the employees' fundamental rights at work and the nature of employment contract. It rather should be balanced by the policy of labour market flexibility in scope of its application.
4. In order to making a balance between the both policies, it is a governmental function relying on the relevant institutional reports to specify which provisions of job security are the most controversial and restrictive rules in the market that should be reduced to a lower degree.
5. Termination costs in the various labour laws inside and outside European countries are one of the most controversial provisions from the perspective of labour market flexibility. It is suggested by this paper to be removed or at least to be reduced till the degree that would be acceptable and does not rigid the labour market activity, as described in many countries through empirical data.
6. The best model of termination rules of employment contract is a balanced model, in which the employees feel their basic rights are safe and they can struggle the employers for unfair termination or wrongful dismissal, meanwhile they have the ability to access flexible market and have the chance to find a job based on the equal requirements which do not benefit a specific group of workers.

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