Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

GOYA, INC.,
Petitioner,

- *versus* -

GOYA, INC. EMPLOYEES UNION-FFW,
Respondent.

G.R. No. 170054

Present:

VELASCO, JR., *J., Chairperson,*
PERALTA,
ABAD,
MENDOZA, and
LEONEN, *JJ.*

Promulgated:

January 21, 2013

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D E C I S I O N

PERALTA, *J.*:

This petition for review on *certiorari* under Rule 45 of the Rules of Civil Procedure seeks to reverse and set aside the June 16, 2005 Decision[1] and October 12, 2005 Resolution[2] of the Court of Appeals in CA-G.R. SP No. 87335, which sustained the October 26, 2004 Decision[3] of Voluntary Arbitrator Bienvenido E. Laguesma, the dispositive portion of which reads:

> WHEREFORE, judgment is hereby rendered declaring that the Company is NOT guilty of unfair labor practice in engaging the services of PESO.
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> The company is, however, directed to observe and comply with its commitment as it pertains to the hiring of casual employees when necessitated by business circumstances.[4]

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1 Penned by Associate Justice Eugenio S. Labitoria, with Associate Justices Eliezer R. de los Santos and Arturo D. Brion (now a member of this Court) concurring; *rollo*, pp. 33-42.
2 *Id.* at 43-44.
3 CA *rollo*, pp. 24-29.
4 *Id.* at 29.

The facts are simple and appear to be undisputed.

Sometime in January 2004, petitioner Goya, Inc. (*Company*), a domestic corporation engaged in the manufacture, importation, and wholesale of top quality food products, hired contractual employees from PESO Resources Development Corporation (PESO) to perform temporary and occasional services in its factory in Parang, Marikina City. This prompted respondent Goya, Inc. Employees Union–FFW (*Union*) to request for a grievance conference on the ground that the contractual workers do not belong to the categories of employees stipulated in the existing Collective Bargaining Agreement (CBA).[5] When the matter remained unresolved, the grievance was referred to the National Conciliation and Mediation Board (NCMB) for voluntary arbitration.

During the hearing on July 1, 2004, the Company and the Union manifested before Voluntary Arbitrator (VA) Bienvenido E. Laguesma that amicable settlement was no longer possible; hence, they agreed to submit for resolution the solitary issue of "[w]hether or not [the Company] is guilty of unfair labor acts in engaging the services of PESO, a third party service provider[,] under the existing CBA, laws[,] and jurisprudence."[6] Both parties thereafter filed their respective pleadings.

The Union asserted that the hiring of contractual employees from PESO is not a management prerogative and in gross violation of the CBA tantamount to unfair labor practice (ULP). It noted that the contractual workers engaged have been assigned to work in positions previously handled by regular workers and Union members, in effect violating Section 4, Article I of the CBA, which provides for three categories of employees in the Company, to wit:

> Section 4. Categories of Employees.– The parties agree on the following categories of employees:
>
> (a) Probationary Employee. – One hired to occupy a regular rank-and-file position in the Company and is serving a probationary period. If the probationary employee is hired or comes from outside the Company (non-Goya, Inc. employee), he shall be required to undergo a probationary period of six (6) months, which period, in the sole judgment of management, may be shortened if the employee has already acquired the knowledge or skills required of the job. If the employee is hired from the casual pool and has worked in the same position at any time during the past two (2) years, the probationary period shall be three (3) months.

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5 *Id*. at 62.

6 *Id*. at 30.

> (b) Regular Employee. – An employee who has satisfactorily completed his probationary period and automatically granted regular employment status in the Company.
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> (c) Casual Employee, – One hired by the Company to perform occasional or seasonal work directly connected with the regular operations of the Company, or one hired for specific projects of limited duration not connected directly with the regular operations of the Company.

It was averred that the categories of employees had been a part of the CBA since the 1970s and that due to this provision, a pool of casual employees had been maintained by the Company from which it hired workers who then became regular workers when urgently necessary to employ them for more than a year. Likewise, the Company sometimes hired probationary employees who also later became regular workers after passing the probationary period. With the hiring of contractual employees, the Union contended that it would no longer have probationary and casual employees from which it could obtain additional Union members; thus, rendering inutile Section 1, Article III (Union Security) of the CBA, which states:

> Section 1. Condition of Employment. – As a condition of continued employment in the Company, all regular rank-and-file employees shall remain members of the Union in good standing and that new employees covered by the appropriate bargaining unit shall automatically become regular employees of the Company and shall remain members of the Union in good standing as a condition of continued employment.

The Union moreover advanced that sustaining the Company's position would easily weaken and ultimately destroy the former with the latter's resort to retrenchment and/or retirement of employees and not filling up the vacant regular positions through the hiring of contractual workers from PESO, and that a possible scenario could also be created by the Company wherein it could "import" workers from PESO during an actual strike.

In countering the Union's allegations, the Company argued that: (a) the law expressly allows contracting and subcontracting arrangements through Department of Labor and Employment (DOLE) Order No. 18-02; (b) the engagement of contractual employees did not, in any way, prejudice the Union, since not a single employee was terminated and neither did it result in a reduction of working hours nor a reduction or splitting of the bargaining unit; and (c) Section 4, Article I of the CBA merely provides for the definition of the categories of employees and does not put a limitation on the Company's right to engage the services of job contractors or its

management prerogative to address temporary/occasional needs in its operation.

On October 26, 2004, VA Laguesma dismissed the Union's charge of ULP for being purely speculative and for lacking in factual basis, but the Company was directed to observe and comply with its commitment under the CBA. The VA opined:

> We examined the CBA provision [Section 4, Article I of the CBA] allegedly violated by the Company and indeed the agreement prescribes three (3) categories of employees in the Company and provides for the definition, functions and duties of each. Material to the case at hand is the definition as regards the functions of a casual employee described as follows:
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> > *Casual Employee* – One hired by the COMPANY to perform occasional or seasonal work directly connected with the regular operations of the COMPANY, or one hired for specific projects of limited duration not connected directly with the regular operations of the COMPANY.
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> While the foregoing agreement between the parties did eliminate management's prerogative of outsourcing parts of its operations, it serves as a limitation on such prerogative particularly if it involves functions or duties specified under the aforequoted agreement. It is clear that the parties agreed that in the event that the Company needs to engage the services of additional workers who will perform "occasional or seasonal work directly connected with the regular operations of the COMPANY," or "specific projects of limited duration not connected directly with the regular operations of the COMPANY", the Company can hire casual employees which is akin to contractual employees. If we note the Company's own declaration that PESO was engaged to perform "temporary or occasional services" (*See* the Company's Position Paper, at p. 1), then it should have directly hired the services of casual employees rather than do it through PESO.
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> It is evident, therefore, that the engagement of PESO is not in keeping with the intent and spirit of the CBA provision in question. It must, however, be stressed that the right of management to outsource parts of its operations is not totally eliminated but is merely limited by the CBA. Given the foregoing, the Company's engagement of PESO for the given purpose is indubitably a violation of the CBA.[7]

While the Union moved for partial reconsideration of the VA Decision,[8] the Company immediately filed a petition for review[9] before the Court of Appeals (CA) under Rule 43 of the Revised Rules of Civil Procedure to set aside the directive to observe and comply with the CBA commitment pertaining to the hiring of casual employees when necessitated

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7 *Id*. at 27-28.
8 *Id*. at 70.
9 *Id*. at 6-18.

by business circumstances. Professing that such order was not covered by the sole issue submitted for voluntary arbitration, the Company assigned the following errors:

> THE HONORABLE VOLUNTARY ARBITRATOR EXCEEDED HIS POWER WHICH WAS EXPRESSLY GRANTED AND LIMITED BY BOTH PARTIES IN RULING THAT THE ENGAGEMENT OF PESO IS NOT IN KEEPING WITH THE INTENT AND SPIRIT OF THE CBA.[10]
>
> THE HONORABLE VOLUNTARY ARBITRATOR COMMITTED A PATENT AND PALPABLE ERROR IN DECLARING THAT THE ENGAGEMENT OF PESO IS NOT IN KEEPING WITH THE INTENT AND SPIRIT OF THE CBA.[11]

On June 16, 2005, the CA dismissed the petition. In dispensing with the merits of the controversy, it held:

> This Court does not find it arbitrary on the part of the Hon. Voluntary Arbitrator in ruling that "the engagement of PESO is not in keeping with the intent and spirit of the CBA." The said ruling is interrelated and intertwined with the sole issue to be resolved that is, "Whether or not [the Company] is guilty of unfair labor practice in engaging the services of PESO, a third party service provider[,] under existing CBA, laws[,] and jurisprudence." Both issues concern the engagement of PESO by [the Company] which is perceived as a violation of the CBA and which constitutes as unfair labor practice on the part of [the Company]. This is easily discernible in the decision of the Hon. Voluntary Arbitrator when it held:
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> > x x x x While the engagement of PESO is in violation of Section 4, Article I of the CBA, it does not constitute unfair labor practice as it (sic) not characterized under the law as a gross violation of the CBA. Violations of a CBA, except those which are gross in character, shall no longer be treated as unfair labor practice. Gross violations of a CBA means flagrant and/or malicious refusal to comply with the economic provisions of such agreement. x x x
>
> Anent the second assigned error, [the Company] contends that the Hon. Voluntary Arbitrator erred in declaring that the engagement of PESO is not in keeping with the intent and spirit of the CBA. [The Company] justified its engagement of contractual employees through PESO as a management prerogative, which is not prohibited by law. Also, it further alleged that no provision under the CBA limits or prohibits its right to contract out certain services in the exercise of management prerogatives.
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> Germane to the resolution of the above issue is the provision in their CBA with respect to the categories of the employees:

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10 *Id*. at 10.

11 *Id*. at 13.

> x x x x
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> A careful reading of the above-enumerated categories of employees reveals that the PESO contractual employees do not fall within the enumerated categories of employees stated in the CBA of the parties. Following the said categories, [the Company] should have observed and complied with the provision of their CBA. Since [the Company] had admitted that it engaged the services of PESO to perform temporary or occasional services which is akin to those performed by casual employees, [the Company] should have tapped the services of casual employees instead of engaging PESO.
>
> In justifying its act, [the Company] posits that its engagement of PESO was a management prerogative. It bears stressing that a management prerogative refers to the right of the employer to regulate all aspects of employment, such as the freedom to prescribe work assignments, working methods, processes to be followed, regulation regarding transfer of employees, supervision of their work, lay-off and discipline, and dismissal and recall of work, presupposing the existence of employer-employee relationship. On the basis of the foregoing definition, [the Company's] engagement of PESO was indeed a management prerogative. This is in consonance with the pronouncement of the Supreme Court in the case of Manila Electric Company vs. Quisumbing where it ruled that contracting out of services is an exercise of business judgment or management prerogative.
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> This management prerogative of contracting out services, however, is not without limitation. In contracting out services, the management must be motivated by good faith and the contracting out should not be resorted to circumvent the law or must not have been the result of malicious arbitrary actions. In the case at bench, the CBA of the parties has already provided for the categories of the employees in [the Company's] establishment. [These] categories of employees particularly with respect to casual employees [serve] as limitation to [the Company's] prerogative to outsource parts of its operations especially when hiring contractual employees. As stated earlier, the work to be performed by PESO was similar to that of the casual employees. With the provision on casual employees, the hiring of PESO contractual employees, therefore, is not in keeping with the spirit and intent of their CBA. (Citations omitted)[12]

The Company moved to reconsider the CA Decision,[13] but it was denied;[14] hence, this petition.

Incidentally, on July 16, 2009, the Company filed a Manifestation[15] informing this Court that its stockholders and directors unanimously voted to shorten the Company's corporate existence only until June 30, 2006, and that the three-year period allowed by law for liquidation of the Company's

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12 *Id*. at 83-88.
13 *Id*. at 91-97.
14 Resolution dated October 12, 2005; *id.* at 100-101.
15 *Rollo*, pp. 145-157.

affairs already expired on June 30, 2009. Referring to *Gelano v. Court of Appeals*,[16] *Public Interest Center, Inc. v. Elma*,[17] and *Atienza v. Villarosa*,[18] it urged Us, however, to still resolve the case for future guidance of the bench and the bar as the issue raised herein allegedly calls for a clarification of a legal principle, specifically, whether the VA is empowered to rule on a matter not covered by the issue submitted for arbitration.

Even if this Court would brush aside technicality by ignoring the supervening event that renders this case moot and academic[19] due to the permanent cessation of the Company's business operation on June 30, 2009, the arguments raised in this petition still fail to convince Us.

We confirm that the VA ruled on a matter that is covered by the sole issue submitted for voluntary arbitration. Resultantly, the CA did not commit serious error when it sustained the ruling that the hiring of contractual employees from PESO was not in keeping with the intent and spirit of the CBA. Indeed, the opinion of the VA is germane to, or, in the words of the CA, "interrelated and intertwined with," the sole issue submitted for resolution by the parties. This being said, the Company's invocation of Sections 4 and 5, Rule IV[20] and Section 5, Rule VI[21] of the

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16 No. L-39050, February 24, 1981, 103 SCRA 90; 190 Phil. 814 (1981).

17 G.R. No. 138965, June 30, 2006, 494 SCRA 53; 526 Phil. 550 (2006).

18 G.R. No. 161081, May 10, 2005, 458 SCRA 385; 497 Phil. 689 (2005).

19 In *David v. Macapagal-Arroyo*, G.R. Nos. 171396, 171409, 171485, 171483, 171400, 171489, and 171424 , May 3, 2006, 489 SCRA 160, 213-215; 522 Phil. 705, 753-754 (2006), the Court held:

> A moot and academic case is one that ceases to present a justiciable controversy by virtue of supervening events, so that a declaration thereon would be of no practical use or value. Generally, courts decline jurisdiction over such case or dismiss it on ground of mootness.
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> x x x x
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> The "moot and academic" principle is not a magical formula that can automatically dissuade the courts in resolving a case. Courts will decide cases, otherwise moot and academic, if: *first*, there is a grave violation of the Constitution; *second*, the exceptional character of the situation and the paramount public interest is involved; *third*, when constitutional issue raised requires formulation of controlling principles to guide the bench, the bar, and the public; and *fourth*, the case is capable of repetition yet evading review.

20 Rule IV, Sections 4 and 5 state:

Section 4. ***When Jurisdiction is Exercised.*** The voluntary arbitrator shall exercise jurisdiction over specific case/s:

1) Upon receipt of a submission agreement duly signed by both parties.
2) Upon receipt of the notice to arbitrate when there is refusal from one party;
3) Upon receipt of an appointment/designation as voluntary arbitrator by the board in either of the following circumstances:
   3.1. In the event that parties fail to select an arbitrator; or
   3.2. In the absence of a named arbitrator in the CBA and the party upon whom the notice to arbitrate is served does not favorably reply within seven days from receipt of such notice.

Section 5. ***Contents of submission agreement.*** The submission agreement shall contain, among others, the following:

1. The agreement to submit to arbitration;
2. The specific issue/s to be arbitrated;
3. The name of the arbitrator;
4. The names, addresses and contact numbers of the parties;
5. The agreement to perform or abide by the decision. (Emphasis supplied)

21 Rule VI, Sec. 5 provides:

Revised Procedural Guidelines in the Conduct of Voluntary Arbitration Proceedings dated October 15, 2004 issued by the NCMB is plainly out of order.

Likewise, the Company cannot find solace in its cited case of *Ludo & Luym Corporation v. Saornido*.[22] In *Ludo*, the company was engaged in the manufacture of coconut oil, corn starch, glucose and related products. In the course of its business operations, it engaged the arrastre services of CLAS for the loading and unloading of its finished products at the wharf. The arrastre workers deployed by CLAS to perform the services needed were subsequently hired, on different dates, as Ludo's regular rank-and-file employees. Thereafter, said employees joined LEU, which acted as the exclusive bargaining agent of the rank-and-file employees. When LEU entered into a CBA with Ludo, providing for certain benefits to the employees (the amount of which vary according to the length of service rendered), it requested to include in its members' period of service the time during which they rendered arrastre services so that they could get higher benefits. The matter was submitted for voluntary arbitration when Ludo failed to act. Per submission agreement executed by both parties, the sole issue for resolution was the date of regularization of the workers. The VA Decision ruled that: (1) the subject employees were engaged in activities necessary and desirable to the business of Ludo, and (2) CLAS is a labor-only contractor of Ludo. It then disposed as follows: (a) the complainants were considered regular employees six months from the first day of service at CLAS; (b) the complainants, being entitled to the CBA benefits during the regular employment, were awarded sick leave, vacation leave, and annual wage and salary increases during such period; (c) respondents shall pay attorney's fees of 10% of the total award; and (d) an interest of 12% per annum or 1% per month shall be imposed on the award from the date of promulgation until fully paid. The VA added that all separation and/or retirement benefits shall be construed from the date of regularization subject only to the appropriate government laws and other social legislation. Ludo filed a motion for reconsideration, but the VA denied it. On appeal, the CA affirmed *in toto* the assailed decision; hence, a petition was brought before this Court raising the issue, among others, of whether a voluntary arbitrator can award benefits not claimed in the submission agreement. In denying the petition, We ruled:

> Generally, the arbitrator is expected to decide only those questions expressly delineated by the submission agreement. Nevertheless, the arbitrator can assume that he has the necessary power to make a final settlement since arbitration is the final resort for the adjudication of disputes. The succinct reasoning enunciated by the CA in support of its

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Section 5. ***Simplification of Arbitrable Issue/s.*** The arbitrator must see to it that he understands clearly the issue/s submitted to arbitration. If, after conferring with the parties, he finds the necessity to clarify/simplify the issue/s, he shall assist the parties in the reformulation of the same.

[22] G.R. No. 140960, January 20, 2003, 395 SCRA 45l; 443 Phil. 554 (2003).

holding, that the Voluntary Arbitrator in a labor controversy has jurisdiction to render the questioned arbitral awards, deserves our concurrence, thus:

> In general, the arbitrator is expected to decide those questions expressly stated and limited in the submission agreement. However, since arbitration is the final resort for the adjudication of disputes, the arbitrator can assume that he has the power to make a final settlement. Thus, assuming that the submission empowers the arbitrator to decide whether an employee was discharged for just cause, the arbitrator in this instance can reasonably assume that his powers extended beyond giving a yes-or-no answer and included the power to reinstate him with or without back pay.
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> In one case, the Supreme Court stressed that "xxx the Voluntary Arbitrator had plenary jurisdiction and authority to interpret the agreement to arbitrate and to determine the scope of his own authority subject only, in a proper case, to the certiorari jurisdiction of this Court. The Arbitrator, as already indicated, viewed his authority as embracing not merely the determination of the abstract question of whether or not a performance bonus was to be granted but also, in the affirmative case, the amount thereof.
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> By the same token, the issue of regularization should be viewed as two-tiered issue. While the submission agreement mentioned only the determination of the date or regularization, law and jurisprudence give the voluntary arbitrator enough leeway of authority as well as adequate prerogative to accomplish the reason for which the law on voluntary arbitration was created – speedy labor justice. It bears stressing that the underlying reason why this case arose is to settle, once and for all, the ultimate question of whether respondent employees are entitled to higher benefits. To require them to file another action for payment of such benefits would certainly undermine labor proceedings and contravene the constitutional mandate providing full protection to labor.[23]

Indubitably, *Ludo* fortifies, not diminishes, the soundness of the questioned VA Decision. Said case reaffirms the plenary jurisdiction and authority of the voluntary arbitrator to interpret the CBA and to determine the scope of his/her own authority. Subject to judicial review, the leeway of authority as well as adequate prerogative is aimed at accomplishing the rationale of the law on voluntary arbitration – speedy labor justice. In this case, a complete and final adjudication of the dispute between the parties necessarily called for the resolution of the related and incidental issue of whether the Company still violated the CBA but without being guilty of

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[23] *Ludo & Luym Corporation v. Saornido, supra* note 22, at 459; at 562-563. (Citations omitted.)

ULP as, needless to state, ULP is committed only if there is *gross* violation of the agreement.

Lastly, the Company kept on harping that both the VA and the CA conceded that its engagement of contractual workers from PESO was a valid exercise of management prerogative. It is confused. To emphasize, declaring that a particular act falls within the concept of management prerogative is significantly different from acknowledging that such act is a valid *exercise* thereof. What the VA and the CA correctly ruled was that the Company's act of contracting out/outsourcing is within the purview of management prerogative. Both did not say, however, that such act is a valid exercise thereof. Obviously, this is due to the recognition that the CBA provisions agreed upon by the Company and the Union delimit the free exercise of management prerogative pertaining to the hiring of contractual employees. Indeed, the VA opined that "the right of the management to outsource parts of its operations is not totally eliminated but is merely limited by the CBA," while the CA held that "[t]his management prerogative of contracting out services, however, is not without limitation. x x x [These] categories of employees particularly with respect to casual employees [serve] as limitation to [the Company's] prerogative to outsource parts of its operations especially when hiring contractual employees."

A collective bargaining agreement is the law between the parties:

> It is familiar and fundamental doctrine in labor law that the CBA is the law between the parties and they are obliged to comply with its provisions. We said so in *Honda Phils., Inc. v. Samahan ng Malayang Manggagawa sa Honda*:
>
> > A collective bargaining agreement or CBA refers to the negotiated contract between a legitimate labor organization and the employer concerning wages, hours of work and all other terms and conditions of employment in a bargaining unit. As in all contracts, the parties in a CBA may establish such stipulations, clauses, terms and conditions as they may deem convenient provided these are not contrary to law, morals, good customs, public order or public policy. Thus, where the CBA is clear and unambiguous, it becomes the law between the parties and compliance therewith is mandated by the express policy of the law.
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> Moreover, if the terms of a contract, as in a CBA, are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of their stipulations shall control. x x x.[24]

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[24] *TSPIC Corporation v. TSPIC Employees Union (FFW)*, G.R. No. 163419, February 13, 2008, 545 SCRA 215, 225. (Citations omitted.)

In this case, Section 4, Article I (on categories of employees) of the CBA between the Company and the Union must be read in conjunction with its Section 1, Article III (on union security). Both are interconnected and must be given full force and effect. Also, these provisions are clear and unambiguous. The terms are explicit and the language of the CBA is not susceptible to any other interpretation. Hence, the literal meaning should prevail. As repeatedly held, the exercise of management prerogative is not unlimited; it is subject to the limitations found in law, collective bargaining agreement or the general principles of fair play and justice.[25] Evidently, this case has one of the restrictions – the presence of specific CBA provisions – unlike in *San Miguel Corporation Employees Union-PTGWO v. Bersamira*,[26] *De Ocampo v. NLRC*,[27] *Asian Alcohol Corporation v. NLRC*,[28] and *Serrano v. NLRC*[29] cited by the Company. To reiterate, the CBA is the norm of conduct between the parties and compliance therewith is mandated by the express policy of the law.[30]

WHEREFORE, the petition is **DENIED**. The assailed June 16, 2005 Decision, as well as the October 12, 2005 Resolution of the Court of Appeals, which sustained the October 26, 2004 Decision of the Voluntary Arbitrator, are hereby **AFFIRMED**.

SO ORDERED.

DIOSDADO M. PERALTA
Associate Justice

WE CONCUR:

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson

ROBERTO A. ABAD
Associate Justice

JOSE CATRAL MENDOZA
Associate Justice

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25 *DOLE Philippines, Inc. v. Pawis ng Makabayang Obrero*, G.R. No. 146650, January 13, 2003, 395 SCRA 112, 116; 443 Phil. 143, 149 (2003).

26 G.R. No. 87700, June 13, 1990, 186 SCRA 496; 264 Phil. 875 (1990).

27 G.R. No. 101539, September 4, 1992, 213 SCRA 652.

28 G.R. No. 131108, March 25, 1999, 305 SCRA 416; 364 Phil. 912 (1999).

29 G.R. No. 117040, January 27, 2000, 323 SCRA 445; 380 Phil. 416 (2000).

30 *DOLE Philippines, Inc. v. Pawis ng Makabayang Obrero, supra* note 25, at 150.

MARVIC MARIO VICTOR F. LEONEN
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

PRESBITERO J. VELASCO, JR.
Associate Justice
Chairperson, Third Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO
Chief Justice