Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

COCA-COLA FEMSA PHILIPPINES, Petitioner,	**G.R. No. 232669** Present:
- versus -	CARPIO, *J.*, Chairperson, PERLAS-BERNABE, CAGUIOA, J. REYES, JR., and LAZARO-JAVIER, *JJ.*
RICARDO S. MACAPAGAL, ENER A. MANARANG, REMIGIO E. MERCADO, DANILO Z. FABIAN, ALBERT P. TAN, EDUARDO N. ABULENCIA, JR., REYNALDO G. PINEDA, ERIC A. ABAD SANTOS, WILFREDO C. DELA CRUZ, MANUEL T. CAPARAS, EDGARDO R. NAVARRO, NESTOR L. RAYO, and INOCENCIO M. ARAO, Respondents.	Promulgated: 29 JUL 2019

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DECISION

PERLAS-BERNABE, *J.*:

Assailed in this petition for review on *certiorari* [1] filed by petitioner Coca-Cola Femsa Philippines, Inc. are the Decision[2] dated December 12, 2016 and the Resolution[3] dated June 30, 2017 of the Court of Appeals in CA-G.R. SP No. 145345, which reversed the Decision[4] dated December 14, 2015 and the Resolution[5] dated January 29, 2016 of the

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1 *Rollo*, Vol. I, pp. 35-92.
2 Id. at 104-120. Penned by Associate Justice Ma. Luisa C. Quijano-Padilla with Associate Justices Normandie B. Pizarro and Samuel H. Gaerlan, concurring.
3 Id. at 122-125.
4 *Rollo*, Vol. II, pp. 943-963. Penned by Commissioner Romeo L. Go with Presiding Commissioner Gerardo C. Nograles and Commissioner Gina F. Cenit-Escoto, concurring.
5 Id. at 1006-1007.

National Labor Relations Commission (NLRC) in NLRC LAC No. 07-001679-14 upholding the validity of the redundancy program, as well as the resulting dismissals from employment, and reinstated the Decision[6] dated February 28, 2014 of the Labor Arbiter (LA) in NLRC Case No. RAB III-11-19515-12.

The Facts

The thirteen (13) respondents[7] were employed by petitioner Coca-Cola Femsa Philippines, Inc.[8] (Company) at its manufacturing plant in San Fernando City, Pampanga, as part of the Product Availability Group (PAG). In January 2011, the Company announced its plan to abolish PAG, together with all of its warehouses and the positions under it, including those held by respondents, and outsource its remaining functions to The Redsystem Company, Inc. (TRCI). Thereafter, respondents received letters terminating their employment due to redundancy effective March 1, 2011. Thus, respondents filed a **complaint for illegal dismissal**, arguing that the redundancy program was done in bad faith to undermine their security of tenure. They also alleged that TRCI is not an independent contractor as it is a wholly-owned subsidiary of the Company.[9]

For its part, the Company denied respondents' claims. It averred that it is engaged in the business of manufacturing and selling carbonated drinks and other beverage items nationwide while PAG's work involved coordination with the external distribution channels. To improve operation efficiency and effectiveness, the Company resolved to outsource all of its distribution and coordination efforts under PAG to an independent contractor, TRCI. Notices of the redundancy program were given to the respondents on January 31, 2011 as well as to the DOLE at least thirty days prior to the effective date of separation. The Company added that it also gave more than the required separation pay and other benefits to respondents, who in turn voluntarily executed their respective notarized Deeds of Receipt, Waiver, and Quitclaim.[10] Thus, the Company was surprised to learn that respondents filed the illegal dismissal complaint almost two years after their separation.[11] It stressed that what was declared redundant was its entire logistics operations nationwide, and in doing so, all positions therein, without exception, were declared redundant.[12]

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6 Id. at 834-864. Penned by LA Leandro M. Jose.

7 The names and positions of respondents are as follows: Ricardo S. Macapagal – plant warehouse operation supervisor; Eduardo N. Abulencia, Jr. – transpo coordinator; Reynaldo G. Pineda, Wilfredo C. Dela Cruz, and Eric A. Abad-Santos – auto-technicians; Edgardo R. Navarro – plant buyer; Albert P. Tan, Ener A. Manarang, Danilo Z. Fabian, and Remigio E. Mercado – forklift operators; Manuel T. Caparas and Nestor L. Rayo – sales logistic coordinators; and Inocencio M. Arao – sales office assistant (*rollo*, Vol. I, pp. 105-106).

8 Then known as "Coca-Cola Bottlers Philippines, Inc."; id. at 35.

9 See id. at 105-108. See also *rollo*, Vol. II, pp. 834-846.

10 See *rollo*, Vol. I, pp. 109-110.

11 See *rollo*, Vol. II, p. 955.

12 See *rollo*, Vol. II, pp. 637-639.

The LA's Ruling

In a Decision[13] dated February 28, 2014, the LA found that the redundancy program was made in bad faith and held that respondents were illegally dismissed. Accordingly, it ordered the Company to reinstate respondents to their former positions without loss of seniority rights and other privileges, with full backwages, and to pay wage and benefits differentials, as well as attorney's fees.[14]

Dissatisfied, the Company filed an appeal[15] before the NLRC.

The NLRC's Ruling

In a Decision[16] dated December 14, 2015, the NLRC **reversed** the LA's ruling.[17] It held that the redundancy program was done in good faith and was aimed at achieving a more cost-effective operating framework. Thus, it upheld the Company's management decision to abolish the PAG, as well as the validity of the resulting dismissals from employment.[18]

Respondents moved for reconsideration[19] but the motion was denied in a Resolution[20] dated January 29, 2016. Hence, they filed a petition for *certiorari*[21] before the Court of Appeals (CA).

The CA's Ruling

In a Decision[22] dated December 12, 2016, the CA **reversed** the NLRC's ruling and reinstated the LA's Decision.[23] The CA explained that while the Company substantiated its need to streamline its operations, it failed to provide fair and reasonable criteria in ascertaining which positions to abolish. Thus, the Company failed to support its allegations of redundancy. Furthermore, the CA refused to uphold the validity of respondents' quitclaims, noting that respondents and the Company did not stand on the same footing.[24]

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13 Id. at 834-864.
14 See id. at 857-863.
15 See Memorandum of Appeal dated June 11, 2014; *rollo*, Vol. I, pp. 175-223.
16 *Rollo*, Vol. II, pp. 943-963.
17 Id. at 962.
18 See id. at 959-962.
19 See motion for reconsideration dated December 28, 2015; id. at 964-993.
20 Id. at 1006-1007.
21 Dated April 11, 2016. *Rollo*, Vol. III, pp. 1008-1077.
22 *Rollo*, Vol. I, pp. 104-120.
23 Id. at 119-120.
24 See id. at 115-119.

The Company filed a motion for reconsideration,[25] which was, however, denied in a Resolution[26] dated June 30, 2017; hence, this petition.

The Issue Before the Court

The issue before the Court is whether or not the CA correctly reversed the NLRC's ruling upholding the validity of the redundancy program.

The Court's Ruling

The petition is meritorious.

Preliminarily, the Court stresses the distinct approach in reviewing a CA's ruling in a labor case. In a Rule 45 review, the Court examines the correctness of the CA decision in contrast with the review of jurisdictional errors under Rule 65. Furthermore, Rule 45 limits the review to questions of law. In ruling for legal correctness, the Court views the CA decision in the same context that the petition for *certiorari* was presented to the CA. Hence, the Court has to examine the CA decision from the prism of whether the CA correctly determined the presence or absence of grave abuse of discretion in the NLRC decision.[27]

In labor cases, grave abuse of discretion may be ascribed to the NLRC when its findings and conclusions are not supported by substantial evidence.[28] Thus, if the NLRC's ruling has basis in the evidence and the applicable law and jurisprudence, then no grave abuse of discretion exists and the CA should so declare and, accordingly, dismiss the petition.[29] Otherwise stated, a Rule 45 petition can prosper only if the CA failed to correctly determine whether the NLRC gravely abused its discretion.[30]

Viewed from these lenses, the Court finds that the NLRC Decision in this case was supported by substantial evidence and is consistent with law and jurisprudence. Thus, the CA incorrectly found grave abuse of discretion on the part of the NLRC. Accordingly, the NLRC Decision must be reinstated.[31]

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25 Dated January 4, 2017. Id. at 126-153.

26 Id. at 122-125.

27 *University of Santo Tomas (UST) v. Samahang Manggagawa ng UST,* G.R. No. 184262, April 24, 2017, 824 SCRA 52, 60, citing *Quebral v. Angbus Construction, Inc.*, 798 Phil. 179, 187 (2016).

28 *Quebral v. Angbus Construction, Inc.*, id. at 188.

29 Id. See also *Manggagawa ng Komunikasyon sa Pilipinas v. Philippine Long Distance Telephone Co., Inc.*, G.R. Nos. 190389 & 190390, April 19, 2017, 823 SCRA 595, 613.

30 *Manggagawa ng Komunikasyon sa Pilipinas v. Philippine Long Distance Telephone Co., Inc.*, id. at 611.

31 See *Quebral v. Angbus Construction, Inc.*, supra note 27, at 188.

Redundancy is an authorized cause for termination of employment under Article 298[32] (formerly, Article 283) of the Labor Code. It exists when "the services of an employee are in excess of what is reasonably demanded by the actual requirements of the enterprise."[33] It can be due to "a number of factors, such as the overhiring of workers, a decrease in the volume of business or the dropping of a particular line or service previously manufactured or undertaken by the enterprise."[34] The determination of whether the employees' services are no longer necessary or sustainable, and therefore, properly terminable for redundancy, is an exercise of business judgment.[35] In making such decision, however, management must not violate the law nor declare redundancy without sufficient basis.[36] To ensure that the dismissal is not implemented arbitrarily, jurisprudence requires the employer to prove, among others, its ***good faith in abolishing the redundant positions*** as well as ***the existence of fair and reasonable criteria in the selection of employees who will be dismissed from employment due to redundancy***.[37] Such fair and reasonable criteria may include, but are not limited to: (*a*) less preferred status, i.e., temporary employee; (*b*) efficiency; and (*c*) seniority.[38]

In this case, the CA reversed the NLRC Decision on the ground that the Company failed to show good faith in abolishing redundant positions.[39] The Court disagrees with the CA.

To establish good faith, the employer must provide substantial proof that the services of the employees are in excess of what is required of the company.[40] In *San Fernando Coca-Cola Rank-and-File Union v. Coca-Cola Bottlers Philippines, Inc.*[41] *(San Fernando)*, wherein the same company involved in this case terminated the employment of twenty seven employees due to the phasing out of two selling and distribution systems, the Court held that the redundancy program was valid as it was based on a careful study on how to simplify the multi-layered distribution system and make the business operations more cost effective. Since the Market Execution Partners or dealership system incurs the lowest cost-to-serve, the other distribution systems had to be phased out, resulting in the termination of the employees,

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32 As renumbered pursuant to Department Advisory No. 07, series of 2015, entitled "RENUMBERING OF THE LABOR CODE OF THE PHILIPPINES, AS AMENDED" dated July 21, 2015. The provision reads: "Art. 298. Closure of Establishment and Reduction of Personnel. – **The employer may also terminate the employment of any employee due to** the installation of labor-saving devices, **redundancy**, retrenchment to prevent losses or the closing or cessation of operation of the establishment or undertaking x x x." (Emphasis supplied)

33 *Manggagawa ng Komunikasyon sa Pilipinas v. Philippine Long Distance Telephone Co., Inc.*, supra note 29, at 614, citing *Wiltshire File Co., Inc. v. NLRC*, 271 Phil. 694, 703 (1991).

34 *Philippine National Bank v. Dalmacio*, G.R. Nos. 202308 & 202357, July 5, 2017, 830 SCRA 136, 143-144.

35 See *Coca-Cola Bottlers Philippines, Inc. v. Del Villar*, 646 Phil. 587, 613 (2010).

36 See *Manggagawa ng Komunikasyon sa Pilipinas v. Philippine Long Distance Telephone Co., Inc.*, supra note 29, at 614.

37 See *Arabit v. Jardine Pacific Finance, Inc.*, 733 Phil 41, 57-61 (2014).

38 See id. at 58.

39 See *rollo*, Vol. I, pp. 117-118 and 119.

40 See *General Milling Corp. v. Viajar*, 702 Phil. 532, 543 (2013).

41 G.R. No. 200499, October 4, 2017, 842 SCRA 1.

as what happened in this case. The Court ruled that the phasing out of distribution systems was an exercise of management prerogative and there was no proof that it was exercised in a malicious or arbitrary manner.[42]

Similarly, in this case, the Court finds that the termination of respondents was due to the simplification of the distribution systems in the Company, considering that PAG's work primarily involved coordination for the Company's finished products to reach the distribution channels for delivery to the customers.[43] Since the Company's operating income still posted negative figures despite improvement in sales volumes in 2007, management further reviewed the Company's distribution channels to identify areas where cost may be reduced, as well as opportunities to enhance operational efficiency. Based on this study, the Company resolved to abolish **all** positions under PAG, including those which were previously held by respondents.[44] Since all PAG positions were abolished, the CA erred in ruling that the Company still needed to choose who among the employees should be dismissed, to which the fair and reasonable criteria requisite is pertinent.

Instructive is the case of *Asian Alcohol Corporation v. NLRC*[45] (*Asian Alcohol*), which presented two types of redundancy. In the first scenario, the services of all the water pump tenders working in the leased wells had to be terminated because the lease contract over the wells had expired. In the second scenario, the employer found that one (1) of three (3) briquetting helper position was redundant, and accordingly, chose which employee should be separated from service based on age and the physical strength that comes with it. In the same way, the employer found it more cost effective to maintain nine (9) instead of ten (10) mechanics in the machine shop, and thus, removed the least efficient among them. In all these instances, the Court upheld the validity of the employees' dismissal from service.[46]

The first scenario in *Asian Alcohol* is similar to this case wherein all positions for a particular line of service had been abolished. Needless to say, the services of all employees under the PAG had to be terminated. Hence, the fair and reasonable criteria to determine which employees should be dismissed from service, no longer finds application.

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42 The Court held thus: "[p]rior to the termination of the herein individual complainants, respondent company has made a careful study of how to be more cost effective in operations and competitive in the business recognizing in the process that its multi-layered distribution system has to be simplified. Thus, it was determined that compared to other distribution schemes, the company incurs the lowest cost-to-serve through Market Execution Partners (ME[P]s) or Dealership system. The CRS and Mini-Bodega systems posted the highest in terms of cost-to-serve. Thus, the phasing out of the CRS and MB is necessary which, however, resulted in the termination of the complainants as their positions have become redundant. Be that as it may, respondent company complied with granting them benefits that is more than what the law prescribes. They were duly notified of their termination from employment thirty days prior to actual termination." (Id. at 12-13.)

43 See *rollo*, Vol. II, p. 952.

44 See *rollo*, Vol. I, p. 110.

45 364 Phil. 912 (1999).

46 See id. at 924-934.

It bears stressing that respondents merely raised a "suspicion" without proffering any proof that only union officers were not retained for redeployment. Certainly, as the Company has argued, the abolition of its entire logistics operation affecting around two hundred (200) employees nationwide cannot be construed as mere ruse to terminate thirteen (13) respondents.[47] The Company's good faith is further shown by its act of giving separation packages more than what is required by law.[48]

The Court in *San Fernando,* citing *Asian Alcohol,* likewise held that the implementation of the redundancy program is not destroyed by the employer's act of availing the services of an independent contractor to replace the services of the terminated employees,[49] as when the Company availed of TRCI's services. All these considered, the Company has sufficiently shown that it was in good faith when it terminated respondents' services on the ground of redundancy.

Furthermore, the Court finds that the quitclaims executed by respondents are valid. Case law provides that not all quitclaims are *per se* invalid or against public policy;[50] they shall be recognized as valid and binding undertakings where it is shown that the persons making the waiver did so voluntarily, with full understanding of what they were doing, and the considerations therefor are sufficient and reasonable, [51] as in this case. Notably, there was no showing that respondents were forced or tricked into signing the release documents pursuant to the valid redundancy program. They were likewise not forced to receive amounts less than what they were entitled to. The fact that employers and employees do not stand on the same footing, as mentioned by the CA, should not always militate against the employer. Indeed, the law steps in to annul quitclaims only where there is clear proof that the waiver was wangled from an unsuspecting or gullible person, or the terms of the settlement are unconscionable on its face,[52] but neither of these circumstances are present here.

All told, the NLRC did not gravely abuse its discretion in ruling that the redundancy program and respondents' consequent dismissal were valid. Therefore, the CA erred in reversing the NLRC Decision. Accordingly, it must be reinstated.

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47 See *rollo*, Vol. II, p. 637.

48 See id. The separation package consisted of: 175% separation pay per year of service for those who served less than 15 years; 200% separation pay per year of service for those who served fifteen years and more; commutation of earned and unused leaves; proportionate 133th month pay; HMO coverage for five (5) years (until June 30, 2014) or until 65 years old, whichever comes first; commission buy-out premium if applicable; and livelihood program (see id. at 955).

49 *San Fernando Coca-Cola Rank-and-File Union v. Coca-Cola Bottlers Philippines, Inc.*, supra note 41, at 13.

50 *Coats Manila Bay, Inc. v. Ortega*, 598 Phil. 768, 779 (2009).

51 *Arlo Aluminum, Inc. v. Piñon, Jr.*, G.R. No. 215874, July 5, 2017, 830 SCRA 202, 214.

52 See id.

WHEREFORE, the petition is **GRANTED**. Accordingly, the Decision dated December 12, 2016 and the Resolution dated June 30, 2017 of the Court of Appeals in CA-G.R. SP No. 145345 are hereby **REVERSED** and **SET ASIDE** for the reasons above-discussed. The Decision dated December 14, 2015 and the Resolution dated January 29, 2016 of the National Labor Relations Commission in NLRC LAC No. 07-001679-14 are **REINSTATED**.

SO ORDERED.

ESTELA M. PERLAS-BERNABE
Associate Justice

WE CONCUR:

ANTONIO T. CARPIO
Senior Associate Justice
Chairperson

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

JOSE C. REYES, JR.
Associate Justice

AMY C. LAZARO-JAVIER
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.

ANTONIO T. CARPIO
Senior Associate Justice
Chairperson, Second 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.

LUCAS P. BERSAMIN
Chief Justice