Republic of the Philippines
Supreme Court
Bacolod City

FIRST DIVISION

MINDANAO INTERNATIONAL CONTAINER TERMINAL SERVICES, INC., *Petitioner,*	**G.R. No. 245918** Present:
- versus -	GESMUNDO, *C.J.*, *Chairperson*, HERNANDO, ZALAMEDA, ROSARIO, and MARQUEZ,* *JJ.*
MINDANAO INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. LABOR-UNION-FEDERATION OF DEMOCRATIC LABOR ORGANIZATION (MICTSILU-FDLO), JEFFREY L. CHAVEZ, LOURVEN E. LUCAGBO, ISAGANI L. LLANES, JORGE S. SALARDA, JERRY M. SALENTES, RIAN C. BANIEL, LYLE L. CAJOLES, SYLVESTER TUAREG V. DAGUS, ALLAN A. PABLO, and TOMMY S. VACALARES represented by their Legal Counsel and Federation President, ATTY. GREGORIO A. PIZARRO, *Respondents.*	Promulgated: NOV 29 2022

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DECISION

* On official business.

GESMUNDO, *C.J.*:

This Appeal by *Certiorari*[1] seeks to reverse and set aside the August 16, 2018 Decision[2] and the March 4, 2019 Resolution[3] of the Court of Appeals, Cagayan de Oro City (*CA*) in CA-G.R. SP No. 08151-MIN. The CA reversed and set aside the April 25, 2017 Decision[4] and the undated Resolution[5] of the Accredited Voluntary Arbitrator (*AVA*), Regional Arbitration Branch No. 10, Cagayan de Oro City in VA Case No. AC-209-RB10-01-01-10-2017. The CA directed the Mindanao International Container Terminal Services, Inc. (*MICTSI; petitioner*) to pay the salary differentials of Jeffrey L. Chavez, Lourven E. Lucagbo, Isagani L. Llanes, Jorge S. Salarda, Jerry M. Salentes, Rian C. Baniel, Lyle L. Cajoles, Sylvester Tuareg V. Dagus, Allan A. Pablo, and Tommy S. Vacalares (*Chavez, et al.*; *respondents*).

Antecedents

MICTSI Labor Union-Federation of Democratic Labor Organization (*MICTSILU-FDLO*) is a legitimate labor organization, which serves as the exclusive bargaining representative of all the rank-and-file employees of MICTSI. Chavez, *et al.*, on the other hand, are all members of the union and employees of petitioner.[6]

On March 20, 2015, petitioner and MICTSILU-FDLO entered into a Collective Bargaining Agreement[7] (*CBA*) to take effect for a period of five years from March 20, 2015 to March 20, 2020. The relevant CBA provisions provided:

ARTICLE 6

x x x x

Section 2. With respect to Promotion, Lay-off, Transfer and Reduction of Personnel, the following criteria should be followed:

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1 *Rollo*, pp. 61-88.
2 Id. at 11-21; penned by Associate Justice Tita Marilyn Payoyo-Villordon and concurred in by Associate Justices Romulo V. Borja and Oscar V. Badelles.
3 Id. at 57-58; penned by Associate Justice Tita Marilyn Payoyo-Villordon and concurred in by Associate Justices Edgardo A. Camello and Oscar V. Badelles.
4 CA *rollo*, pp. 26-30; penned by Voluntary Arbitrator Leovigildo D. Tandog, Jr.
5 Id. at 43-44.
6 Id. at 26-27.
7 Id. at 231-248.

1. Employee's competency
2. Employee's attendance and physical fitness; and
3. Length of Service

x x x x

Section 3. Promotion. Whenever a regular employee covered by this Agreement is promoted to a job that pays more than his former job; he shall receive the pay of the job to which he has been promoted.

x x x x

ARTICLE 7

Section 1. The Company agrees on the principle of equal pay for equal work and non-diminution of salary rate. Transfer to a lesser [rank-and-file] position shall be done in accordance with Law.[8]

However, a controversy arose regarding the proper interpretation of Section 3, Article 6 and Sec. 1, Art. 7 of the CBA in relation to the correct corresponding salaries of employees who were promoted by petitioner to other *plantilla* positions with higher pay, namely:

a. Jeffrey L. Chavez
b. Lourven E. Lucagbo
c. Isagani L. Llanes
d. Jorge S. Salarda
e. Jerry M. Salentes
f. Rian C. Baniel
g. Lyle L. Cajoles
h. Sylvester Tuareg V. Dagus
i. Allan A. Pablo;
j. Tommy S. Vacalares.

Although Chavez, *et al.* were promoted to different higher positions, neither of them received the same salary rate as those received by other employees who had been occupying the same positions. For instance, Lyle Cajoles was promoted to QGC Operator on September 9, 2016, and was given a basic salary of ₱16,864.00, while Michael C. Maneja, who had been holding the same position of QGC Operator since August 1, 2008, had a higher basic salary of ₱20,095.67.[9]

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[8] Id. at 237-238.
[9] Id. at 28.

Thus, MICTSILU-FDLO and Chavez, *et al.* averred before the AVA that promoted employees should be entitled to receive the highest rate of salary for the respective positions to which they were promoted pursuant to the principle of equal pay for equal work.[10] They contended that allowing employees holding the same position to receive different salaries would violate the principle of equal pay for equal work as embodied under Sec. 3, Art. 6 and Sec. 1, Art. 7 of the CBA, and would create wage discrimination.

In response, petitioner claimed that a promoted employee shall receive the entry/starting salary rate of the job to which he/she has been promoted, and not the highest salary rate given to an employee already holding the same position.[11] Petitioner explained that some employees are entitled to a higher salary rate due to several factors, such as length of service, performance, and merit awarded to select employees who have performed outstandingly.

The AVA Ruling

In its April 25, 2017 Decision, the AVA dismissed respondents' complaint for lack of merit, *viz.*:

> **WHEREFORE**, foregoing premises considered, judgment is hereby rendered **DISMISSING** the complaint for lack of merit and for want of factual and legal bases.
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> **SO ORDERED.**[12]

The AVA held that the equal protection clause under the Constitution allows classification. Classification merely requires that the same be based on substantial distinctions which make for real differences; that it must be germane to the purpose of the law; and that it must not be limited to existing conditions only.[13] Similarly, the grant of additional benefits to those who have worked earlier or longer in the same position is not violative of the principle of "equal pay for equal work" enunciated in Sec. 1, Art. 7 of the CBA, since the difference concerned merely the length of service, and the same was not tantamount to diminution of benefits.[14]

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10 Id. at 27.
11 Id.
12 Id. at 30.
13 Id. at 28-29.
14 Id. at 29.

Respondents filed a Motion for Reconsideration,[15] but the same was denied by the AVA.[16] Undaunted, respondents appealed to the CA.[17]

The CA Ruling

In its now assailed August 16, 2018 Decision, the CA reversed and set aside the April 25, 2017 Decision of the AVA, and ordered petitioner to pay the salary differentials of Chavez, *et al.*, plus attorney's fees. The dispositive portion of the decision reads:

> **ACCORDINGLY**, the Petition for Review is **GRANTED**. The Decision dated 25 April 2017 of Atty. Leovigildo D. Tandog, Jr., Accredited Voluntary Arbitrator, Regional Arbitration Branch No. 10, Cagayan de Oro City, in VA Case No. AC-209-RB10-01-01-10-2017 and the undated Resolution, denying the petitioners' Motion for Reconsideration dated 5 May 2017, are **REVERSED** and **SET ASIDE**. Respondent Mindanao International Container Terminal Services, Inc. is **ORDERED** to pay the petitioners their salary differentials, in the following amounts:
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> | Name | Salary | Reckoned From |
> |---|---|---|
> | a. Jeffrey L. Chavez | Php20,095.67 | 20 March 2015 |
> | b. Lourven E. Lucagbo | Php20,095.67 | 20 March 2015 |
> | c. Isagani L. Llanes | Php12,054.09 | 20 March 2015 |
> | d. Jorge S. Salarda | Php16,753.67 | 20 March 2015 |
> | e. Jerry M. Salentes | Php16,753.67 | 1 February 2016 |
> | f. Rian C. Baniel | Php16,753.67 | 9 September 2016 |
> | g. Lyle L. Cajoles | Php20,095.67 | 8 September 2016 |
> | h. Sylvester Tuareg V. Dagus | Php16,753.67 | 7 March 2016 |
> | i. Allan [A.] Pablo | Php16,753.67 | 20 March 2015 |
> | j. Tommy S. Vacalares | Php16,753.67 | 20 February 2017 |
>
> Moreover, the respondent is **ORDERED** to pay [the petitioners attorney's] fees representing 10% of the total monetary award.
>
> **SO ORDERED**.[18]

The CA held that the CBA provisions are clear that once an employee is promoted, he or she shall receive the pay equivalent to the job to which he has been promoted.[19] The CA noted that the principles of equal pay for equal work and non-diminution of salary rate were embodied in the CBA.

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15 Id. at 31-42.
16 Id. at 43-44.
17 Id. at 2-25.
18 *Rollo*, pp. 99-100.
19 Id. at 94.

According to the CA, since there was no stated exception in the provision governing salary rates of the employees in the CBA, it follows that the pay should be equal for all employees holding the same position.[20]

Further, the CA held that petitioner failed to establish the basis for the grant of higher pay to some of its employees holding the same position as there was no showing of any standard in the grant of additional benefits to its "senior" employees. It ruled that Chavez, *et al.* should be entitled to receive the same salary as the "senior" employees of petitioner.[21] The CA, however, declared that the salary adjustment should be computed from the time the CBA took effect on March 20, 2015.[22]

Petitioner's Motion for Reconsideration[23] was denied by the CA in its March 4, 2019 Resolution; hence, this instant petition.

The petition raises the following assignment of errors:

> [I.]
>
> THE COURT OF APPEALS COMMITTED SERIOUS ERRORS IN REVERSING THE FINDINGS OF THE VOLUNTARY ARBITRATOR THAT THERE IS NOTHING IN THE CBA WHICH WOULD INDICATE THAT WHENEVER AN EMPLOYEE IS PROMOTED, HE SHALL RECEIVE THE HIGHEST PAY OF THE JOB TO WHICH HE HAS BEEN PROMOTED[.]
>
> [II.]
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> THE COURT OF APPEALS COMMITTED SERIOUS ERROR IN RULING THAT RESPONDENT UNION IS ENTITLED TO ATTORNEY'S FEES[.][24]

Petitioner posits that, based on Sec. 3, Art. 6 of the CBA, a promoted employee shall receive the pay for the job to which he/she has been promoted, referring to the entry or starting salary rate and not to the highest salary rate given to employees holding the same position.[25] Also, petitioner insists that Sec. 3, Art. 6 and Sec. 1, Art. 7 of the CBA must be read in conjunction with Sec. 2, Art. 6 which provides that, with respect to

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20 Id.
21 Id. at 97.
22 Id. at 98.
23 Id. at 101-112.
24 Id. at 69.
25 Id. at 70.

promotion, the length of service must also be considered.[26]

Petitioner submits that due to several factors, such as length of service, performance, merit increases awarded to selected employees who have performed outstandingly, implementation of government-mandated wage orders, and wage increases as stated in the CBA, there are employees belonging to a particular *plantilla* position that perform basically the same job but have different salaries.[27] Nevertheless, this does not mean that there is a violation of the principle of equal pay for equal work. According to petitioner, its practice of giving different salaries to those with equal or same position is based on several factors, and is ideal to counter the incident of wage distortion.[28]

In their Comment,[29] respondents counter that the pay should be equal or the same for all employees holding the same position considering that there was no stated exception in the CBA provision governing salary rates of the employees.[30] If the employees hold the same position, the presumption is that these employees perform equal work, and thus, are entitled to equal pay. Respondents aver that petitioner failed to sufficiently establish that the grant of higher pay to other employees holding the same position is sanctioned by the CBA.[31] Thus, by imposing different salaries to employees with the same position, petitioner committed wage differentiation. They further claim that the award of attorney's fees was proper since there was unlawful withholding of their wages.[32]

In its Reply,[33] petitioner elucidates that, as management prerogative, each *plantilla* position has a corresponding entry or starting salary rate, whether resulting from new hiring or promotion.[34] It reiterates that several factors, like length of service, performance, merit increases, implementation of government-mandated wage orders and wage increases as stated in the CBA, were considered in imposing different salaries to employees occupying the same position.[35] Clearly, the difference in the wages of employees holding the same position does not violate the principle of equal pay for equal work.[36] Petitioner maintains that the language of Sec. 3, Art. 6 of the CBA is clear and unmistakable that a promoted employee shall

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26 Id. at 72.
27 Id. at 67.
28 Id. at 68.
29 Id. at 223-246.
30 Id. at 236.
31 Id. at 243.
32 Id.
33 Id. at 248-264.
34 Id. at 249.
35 Id. at 250.
36 Id. at 251.

receive the pay of the job to which he or she has been promoted, which refers to the entry or starting salary rate and not to the highest salary rate of the same position.[37] To sustain respondents' position is to foster the demoralization of employees who have rendered service for a longer length of time than those who recently got promoted by making their wages equal. In effect, there would be wage distortion, a practice prohibited by law.[38]

The Court's Ruling

The petition is meritorious.

The issues raised on whether there is a violation of the principle of equal pay for equal work or whether wage distortion exists are questions of fact. It is a fundamental rule that the Court, not being a trier of facts, is not duty-bound to review all over again the records of the case and make its own factual determination.[39] Factual findings of administrative or quasi-judicial bodies, including labor tribunals, are accorded much respect as they are specialized to rule on matters falling within their jurisdiction especially when supported by substantial evidence.[40]

Nevertheless, the rule against entertaining a question of fact is not ironclad and a departure therefrom may be warranted where the findings of fact of the CA are contrary to the findings and conclusions of the quasi-judicial agency.[41] In this case, there is evidently contradictory findings of fact between the CA and the AVA on whether the principle of equal pay for equal work was violated by petitioner. Thus, it is incumbent upon the Court to settle these conflicting findings with finality.

Wage distortion; definition

At the outset, the Court deems it proper to discuss the concept of wage distortion. As one of the defenses raised by petitioner in adopting certain standards in the imposition of different salary rates to employees occupying the same position, petitioner explained that it was made in the exercise of its management prerogative and in order to counter any incident of wage distortion.[42]

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37 Id. at 251-252.
38 Id. at 254.
39 *The Peninsula Manila v. Jara*, G.R. No. 225586, July 29, 2019, 911 SCRA 115, 123.
40 Id.
41 *Miñano v. Sto. Tomas General Hospital*, G.R. No. 226338, June 17, 2020, 938 SCRA 419, 426.
42 *Rollo*, p. 105.

Wage distortion has a specific legal meaning. Under Republic Act (*R.A.*) No. 6727,[43] or the Wage Rationalization Act, amending among others, Art. 124 of the Labor Code, the term "wage distortion" was explicitly defined as "a situation where an increase in prescribed wage rates results in the elimination or severe contraction of intentional quantitative differences in wage or salary rate between and among employee groups in an establishment as to effectively obliterate the distinctions embodied in such wage structure based on skills, length of service or other logical bases of differentiation."[44]

The "wage distortion" specified under Art. 124 of the Labor Code only covers wage adjustments and increases due to a prescribed law or wage order. Art. 124, reads:

> Article 124. *Standards/Criteria for Minimum Wage Fixing.* x x x
>
> x x x x
>
> Where the application of any **prescribed wage increase by virtue of a law or Wage Order issued by any Regional Board** results in distortions of the wage structure within an establishment, the employer and the union shall negotiate to correct the distortions. Any dispute arising from wage distortions shall be resolved through the grievance procedure under their collective bargaining agreement and, if it remains unresolved, through voluntary arbitration. (Emphasis supplied)

In *Prubankers Association v. Prudential Bank and Trust Company*[45] (*Prubankers*), which involves Wage Order Nos. RB 05-03 and RB VII-03 of the Regional Tripartite Wages and Productivity Board, the Court had the occasion to elucidate on the statutory definition of wage distortion, thus:

> Wage distortion presupposes a classification of positions and ranking of these positions at various levels. One visualizes a hierarchy of positions with corresponding ranks basically in terms of wages and other emoluments. Where a significant change occurs at the lowest level of positions in terms of basic wage without a corresponding change in the other level in the hierarchy of positions, negating as a result thereof the distinction between one level of position from the next higher level, and

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43 Entitled "AN ACT TO RATIONALIZE WAGE POLICY DETERMINATION BY ESTABLISHING THE MECHANISM AND PROPER STANDARDS THEREFOR, AMENDING FOR THE PURPOSE ARTICLE 99 OF, AND INCORPORATING ARTICLES 120, 121, 122, 123, 124, 126 AND 127 INTO, PRESIDENTIAL DECREE NO. 442, AS AMENDED, OTHERWISE KNOWN AS THE LABOR CODE OF THE PHILIPPINES, FIXING NEW WAGE RATES, PROVIDING WAGE INCENTIVES FOR INDUSTRIAL DISPERSAL TO THE COUNTRYSIDE, AND FOR OTHER PURPOSES." Approved on June 9, 1989.

44 *Philippine Geothermal, Inc. Employees Union v. Chevron Geothermal Phils. Holdings, Inc.*, 824 Phil. 426, 436 (2018).

45 361 Phil. 744 (1999).

> resulting in a parity between the lowest level and the next higher level or rank, between new entrants and old hires, there exists a wage distortion. [x x x] The concept of wage distortion assumes an existing grouping or classification of employees which establishes distinctions among such employees on some relevant or legitimate basis. This classification is reflected in a differing wage rate for each of the existing classes of employees.[46]

The Court also laid down in *Prubankers* the four elements of wage distortion under Art. 124 of the Labor Code, to wit: (1) an existing hierarchy of positions with corresponding salary rates; (2) a significant change in the salary rate of a lower pay class without a concomitant increase in the salary rate of a higher one; (3) the elimination of the distinction between the two levels; and (4) the existence of the distortion in the same region of the country.[47]

Evidently, wage distortion under Art. 124 of the Labor Code covers wage adjustments and increases due to a prescribed law or wage order. It does not cover, however, increases in salaries initiated by the employer at its own instance. Thus, not all increases in salary which lessen or obliterate the salary differences of certain employees should be perceived as wage distortion as defined under Art. 124 of the Labor Code.[48] Further, a disparity in wages between employees holding similar positions but in different regions does not constitute wage distortion as contemplated by law.[49]

Verily, wage distortion under Art. 124 of the Labor Code should not apply to voluntary and unilateral wage increases undertaken by the employer. In *Bankard Employees Union-Workers Alliance Trade Unions v. National Labor Relations Commission*[50] (*Bankard Employees*), the Court explained that:

> If the compulsory mandate under Article 124 to correct "wage distortion" is applied to *voluntary and unilateral* increases by the employer in fixing hiring rates which is inherently a business judgment prerogative, then the hands of the employer would be completely tied even in cases where an increase in wages of a particular group is justified due to a re-evaluation of the high productivity of a particular group, or as in the present case, the need to increase the competitiveness of Bankard's hiring rate. An employer would be discouraged from adjusting the salary rates of a particular group of employees for fear that it would result to a demand by all employees for a similar increase, especially if the financial

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46 Id. at 757.

47 Id.

48 *Philippine Geothermal, Inc. Employees Union v. Chevron Geothermal Phils. Holdings, Inc.*, supra at 436-437.

49 *Prubankers Association v. Prudential Bank and Trust Company*, supra at 758.

50 467 Phil. 570 (2004).

> conditions of the business cannot address an across-the-board increase.[51] (Italics in the original)

Here, there is no prescribed law or wage order that created the purported wage adjustments and increases. Instead, respondents merely claim that petitioner cannot impose different wages on employees occupying the same position. The different wage increases imposed by petitioner to its employees occupying the same position were voluntarily and unilaterally made. Accordingly, the different wage increases imposed by petitioner in this case do not contemplate "wage distortion" under Art. 124 of the Labor Code. Consequently, the remedy provided by Art. 124 to rectify the legal wage distortion is not applicable in this case.[52]

At best, respondents are asserting that there exists factual wage distortion among the employees occupying the same position, which is different from the legal wage distortion contemplated by law. In other words, wage distortion under Art. 124 of the Labor Code, or legal wage distortion, is different from the factual wage distortion, which creates differences in salaries due to the voluntary or unilateral policy of the employer.

Anent the factual wage distortion alleged by respondents, the Court clarified in *Bankard Employees* that mere factual existence of wage distortion does not, *ipso facto*, result in an obligation to rectify it, absent a law or other source of obligation which requires its rectification.[53]

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51 Id. at 579-580.

52 Article 124 of the Labor Code prescribes the procedure to address a wage distortion:

> x x x x
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> Where the application of any prescribed wage increase by virtue of a law or Wage Order issued by any Regional Board results in distortions of the wage structure within an establishment, the employer and the union shall negotiate to correct the distortions. Any dispute arising from wage distortions shall be resolved through the grievance procedure under their collective bargaining agreement and, if it remains unresolved, through voluntary arbitration. Unless otherwise agreed by the parties in writing, such dispute shall be decided by the voluntary arbitrators within ten (10) calendar days from the time said dispute was referred to voluntary arbitration.
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> In cases where there are no collective agreements or recognized labor unions, the employers and workers shall endeavor to correct such distortions. Any dispute arising therefrom shall be settled through the National Conciliation and Mediation Board and, if it remains unresolved after ten (10) calendar days of conciliation, shall be referred to the appropriate branch of the National Labor Relations Commission (NLRC). It shall be mandatory for the NLRC to conduct continuous hearings and decide the dispute within twenty (20) calendar days from the time said dispute is submitted for compulsory arbitration.

53 *Bankard Employees Union-Workers Alliance Trade Unions v. National Labor Relations Commission*, supra at 581.

Equal pay for equal work; exceptions

The concept of "equal pay for equal work" means that persons who work with substantially equal qualifications, skill, effort, and responsibility, under similar conditions, should be paid similar salaries.[54] Discrimination, particularly in terms of wages, is frowned upon by the Labor Code. Art. 135, for example, prohibits and penalizes the payment of lesser compensation to a female employee as against a male employee for work of equal value.[55]

Whenever an employer gives employees the same position and rank, the **presumption** is that these employees perform equal work. Such presumption is borne by logic and human experience. Should the employer pay one employee less than the rest, that employee need not explain why he/she receives less or why the others receive more. This would be adding insult to injury. Evidently, the employer has discriminated against that employee; it is for the employer to explain why the employee is treated unfairly.[56]

In *International School Alliance of Educators v. Quisumbing*,[57] the Court struck down the policy of the employer providing higher salaries to foreign hires over local hires even though both were performing equal amounts of work. It was emphasized therein that the employer cannot invoke the need to entice foreign hires to leave their domicile to rationalize the distinction in salary rates without violating the principle of equal work for equal pay.[58]

Notably, in that case, the Court emphasized that if the employer has discriminated against that employee, such as by not following the principle of equal pay for equal work, it is for the employer to explain why the employee is treated unfairly.[59] Failing to discharge this burden, the employer is deemed to have discriminated against the employee, in violation of the principle of equal pay for equal work.

Similarly, in *Philex Gold Phils., Inc. v. Philex Bulawan Supervisors Union*[60] (*Philex Gold*), the Court found that the employer failed to discharge its burden to explain the difference in the salaries received by an absorbed

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54 *International School Alliance of Educators v. Quisumbing*, 388 Phil. 661, 675 (2000).
55 Id. at 674.
56 Id. at 675.
57 Supra.
58 Id. at 675.
59 Id.
60 505 Phil. 224 (2005).

supervisor and a locally hired supervisor despite their having similar rank and classification and doing parallel duties and functions. It turned out that absorbed supervisors were maintained under a confidential payroll, receiving a different set of benefits and higher salaries, compared with the locally hired supervisors of similar rank and classification doing equivalent duties and functions, to wit:

> Petitioners now contend that the doctrine of "equal pay for equal work" should not remove management prerogative to institute difference in salary on the basis of seniority, skill, experience and the dislocation factor in the *same class* of supervisory workers *doing the same kind of work.*
>
> In this case, the Court cannot agree because petitioners failed to adduce evidence to show that an [absorbed] supervisor and a locally hired supervisor of the same rank are initially paid the same basic salary for doing the same kind of work. They failed to differentiate this basic salary from any kind of salary increase or additional benefit which may have been given to the [absorbed] supervisors due to their seniority, experience and other factors.
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> The records only show that an [absorbed] supervisor is paid a higher salary than a locally hired supervisor of the same rank. Therefore, petitioner failed to prove with satisfactory evidence that it has not discriminated against the locally hired supervisor in view of the unequal salary.[61] (Italics in the original)

Conspicuously, the employer in *Philex Gold* failed to prove that the absorbed employees deserved a higher salary than local hires having the same position and amount of work. The employer did not provide sufficient justification for the difference in the salaries received by the supervisors of the same rank based on seniority, experience, and other factors. It simply gave unequal salaries to employees of the same position without providing any reasonable criteria. Therefore, the employer failed to prove with satisfactory evidence that it had not discriminated against the locally-hired supervisor in view of the unequal salary.[62]

However, the rule that employees with the same rank and position shall receive the same pay is not absolute. As an exception, jurisprudence provides that the employer may satisfactorily justify, based on its management prerogative, that its employees, who have the same rank and position, may receive different salaries based on reasonable factors or criteria.

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61 Id. at 239.
62 Id.

In *Prubankers*, the Court stated that the employer may impose different salaries to employees holding the same position, provided that there is a valid reason and it would not constitute as wage distortion. In that case, the reasonable justification for the imposition of unequal salaries to employees in the same position was the distinction in regions. It was held:

> x x x A *wage parity* between employees in *different* rungs is not at issue here, but a *wage disparity* between employees in the *same* rung but located in different regions of the country.
>
> Contrary to petitioner's postulation, **a disparity in wages between employees holding similar positions but in different regions does not constitute wage distortion as contemplated by law.** As previously enunciated, it is the hierarchy of positions and the disparity of their corresponding wages and other emoluments that are sought to be preserved by the concept of wage distortion. Put differently, a wage distortion arises when a wage order engenders wage parity between employees in *different* rungs of the organizational ladder of the same establishment. It bears emphasis that wage distortion involves a parity in the salary rates of *different* pay classes which, as a result, eliminates the distinction between the different ranks in the same region.[63] (Emphases supplied; italics in the original)

Similarly, in *Manila Mandarin Employees Union v. National Labor Relations Commission*,[64] the Court recognized that intentional quantitative differences in wage or salary rates between and among employees with the same position, due to the fact that the employees had been hired on different dates and were thus receiving different salaries, were considered a valid differentiation and not a case of wage distortion. The Court, in said case, stated:

> The Court agrees that the claimed wage distortion was actually a result of the UNION'S failure to appreciate various circumstances relating to the employment of the thirteen employees. **For instance, while some of these employees mentioned by UNION Vice-President Arnulfo Castro occupied the same or similar positions, they were hired by the Hotel on different dates and at different salaries.**
>
> x x x x
>
> Respondent Commission correctly concluded that these did not represent cases of wage distortion contemplated by the law (Article 124, Labor Code, as amended), i.e., a "situation where an increase in prescribed wage rates results in the elimination or severe contraction of intentional quantitative differences in wage or salary rates between and among

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63 *Prubankers Association v. Prudential Bank and Trust Company*, supra note 45, at 758.
64 332 Phil. 354 (1996).

> employees groups in an establishment as to effectively obliterate **the distinctions embodied in such wage structure based on skills, length of service, or other logical basis of differentiation**."[65] (Emphases supplied)

In *Philippine Geothermal, Inc. Employees Union v. Chevron Geothermal Phils. Holdings, Inc.*,[66] it was held that the apparent increase in the new employees' salaries occupying the same position as compared with those of the employees who have been with the corporation for a period of time, was a result of the management's offer of different hiring rates for different periods to lure more applicants for the position. The Court held that respondents' increased salaries, as compared with the other company workers who had the same salary/pay grade, should not be interpreted to mean that there was factual wage distortion. The alleged increase in their salaries was due to the fact that respondents therein were hired later in 2009, when the hiring rates were relatively higher as compared with those of the previous years. Verily, the setting and implementation of such various engagement rates were purely an exercise of the employer's business prerogative in order to attract the best possible applicants in the market; which the Court will not interfere with, absent any showing that it was exercised in bad faith.[67]

Stated differently, if the employer provides for a valid justification to exercise its management prerogative in imposing different salaries for employees occupying the same position, such as an incentive to increase job applications in the locality, then it will not constitute as discrimination against the employees. The Court emphasized that, if reasonable, it is within the employer's business prerogative to impose different salaries on employees even though they hold the same position.[68]

Indeed, the business-judgment prerogative bestows upon the employer such freedom to regulate and manage, according to its discretion and best judgment, all phases of employment which includes hiring, work assignment, working methods, time, place and manner of work, working regulations, transfer of employees, work supervision, and the discipline, dismissal, layoff, and recall of workers. Said right is tempered only by the following limitations: (1) it must be exercised in good faith, and (2) with due regard to the rights of the employees.[69] While adopted with a view "to give maximum aid and protection to labor," labor laws are not to be applied in a manner that undermines valid exercise of management prerogative.[70]

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65 Id. at 372-373.
66 Supra note 44.
67 Id. at 437.
68 Id.
69 Id.
70 *Philippine Span Asia Carriers Corp. v. Pelayo*, 826 Phil. 776, 787 (2018).

Consequently, the doctrine of "equal pay for equal work" should not remove management prerogative to institute differences in salary on the basis of seniority, skill, and experience in the same class of workers doing the same kind of work.[71]

In *Bankard Employees*,[72] the Court recognized that the employer has the prerogative to determine the wage structure of its employees and the various factors it will consider in the imposition of different wages to its workers. In the said case, the Court held:

> Normally, a company has a wage structure or method of determining the wages of its employees. In a problem dealing with "wage distortion," the basic assumption is that there exists a grouping or classification of employees that establishes distinctions among them on some relevant or legitimate bases.
>
> Involved in the classification of employees are various factors such as the degrees of responsibility, the skills and knowledge required, the complexity of the job, or other logical basis of differentiation. The differing wage rate for each of the existing classes of employees reflects this classification.[73]

It was likewise emphasized therein that the employer should provide reasonable and various factors in justifying the difference of the wages of the employees. For instance, "[w]hile seniority may be a factor in determining the wages of employees, it cannot be made the sole basis in cases where the nature of their work differs."[74] Indeed, a supervisor who has more responsibilities is justified to receive a higher salary than a rank-and-file employee, even though such rank-and-file employee may have a longer length of service than such supervisory employee. However, if both employees are rank-and-file and they undertake the same nature of work, the employer may be justified in imposing different salaries on such employees based on reasonable factors, such as length of service, seniority, competence, or incentive.

Verily, the imposition of diverging salaries to employees based on reasonable factors, even if occupying the same position, is within the management prerogative of the employer. "[A]bsent any indication that the voluntary increase of salary rates by an employer was done arbitrarily and illegally for the purpose of circumventing the laws or was devoid of any legitimate purpose other than to discriminate against the regular employees,

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71 *Philex Gold Phils. Inc. v. Philex Bulawan Supervisors Union*, supra note 60, at 239.
72 Supra note 50.
73 Id. at 575.
74 Id. at 577.

this Court will not step in to interfere with this management prerogative."[75]

In summary, as a general rule, the employer cannot discriminate against the employees regarding their salaries. Under the equal pay for equal work doctrine, the salary for all employees holding the same position must be the same.[76] However, as an exception, when the employer exercises its management prerogative, it can impose different salaries for employees—even those having the same position—based on reasonable factors or criteria, such as qualifications, skill, work experience,[77] seniority, length of service,[78] region,[79] nature of work, or incentives.[80] The suitable differentiation of the salaries of the employees is based on the management prerogative of the employer, which gives the latter the freedom to regulate according to their discretion and best judgment, all aspects of employment, subject to requirement of good faith and with due regard to the rights of the employees.[81] The employer has the burden of proof to justify the reasonable difference in salaries of the employees with the same position.[82]

For the purpose of comparison, in the government service, the imposition of different salaries among employees holding the same position is adopted in the salary standardization law for government employees. Indeed, the government adopts this rule on step increment in fixing the compensation of government employees; thus, those employees holding the same salary grade may have different step increments depending on merit, or their length of service or seniority.[83]

In *Small Business Corporation v. Commission on Audit*,[84] the Court recognized the concept of merit increases in the form of step increments in the salary grade of government employees.[85] In the said case, the Court

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75 Id. at 581.

76 *International School Alliance of Educators v. Quisumbing*, supra note 54, at 675.

77 *Philex Gold Phils. Inc. v. Philex Bulawan Supervisors Union*, supra note 60, at 239.

78 *Bankard Employees Union-Workers Alliance Trade Unions v. National Labor Relations Commission*, supra note 50, at 577.

79 *Prubankers Association v. Prudential Bank and Trust Company*, supra note 45, at 761.

80 *Philippine Geothermal, Inc. Employees Union v. Chevron Geothermal Phils. Holdings, Inc.*, supra note 44, at 437.

81 Id.

82 *International School Alliance of Educators v. Quisumbing*, supra note 54, at 675.

83 See Republic Act No. 6758, entitled "AN ACT PRESCRIBING A REVISED COMPENSATION AND POSITION CLASSIFICATION SYSTEM IN THE GOVERNMENT AND FOR OTHER PURPOSES." Approved on August 21, 1989.

84 819 Phil. 233 (2017).

85 Republic Act No. 6758, Section 13 states:

Section 13. *Pay Adjustments.* — Paragraphs (b) and (c), Section 15 of Presidential Decree No. 985 are hereby amended to read as follows:

x x x x

(c) Step Increments — Effective January 1, 1990 step increments shall be granted based on merit and/or length of service in accordance with rules and regulations that will be promulgated jointly by the DBM and the Civil Service Commission.

acknowledged the Board Resolution (*BR*) issued by the Office of the Government Corporate Counsel wherein step increments form part of the basic salary of the employee, when it defined them as "the increase in basic salary from step to step within the salary rate ranges authorized for each job level."[86] Merit increases take the form of step increment, which, under the BR itself, is an "[adjustment] in salary." When merit increases are granted to employees, the result is that the amount of their basic salary increases. The Court further held therein that the grant of a merit increase only carries with it the increase in the recipient employee's basic salary, and does not involve any horizontal or vertical movement in the job classification framework. When there is a step increment, the employee's position, insofar as job hierarchy is involved, does not change; only the amount of salary received by the employee changes.[87]

Under the foregoing, the Court recognized the classification of government employees occupying the same position into a corresponding salary grade. While government employees occupying the same position are given corresponding salary grades, it does not necessarily equate to having the same salary. The employees are still given different salary rates depending on the step increments applicable to each employee. The government provides for step increments under Sec. 13(c) of R.A. No. 6758, which are granted based on merit and/or length of service in accordance with rules and regulations that will be promulgated jointly by the Department of Budget and Management and the Civil Service Commission. Thus, a government employee holding a position for a longer period of time may have a higher salary rate as compared to a government employee recently hired or appointed to the same position. Indeed, government employees may be occupying the same position but they have different salary rates as a result of the application of the step increments.

Application in this case

Here, the apparent increase in the senior employees' salaries as compared with those of the other employees who have the same position but were only recently promoted, is not legal wage distortion under Art. 124 of the Labor Code since it did not result from wage adjustments due to a prescribed law or wage order. Rather, the wage increase was pursuant to the promotions given by petitioner to respondents, which resulted in wage differences between employees occupying the same position, and can only be considered as factual wage distortion, not covered by Art. 124 of the Labor Code.

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86 *Small Business Corporation v. Commission on Audit*, supra at 246.
87 Id. at 247.

In promoting Chavez, *et al.*, petitioner explained that the difference in the salary rates lies in the fact that it, in the exercise of its management prerogative, and pursuant to the provisions of the parties' CBA, adopted a criterion or standard to classify its employees.[88] This criterion made by petitioner itself was pursuant to a valid classification between a senior employee and a newly-promoted employee, both occupying the same position.

According to petitioner, its employees, even those occupying the same positions, are granted additional benefits for good performance. Petitioner also established that the difference in the basic salaries of employees holding the same position was a result of the fact that there are hiring rates and incremental steps in salary increases.[89] Due to several factors, such as length of service, performance, merit increases, implementation of government-mandated wage orders and wage increases as stated in the CBA, there are employees belonging to a particular *plantilla* position and performing basically the same job who have different salaries.[90]

Petitioner explained the salary system with performance incentive it imposes on its employees. Indeed, employees occupying the same position may not have the same salary due to the years of service rendered and the performance bonus or incentive awarded. Notably, the employees hired in 2019 were yet to be given performance incentives since they were newly promoted to the position, thus:

Employee Category	Basic Salary	Date Promoted	Total Performance Bonus (500 per year)	Present Salary
A	10,000	2009	500 x 10 = 5,000	15,000
B	10,000	2014	500 x 5 = 2,500	12,500
C	10,000	2019	500 x 0 = 0	10,000[91]

For instance, Lyle Cajoles was promoted to QGC Operator on September 9, 2016, which is the same position that Michael C. Maneja has occupied since August 1, 2008. Nevertheless, it was reasonable for petitioner to grant Michael C. Maneja a higher salary of ₱20,095.67, compared to Lyle Cajoles's salary of ₱16,864.00,[92] because of several justifying factors such as seniority, length of service, and performance incentive.

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88 *Rollo*, pp. 79-80.
89 Id. at 76, 80.
90 Id. at 250.
91 Id. at 62.
92 CA *rollo*, p. 78; see also *rollo*, p. 217.

In addition, petitioner presented the Table of Salaries[93] received by the senior employees and respondents Chavez, *et al.* It is apparent therein that petitioner indeed did not give the same salaries to employees with similar positions because they have different hiring and promotion dates and different initial hiring salaries, *viz.*:

Senior Employees[94]

Name	Hiring date	Position	Hiring rate	Current salary
Paurom, Elmer L.	Aug. 1, 2008	CHE Operator	9,001.00	16,753.67
Menciano, Allen M.	Aug. 1, 2008	CHE Operator	9,001.00	16,753.67
Ejusa, Ardian P.	Aug. 1, 2008	CHE Operator	9,001.00	16,753.67
Notario, Antonio L.	Aug. 1, 2008	CHE Operator	9,001.00	16,753.67
Barlisan, Ruby F.	Aug. 1, 2008	CHE Operator	9,001.00	16,753.67

Chavez, *et al.*[95]

Name	Promotion date	Promoted Position	Hiring rate	Salary in promoted position
Pablo, Allan A.	Feb. 26, 2014	CHE Operator	11,288.00	12,293.67
Salentes, Jerry M.	Feb. 1, 2016	CHE Operator	11,288.00	12,293.67
Baniel, Rian C.	Sept. 9, 2016	CHE Operator	11,288.00	12,293.67
Salarda, Jorge S.	Apr. 11, 2014	CHE Operator	11,288.00	12,293.67
Dagus, Sylvester Tuareg V.	Mar. 7, 2016	CHE Operator	11,288.00	12,293.67

Based on the table above, the senior employees were initially hired on August 1, 2008, as CHE operators with a hiring rate of ₱9,001.00. However, due to the system implemented by petitioner, which factors in length of service, performance, and implementation of wage orders, the senior employees' salary as CHE operators eventually increased to ₱16,753.67. On the other hand, respondents, who were recently promoted on different dates from 2014 to 2016 and received a salary increase, have not yet rendered extensive years of service as CHE operators. Accordingly, although their salary increased due to the promotion in the amount of ₱12,293.67, it was still lower than those given to the senior CHE operators due to the merit system implemented by petitioner. Notably, respondents did not contest the data provided by petitioner regarding the hiring dates, initial salary, and current salary rates of the senior employees and Chavez, *et al.*

The Court finds that petitioner was able to adduce evidence to show that the difference in the salaries of its employees occupying the same

93 *Rollo*, pp. 216-218.
94 Id. at 217.
95 Id.

position was the result of several factors including, but not limited to seniority, length of service, performance, and implementation of wage orders. Petitioner was able to establish that the imposition of different rates in salary was the result of a valid exercise of management prerogative, giving salary increases or additional benefit to employees due to their seniority, experience, and other relevant factors. Petitioner did not impose the different salaries of Chavez, *et al.* arbitrarily or capriciously. Rather, it considered several factors in the imposition of the salaries of both the senior and promoted employees.

Indeed, the Court understands the rationale behind petitioner's exercise of its management prerogative in granting higher salaries to employees who have stayed with the company for an extended period of time. It boosts the morale of loyal and senior employees in performing better at work and in being continuously motivated. As a result, a valid classification between a senior employee and a newly-promoted employee stands. Accordingly, it is understandable that Chavez, *et al.*, who were newly promoted, did not have the same salaries compared to the senior employees, albeit occupy the same position. It cannot be gainsaid that petitioner discriminated against the salaries of Chavez, *et al.*, when the latter were promoted. Indeed, petitioner discharged its burden to establish that the difference in the salaries of its employees with the same position was due to reasonable exercise of its management prerogative.

CBA provisions

In labor law, "the CBA is the norm of conduct or the law between the parties. When the terms of a CBA are clear and there is no doubt as to the parties' intention, the literal meaning of its stipulations shall prevail."[96] In *Goya, Inc. v. Goya, Inc. Employees Union-FFW*,[97] the Court held:

> 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.[98]

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96 *Philippine Bank of Communications v. Philippine Bank of Communications Employees Association*, G.R. No. 254021, February 14, 2022.

97 701 Phil. 645 (2013).

98 Id. at 659-660.

Indubitably, 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.[99]

In *TSPIC Corp. v. TSPIC Employees Union*,[100] the Court held that:

> [A]s a general rule, in the interpretation of a contract, the intention of the parties is to be pursued. *Littera necat spiritus vivificat*. An instrument must be interpreted according to the intention of the parties. It is the duty of the courts to place a practical and realistic construction upon it, giving due consideration to the context in which it is negotiated and the purpose which it is intended to serve. Absurd and illogical interpretations should also be avoided.[101]

In this case, though the provisions of the CBA seem clear and unambiguous, the parties arrived at conflicting interpretations. Notably, in the second paragraph of the Declaration of Policy of the CBA, it was specifically mentioned that petitioner and respondents mutually agree to bind themselves to perform in good faith all the provisions in the said agreement.[102] Respondents argue that all the employees holding the same *plantilla* position should have the same pay considering that they perform similar functions.

The argument lacks merit.

Sec. 1,[103] Art. 7 of the CBA provides for the principle of equal pay for equal work. However, this provision does not absolutely prohibit petitioner from imposing different salaries to employees with the same position if there is a valid and reasonable justification.

On the other hand, Sec. 3, Art. 6 of the CBA simply stated that "[w]henever a regular employee covered by this Agreement is promoted to a job that pays more than his former job; he shall receive the pay of the job to which he has been promoted." The provision does not categorically prohibit the management from further classifying the salaries received by the employees with the same position based on some significant and meritorious reasons, such as seniority, skills, competence, and other reasonable factors.

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99 *TSPIC Corp. v. TSPIC Employees Union*, 568 Phil. 774, 784 (2008).

100 Id.

101 Id.

102 *Rollo*, pp. 113-114.

103 Section 1. The Company agrees on the principle of equal pay for equal work and non-diminution of salary rate. Transfer to a lesser rank and file position shall be done in accordance with Law. (*Rollo*, p. 120)

Contrary to respondents' averment, there is nothing in the CBA which expressly states that employees promoted to a higher position are absolutely entitled to the same salary regardless of their qualifications. Similarly, the CBA made no mention that whenever a regular employee is promoted to a job that pays more than his or her former job, he or she shall receive the salary of the highest paid employee in the same *plantilla* position to which he or she has been promoted.

Instead, Sec. 2, Art. 6 of the CBA takes into consideration length of service, along with other standards, as reasonable standards or criteria in the promotion of employees. This would indicate that the parties in their CBA consider seniority, physical fitness, length of service, and competence as valid criteria in the promotion of an employee and as reasonable distinction among its employees.

Notably, in Sec. 1, Art. 9 of the CBA, under the Rules and Regulations portion, respondents recognized the prerogative of the management to promulgate rules, regulations, and policies for the purpose of maintaining discipline, order, safety, and effective operation within the company.[104]

All the aforementioned provisions of the CBA must be given full force and effect to ascertain the true intention of the parties. While Sec. 1, Art. 7 of the CBA embodies the principle of equal pay for equal work, this provision must be interpreted in conjunction with the other provisions of the CBA. Significantly, the policy of equal pay for equal work recognizes differences in pay based on substantive differences in the qualifications of the employees. Notably, several factors, such as competency, attendance, physical fitness, and length of service are some of the criteria considered by petitioner in determining the salaries of its employees.[105]

As discussed earlier, the difference in the basic salaries between promoted respondent employees, Chavez, *et al.*, and the other employees with the same position was justifiable, since the senior employees were given more incentives for their tenure, merit and/or skill compared with the newly-promoted employees who were yet to receive the incentives.

Undeniably, there was basis to hold that the senior employees should not be classified together with the newly-promoted employees with the same position in terms of salary rates. To reiterate, there is a recognized distinction between senior employees and newly-promoted employees occupying the same position, based on competency, attendance, physical fitness, and length

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104 *Rollo*, p. 120.
105 Section 2, Article 6 of the CBA.

of service. This would help avoid an unfair situation where a senior employee, who has been holding a position for a relatively long period of time and with extensive skills, would receive the same salary as that of a newly-promoted employee, who has lesser experience, in the same position.

Finally, the subject CBA provisions do not categorically prohibit the management from further classifying the salaries received by employees with the same position based on significant and meritorious reasons, such as seniority, skills, competence, and other reasonable factors. Indeed, petitioner was able to provide justification for the difference in the basic salaries of its employees since the salary increase or additional benefit given was due to the seniority and/or term of service, and the work experience of the employees who were hired earlier for that position compared to the newly-promoted employees.

WHEREFORE, the Petition is **GRANTED**. The August 16, 2018 Decision and the March 4, 2019 Resolution of the Court of Appeals, Cagayan de Oro City in CA-G.R. SP No. 08151-MIN are **REVERSED** and **SET ASIDE**. The April 25, 2017 Decision and the undated Resolution of the Accredited Voluntary Arbitrator, Regional Arbitration Branch No. 10, Cagayan de Oro City are **REINSTATED**.

SO ORDERED.

ALEXANDER G. GESMUNDO
Chief Justice

WE CONCUR:

RAMON PAUL L. HERNANDO
Associate Justice

RODIL V. ZALAMEDA
Associate Justice

RICARDO R. ROSARIO
Associate Justice

(On Official Business)
JOSE MIDAS P. MARQUEZ
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, 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.

ALEXANDER G. GESMUNDO
Chief Justice