Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

NOTICE

Sirs/Mesdames:

Please take notice that the Court, Third Division, issued a Resolution dated **August 10, 2022**, *which reads as follows:*

"G.R. No. 244463 (*Limcoma Multi-Purpose Cooperative and Cynthia G. Morada v. Enrique Y. Siglos, Francisco F. Faner, Protacio F. Fradejas, and Rolando P. Soledad*). – The Court **NOTES** petitioner's Reply dated November 29, 2021, to respondents' comment on the petition for review on *certiorari.*

This Petition for Review on *Certiorari*[1] assails the January 25, 2019 Decision[2] of the Court of Appeals (CA) in CA-G.R. SP No. 153860, which reversed and set aside the August 7, 2017 Decision[3] and October 19, 2017 Resolution[4] of the National Labor Relations Commission (NLRC). The NLRC reversed and set aside the November 18, 2016 Decision[5] of the Labor Arbiter (LA), which granted the illegal dismissal complaint filed by herein respondents Enrique Y. Siglos (Siglos), Francisco F. Faner (Faner), Protacio F. Fradejas (Fradejas), and Rolando P. Soledad (Soledad) against Limcoma Multi-Purpose Cooperative (Limcoma).

Antecedents

Petitioner Limcoma is a mutli-purpose cooperative engaged in the design, development, manufacture, distribution, and sale of animal feeds, with petitioner Cynthia G. Morada (Morada) as its General Manager.[6]

Respondents Siglos, Faner, Fradejas, and Soledad were laborers allegedly hired by Limcoma. Siglos claims to have been hired on January 2, 1998; Faner some time in January of 1995; Fradejas at around June of 1991; and Soledad during January of 2003. They were tasked to load, deliver, and supply feeds to satellite branches and clients of Limcoma. After spending some time working for

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1 *Rollo*, pp. 13-41.
2 Id. at 45-59. Penned by Associate Justice Fernanda Lampas Peralta with Associate Justices Rodil V. Zalameda (now a Member of this Court) and Henri Jean Paul B. Inting (now a Member of this Court), concurring.
3 Id. at 84-94. Penned by Commissioner Gina F. Cenit-Escoto, with Presiding Commissioner Gerardo C. Nograles and Commissioner Romeo L. Go, concurring.
4 Id. at 46.
5 Id. at 78-81. Penned by Labor Arbiter Edgar B. Bisana.
6 Id. at 46.

Limcoma, they were assigned to Mayflower Agri-Ventures Corp. (Mayflower), a division of Limcoma similarly engaged in the manufacture of veterinary products.[7]

Respondents claim that they were never accorded regular status, nor given overtime pay, holiday pay, service incentive leave, and 13th month pay notwithstanding their lengthy service. They also alleged that they were not given pay slips, and were merely asked to sign a piece of paper when claiming their salaries.[8]

Respondents alleged that on May 2, 2013, they were verbally dismissed by Raymond Dimayuga, manager of Mayflower, and told that they were no longer required to report for work in view of the cessation of Mayflower's operations. Thereafter, respondents and twenty-three (23) other employees were offered separation pay amounting to ₱11,000.00 each, regardless of length of service. Respondents refused to accept the offer.[9]

Eventually, respondents learned that Limcoma intended to engage the services of an external agency to replace the dismissed workers. Respondents requested that they be transferred or given a different work assignment, which Limcoma did not accede. Thus, on November 5, 2013, respondents filed with the LA a complaint[10] for illegal dismissal against "*Mayflower Agri-Ventures/ Limcoma Multi-Purpose Cooperative, Cynthia G. Morada, General Manager and/or Atty. Anunciacion C. Bernardo, Chairman of the Board.*" Included in the complaint was a prayer for regularization, as well as payment of overtime pay, holiday pay, service incentive leave, 13th month, moral damages, exemplary damages, nominal damages, and attorney's fees.[11]

The LA issued an Order on December 17, 2013, dismissing the case for failure to acquire jurisdiction over Limcoma, Morada, Mayflower, and Atty. Anunciacion C. Bernardo (Bernardo), in view of the notation "*Business Closed*" in the returned summons served upon them. Thus, on January 15, 2014, respondents filed a "Motion to Reopen/Revive Case," stating that Limcoma was still operating at the address provided for in the complaint, and that Morada and Bernardo were General Manager and Chairman of the Board, respectively.[12]

On May 14, 2014, the LA held a mandatory conference. Despite the appearance of Limcoma as represented by Morada, the LA suspended the proceedings until jurisdiction over Mayflower and Bernardo could be acquired. For their part, respondents moved to proceed with the hearing, claiming that Limcoma and Mayflower were one and the same entity. However, respondents' motion was denied in the Order dated May 27, 2014. Respondents were also given

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7 Id. at 46-47.
8 Id. at 47.
9 Id.
10 Id. at 70-72.
11 Id. at 48.
12 Id.

until June 16, 2014, to provide the LA with the addresses of Mayflower and Bernardo.[13]

After a "Second Motion to Proceed with the Hearing of the Case" was again denied by the LA, the case was ordered to be archived for failure to provide the addresses of Mayflower and Bernardo.[14]

On December 15, 2014, respondents filed a "Motion to Reopen, Inhibit and Reassign the Case and Proceed with the Hearing Thereof," manifesting therein that they were submitting an amended complaint removing Bernardo as party-respondent. The motion was again denied by the LA for lack of merit, in its Order dated January 30, 2015.[15]

On March 20, 2015, respondents filed an "Omnibus Manifestation and Motion" reiterating their earlier allegations, and praying that a new LA be assigned to hear and resolve the case. Having already been assigned to a different LA, another mandatory conference was held on June 23, 2015. During the mandatory conference, the parties agreed that Limcoma "will be the sole respondent to [the] case together with the individual respondent included in their complaint."[16]

Ruling of the LA

After the parties submitted their respective evidence and position papers, the LA issued a Decision,[17] finding respondents to have been illegally dismissed by petitioners, the dispositive portion of which states:

> WHEREFORE, premises considered, all the respondents are guilty of illegal dismissal and hereby ORDERED to reinstate all the complainants immediately to their former positions without loss of seniority rights and benefits. Further, all the respondents are jointly and severally liable to pay complainants the following:
>
> 1. Full Backwages from date of dismissal until actual reinstatement;
>
> 2. 13th month pay for 3 years for each of the complainants;
>
> 3. Service Incentive Leave for 3 years for each of the complainants;
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> 4. 10% of the total award as Attorney's fees.
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> The Computation Unit is directed to compute the Judgment Award within (15) days from receipt hereof.
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> SO ORDERED.[18]

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13 Id. at 48-49.
14 Id. at 49.
15 Id.
16 Id.
17 Id. at 78-81.
18 Id. at 80-81.

The LA found that the business of Mayflower was "intertwined and interlocking" with the business of Limcoma, and that there was no evidence showing that Mayflower had a personality distinct from Limcoma. Thus, according to the LA, there was a need to pierce the veil of corporate fiction in order to prevent the perpetration of fraud, to the detriment of respondents.[19]

Ruling of the NLRC

Aggrieved, petitioners appealed to the NLRC, which set aside the decision of the LA. The dispositive portion of the NLRC Decision reads:

> WHEREFORE, the Decision of the Office of the Labor Arbiter dated 18 November 2016 is hereby SET ASIDE. Let the case be REMANDED to the Office of the Labor Arbiter for the issuance of summons to Mayflower Agricultural Ventures Corporation, conduct of further proceedings and resolution of the case without unnecessary delay.
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> SO ORDERED.[20]

The NLRC held that since Mayflower was not properly served with summons, jurisdiction over it was not acquired by the LA. Consequently, there could be no complete determination of respondents' cause of action unless jurisdiction over Mayflower is acquired, and the respondent-company given the opportunity to present its side. The NLRC denied respondents' motion for reconsideration in its Resolution dated October 19, 2017.[21]

Seeking redress from the NLRC decision, respondents filed a petition for *certiorari* before the CA, ascribing grave abuse of discretion on the part of the NLRC.[22]

Ruling of the CA

The CA reinstated the LA's ruling in its assailed Decision[23] dated January 25, 2019, the dispositive portion of which reads:

> **WHEREFORE**, the Decision dated August 7, 2017 and Resolution dated October 19, 2017 of public respondent NLRC are **NULLIFIED**, and the labor arbiter's Decision dated November 18, 2016 is reinstated.
>
> **SO ORDERED.**[24]

The CA held that the matter pertaining to the service of summons and acquisition of jurisdiction by the LA over Mayflower had been addressed during

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19 Id. at 79.
20 Id. at 93.
21 Id. at 46.
22 Id. at 45.
23 Id. at 45-59.
24 Id. at 59.

the mandatory conference when the parties agreed that Limcoma would be the sole respondent in the illegal dismissal case. The appellate court stated that any remand would only delay the disposition of the case. Moreover, the CA, in evaluating the evidence, agreed with the LA that Mayflower was, without a doubt, a mere undertaking or division of Limcoma, and that the arbitrary termination of respondents from employment without prior notice, under the guise of Mayflower's closure, clearly displays the perverted use by Limcoma of the legal fiction of separate corporate personality. Thus, the CA nullified the NLRC decision and resolution on account of grave abuse of discretion.[25]

On March 13, 2019, petitioners filed before the Court a Petition for Review on *Certiorari*[26] under Rule 45 of the Rules of Court, seeking to appeal the assailed decision of the CA. Respondents filed their Comment[27] on September 13, 2019, while petitioners filed their Reply[28] on December 10, 2021.

Issue

The issue for the Court's resolution is whether or not the CA committed any reversible error in nullifying the decision of the NLRC, and finding herein respondents to have been illegally dismissed from employment.

Ruling

The petition is partially granted, but only insofar as the complaint against petitioner Morada must be dismissed. As regards petitioner Limcoma, the petition must be denied, for being without merit.

Petitioners argue that before the LA could validly pierce Mayflower's veil of corporate fiction, the LA should have first acquired jurisdiction over Mayflower. Having failed to do so, petitioners claim that the LA had no basis to proceed with the case. Petitioners further argue that service of summons on Mayflower, a corporation distinct from Limcoma, cannot be dispensed with, by reason of the signatures of Limcoma's representatives in the minutes of the proceedings before the LA, and that Mayflower, despite being a dissolved corporation, is still entitled to service of summons. Finally, petitioners argue that employer-employee relation was not established.

To bolster its position, petitioners make heavy reliance on the case of *Kukan International Corp. v. Hon. Judge Reyes*,[29] to establish that a corporation not impleaded in a suit cannot be subject to the court's process of piercing the veil of its corporate fiction.[30]

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25 Id. at 45-49.
26 Id. at 13-41.
27 Id. at 96-106.
28 Id. at 113-121.
29 646 Phil. 210 (2010).
30 Id. at 234.

The Court notes, however, that in *Kukan*, the case filed before the lower courts was a complaint for sum of money arising out of unpaid contractual undertakings, while in the case at bar, the dispute arose out of a claim for illegal dismissal. Moreover, in *Kukan*, Kukan International Corporation (KIC), the corporation whom the plaintiff sought to proceed against during execution, was only first impleaded at the execution stage after a full blown trial had already been completed, while in the case at bar, respondent-employees tried, albeit failed, numerous times to have both Mayflower and Limcoma impleaded at the earliest stage of the dispute, alleging early on that both companies are but one and the same entity. Finally, in *Kukan*, there was no indication whatsoever that KIC gave any consent to any proceeding against it. Meanwhile, in the instant case, Limcoma, the company which the lower courts found to be solidarily liable for respondents' illegal dismissal, gave its consent to have the case against it proceed even without the participation of Mayflower.[31]

In view of these apparent divergence of circumstances between *Kukan* and the case at bar, it thus becomes helpful to examine the doctrine of piercing the veil of corporate fiction, as applied specifically to labor cases.[32]

In *Kho v. Magbanua* (*Kho*),[33] the Court discussed that:

> In the earlier labor cases of *Claparols v. Court of Industrial Relations* [460 Phil. 624 (1975] and *A. C. Ransom Labor Union-CCLU v. NLRC* [226 Phil. 199 (1986)], persons who were not originally impleaded in the case were, even during execution, held to be solidarily liable with the employer corporation for the latter's unpaid obligations to complainant-employees. These included a newly-formed corporation which was considered a mere conduit or alter ego of the originally impleaded corporation, and/or the officers or stockholders of the latter corporation. Liability attached, especially to the responsible officers, even after final judgment and during execution, when there was a failure to collect from the employer corporation the judgment debt awarded to its workers. In *Naguiat v. NLRC* [336 Phil. 545 (1997)], the president of the corporation was found, for the first time on appeal, to be solidarily liable to the dismissed employees. Then, in Reynoso v. [CA] [339 Phil. 38 (2000)], the veil of corporate fiction was pierced at the stage of execution, against a corporation not previously impleaded, when it was established that such corporation had dominant control of the original party corporation, which was a smaller company, in such a manner that the latter's closure was done by the former in order to defraud its creditors, including a former worker.
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> The rulings of this Court in *A. C Ransom, Naguiat*, and *Reynoso*, however, have since been tempered, at least in the aspects of the lifting of the corporate veil and the assignment of personal liability to directors, trustees[,] and officers in labor cases. The subsequent cases of *McLeod v. NLRC*, *Spouses Santos v. NLRC* and *Carag v. NLRC*, have all established, save for certain exceptions, the primacy of Section 31 of the Corporation Code in the matter of assigning such liability for a corporation's debts, including judgment obligations in labor cases. According to these cases, a corporation is still an artificial being invested by law with a personality separate and distinct from that of its

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31 Id. at 234-235.
32 Id. at 232.
33 G.R. No. 237246, July 29, 2019.

> stockholders and from that of other corporations to which it may be connected. It is not in every instance of inability to collect from a corporation that the veil of corporate fiction is pierced, and the responsible officials are made liable. Personal liability attaches only when, as enumerated by the said Section 31 of the Corporation Code, there is a [willful) and knowing assent to patently unlawful acts of the corporation, there is gross negligence or bad faith in directing the affairs of the corporation, or there is a conflict of interest resulting in damages to the corporation. x x x.
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> It also bears emphasis that in cases where personal liability attaches, not even all officers are made accountable. Rather, only the "responsible officer," i.e., the person directly responsible for and who "acted in bad faith" in committing the illegal dismissal or any act violative of the Labor Code, is held solidarily liable, in cases wherein the corporate veil is pierced. In other instances, such as cases of so-called corporate tort of a close corporation, it is the person "actively engaged" in the management of the corporation who is held liable. In the absence of a clearly identifiable officer(s) directly responsible for the legal infraction, the Court considers the president of the corporation as such officer.
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> The common thread running among the aforementioned cases, however, is that the veil of corporate fiction can be pierced, and responsible corporate directors and officers or even a separate but related corporation, may be impleaded and held answerable solidarily in a labor case, even after final judgment and on execution, so long as it is established that such persons have deliberately used the corporate vehicle to unjustly evade the judgment obligation, or have resorted to fraud, bad faith or malice in doing so. When the shield of a separate corporate identity is used to commit wrongdoing and opprobriously elude responsibility, the courts and the legal authorities in a labor case have not hesitated to step in and shatter the said shield and deny the usual protections to the offending party, even after final judgment. The key element is the presence of fraud, malice or bad faith. Bad faith, in this instance, does not connote bad judgment or negligence but imports a dishonest purpose or some moral obliquity and conscious doing of wrong; it means breach of a known duty through some motive or interest or ill will; it partakes of the nature of fraud.[34] (Emphasis supplied; citations omitted)

The import of the above-cited discussion is that the Court has, in the past, not hesitated to step in and ignore procedural lapses when it becomes glaringly apparent that the veil of corporate fiction is being used to deny the rights of laborers, particularly their right to security of tenure, through the use of fraud, malice, or bad faith.

Be that as it may, it is important to note that the circumstances in the above cases are not also exactly the same as in the case at bar. Specifically, in the cases discussed in *Kho*, liability was imposed on corporations not initially impleaded, and even after final judgment and on execution. In contrast, in the instant case, liability for respondents' illegal dismissal was imposed by the lower courts on Limcoma, a corporation already impleaded and made a party to the case, with petitioners essentially arguing that the case should not have proceeded due to the absence of Mayflower, a corporation not impleaded and indispensable to the proceedings.

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34 Id.

Thus, the foregoing discussion notwithstanding, all of petitioners' arguments harping on the lack of service of summons to and jurisdiction over Mayflower, must fail for another reason: Limcoma gave its consent to having the case against it proceed, despite the absence of Mayflower.

As correctly pointed out by the CA, the matter pertaining to service of summons and acquisition of jurisdiction by the LA over Mayflower had been sufficiently addressed when, during the mandatory conference on June 23, 2015, before LA Edgar Bisana, the parties agreed that Limcoma would be the sole respondent together with Morada. The CA cited the Minutes of the mandatory conference, signed by Morada, General Manager of Limcoma, which reads:

> Both parties appeared today. Record[s] [show] that Mayflower Agri-Ventures should not be included in this case [because] [t]his do not acquired [sic] jurisdiction over Mayflower. There is no indication that Mayflower received any summons sent to them.
>
> As per record, Limcoma will be the sole respondent to this case together with the individual respondent included in their complaint.[35]

Petitioners argue that "the representatives of Limcoma affixed their signatures to the minutes as proof of their attendance in the proceedings, and not because they were agreeing to the matter stated therein." Needless to say, this belated argument is completely self-serving and unsubstantiated by any evidence on record. Petitioner's claim deserves no consideration, especially when weighed against a document bearing the signature of Limcoma's representative, clearly stating the matter discussed during the mandatory conference, with no indication of any reservation on the part of Limcoma.

As for petitioners' argument that employer-employee relations was not established, the records bear otherwise. Using the four-fold test of employer-employee relations in *Halipot v. Jade Palace Restaurant*[36] cited by petitioners, the Court finds that the CA sufficiently discussed the circumstances that showed how Limcoma was the true employer of herein respondents. It was also established that it was Limcoma that exercised supervision over the affairs of Mayflower, including the employment, payment of wages, and eventual arbitrary dismissal of respondents without prior notice. It was also established that the requisition, loading and dispatch instructions followed by respondents came from Limcoma. The deliveries involved products of Limcoma, and were all made under the control of Limcoma. Respondents were even required to report to the office of Limcoma.[37]

It bears noting that petitioners essentially dispute the existence of employer-employee relations by performing its own re-examination of facts established in the lower courts, something it cannot do under a Rule 45 petition,

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35 Id. at 76.
36 Notice. G.R. No. 209363, November 14, 2014.
37 Id. at 45-59.

which covers only questions of law. The Court, not being a trier of facts, is not duty-bound to re-examine and calibrate the evidence on record.[38] More importantly, there is no compelling reason to disturb the findings of the LA and CA, especially considering that the NLRC only dismissed the case on procedural grounds, while the LA and the CA both examined the factual milieu of the dispute, and were consistent in their findings.[39]

Anent petitioners' claim that the termination of respondents was pursuant to an authorized cause under the Labor Code, particularly the closure of Mayflower's business, this again deserves scant consideration. Contrary to being an authorized cause, the lower tribunals found the alleged closure to have displayed evident bad faith on the part of petitioners in their arbitrary dismissal of respondents. As correctly held by the LA and CA, Mayflower was part and parcel of Limcoma, operating in the same office, and doing business for the exclusive benefit of the latter. The manner by which respondents and twenty-three (23) other employees were arbitrarily and verbally terminated from employment, without prior notice, coupled with the sudden closure of Mayflower, suggest the bad faith and perverted use of the legal fiction of separate corporate personality, in violation of respondents' right to security of tenure.[40]

Petitioners further submit that if, for argument's sake, respondents were indeed illegally dismissed, they should be paid separation pay in *lieu* of reinstatement. Petitioners point out that the instant complaint has created a serious strain in the relations of the parties that makes reinstatement untenable. To justify this request, petitioners cite the pendency of the instant case, which has now been pending for a few years, and concluded that "it would be the height of naïvete to think that all is well" between the parties. On this point, the Court emphasizes that every labor dispute almost always results in "strained relations," and the phrase cannot be given an overarching interpretation, otherwise, an unjustly dismissed employee can never be reinstated.[41] Besides, the doctrine of strained relations cannot be applied indiscriminately since every labor dispute almost invariably results in "strained relations;" otherwise, reinstatement can never be possible simply because some hostility is engendered between the parties as a result of their disagreement. That is human nature. Strained relations must be demonstrated as a fact. The doctrine should not be used recklessly or loosely applied, nor be based on impression alone.[42] Failing to provide any compelling evidence in their petition to justify a departure from this general rule, petitioners' request for separation pay in *lieu* of reinstatement cannot stand.

Nonetheless, despite all the foregoing, the Court finds that the complaint against petitioner Morada should be dismissed, for failure of respondents to adduce sufficient evidence to show that she should be held solidarily liable alongside petitioner Limcoma.

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38 *Gamboa v. Maunlad Trans, Inc.*, G.R. No. 232905, August 20, 2018.
39 *Rollo*, pp. 84-94, 45-59.
40 Id. at 58.
41 *Advan Motor, Inc. v. Veneracion*, 822 Phil. 596, 606 (2017).
42 *Rodriguez v. Sintron Systems*, G.R. No. 240254, dated July 24, 2019.

In the earlier cited case of *Kho*, We ruled that officers and directors may be held personally liable with the corporation if it is established that such officers or directors deliberately used the corporate vehicle to unjustly evade the judgment obligation, or have resorted to fraud, malice, or bad faith in doing so.[43] Bad faith does not connote bad judgment or negligence; it imports a dishonest purpose or some moral obliquity and conscious doing of wrong; it means breach of a known duty through some motive or interest or ill will; it partakes of the nature of fraud.[44] Relatedly, bad faith cannot be ascribed on any of the corporation's officers by the mere fact that the corporation failed to comply with the notice requirement before closing down an establishment.[45] Thus, absent clear and convincing evidence sufficient to overcome the burden of proof required, the Court finds that the complaint for illegal dismissal, as against petitioner Morada, should be dismissed.

WHEREFORE, premises considered, the Petition for Review on *Certiorari* is **PARTIALLY GRANTED**. The assailed Decision dated January 25, 2019 of the Court of Appeals in CA-G.R. SP No. 153860 is **AFFIRMED** with respect to petitioner Limcoma Multi-Purpose Cooperative. With respect to petitioner Cynthia G. Morada, the same is **REVERSED and SET ASIDE**. Accordingly, the complaint for illegal dismissal against Cynthia G. Morada is hereby **DISMISSED**.

SO ORDERED." (**Inting**, *J., recused himself from the case due to his prior participation in the CA*; **Marquez**, *J., designated additional Member per Raffle dated July 26, 2022.*)

By authority of the Court:

MISAEL DOMINGO C. BATTUNG III
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43 *Kho v. Magbanua*, supra note 33.

44 *Ever Electrical Manufacturing, Inc. v. Samahang Manggagawa ng Ever Electrical*, 687 Phil. 529, 538-539 (2012).

45 See *Kho v. Magbanua*, supra note 33.

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