

Title: Hayden Kho, Sr. vs. Dolores G. Magbanua, et al.

Facts:

Respondents composed of cooks, cashiers, and dishwashers at Holy Face Cell Corporation's "Tres Pares Fast Food" (Tres Pares) filed a complaint for illegal dismissal against their employer, the Corporation, along with Kho and others who are stockholders. They claimed that on January 14, 2011, a notice of closure was posted in the premises by Sheryl Kho, stating that Tres Pares would shut down by January 19, 2011. Respondents attempted to discuss the matter with Kho but were unsuccessful. Subsequent to the restaurant's closure, the respondents filed their complaint. Kho and his wife, Irene, contended that an employer-employee relationship with respondents did not exist as the Corporation was the employer, and they argued that they should not be held liable for the Corporation's actions.

The LA ruled in favor of respondents, ordering the Corporation and Kho to pay separation pay, salary and 13th month pay differentials, nominal damages, and attorney's fees, given that the closure did not comply with the notice requirement under Article 298 of the Labor Code. The NLRC, upon Kho's appeal, reversed the LA's Decision, stating that there was no proof that Kho indulged in any act that would warrant piercing the veil of corporate fiction.

Respondents then appealed to the CA, which reversed the NLRC and reinstated the LA's Decision, finding Kho liable due to an effective admission of managing the Corporation and assenting to a sudden closure without a board resolution, thus indicating bad faith and warranting his solidarity liability.

Kho then petitioned to the Supreme Court.

Issues:

The primary issue is whether the CA correctly found that there was grave abuse of discretion on the part of the NLRC and hence correctly held Kho solidarily liable with the Corporation for the payment of monetary claims to the respondents.

Court's Decision:

The Supreme Court granted the petition, reversing the CA decision and reinstating the NLRC ruling, exonerating Kho from solidary liability. The Supreme Court found no grave abuse of discretion by the NLRC and held that the CA misrepresented both law and fact regarding Kho's liability since the Corporation's GIS contradicted the CA's assertion that Kho was the President at the time of the closure. Furthermore, there was no sufficient evidence indicating Kho had acted in bad faith or had committed gross negligence.

Doctrine:

The doctrine of separate corporate personality states that a corporation has a legal personality distinct from its directors, officers, and stockholders, and liabilities incurred are solely the corporation's. However, the veil of corporate fiction can be pierced under circumstances such as bad faith, fraud, or when the corporation has been used to evade obligations. Solidarity liability for corporate directors, trustees, or officers can be assessed when they assent to unlawful acts, are guilty of bad faith or gross negligence in directing corporate affairs, or a conflict of interest has caused damages.

Class Notes:

1. Separate Corporate Personality: A corporation is considered a legal entity separate from its stockholders and officers.
2. Veil of Corporate Fiction: where it is used to justify wrongful acts, protect a fraud, or any similar injurious act, it can be pierced to hold responsible individuals liable.
3. Personal Liability: for corporate obligations can attach to officers only if there is a clear allegation and evidence of willful behavior or gross negligence.

Historical Background:

The case exemplifies the application of corporate law principles in labor disputes in the Philippines, emphasizing the protection afforded by the concept of separate corporate personality, balanced with the potential of personal liability when there is gross misuse of corporate structure, as observed in later rulings refining the application of these principles in labor cases.