

Title: Grace Christian High School v. The Court of Appeals et al.

Facts:

Grace Christian High School (petitioner) is an educational institution located within Grace Village in Quezon City. The private respondent is Grace Village Association, Inc. (the Association), a community organization of lot and building owners, lessees, and residents of Grace Village. Alejandro G. Beltran and Ernesto L. Go were the Association's president and election committee chairman, respectively, in 1990.

The by-laws of the Association (adopted in 1968) stated that an annual meeting was to be held to elect members of the Board of Directors by secret balloting. In 1975, an amendment to the by-laws was drafted by the board's committee but was never formally approved by the general membership. The draft indicated, among other changes, that a representative from the petitioner school was to be a permanent director of the Association.

This amendment was not officially ratified; however, for fifteen years (1975-1990), the practice of allowing a representative from the petitioner to have a permanent seat on the Board was followed. On February 13, 1990, the petitioner was informed by the election committee that past practice might change to ensure all directors were elected by members, thereby repealing the school's permanent representation.

The petitioner contested this change and subsequently filed a mandamus action in the Home Insurance and Guaranty Corporation (HIGC) to compel the Association to recognize its claimed right. The HIGC dismissed the action, as did the Appeals Board upon review. Petitioner then appealed to the Court of Appeals, which affirmed the HIGC's decisions.

Issues:

1. Whether the petitioner had legally acquired a vested right to a permanent seat on the Board of Directors of the Association.
2. Whether the 1975 draft amendment to the by-laws was valid and binding.
3. Whether the long-standing practice of tolerating the automatic inclusion of the petitioner as a permanent board member without election was lawful.

Court's Decision:

The Supreme Court affirmed the decision of the Court of Appeals, holding that:

- The practice and implementation of the provision in question, despite its duration, did not override the requirement for formal ratification as per the existing by-laws and the Corporation Code (now B.P. Blg. 68, Section 92).

- The provisions of the Corporation Law (Act No. 1459, Sections 28 and 29) and the current Corporation Code mandate that directors of corporations should be elected from among stockholders or members, not be granted a permanent seat without election unless they hold an ex officio role, which does not apply in the case of the petitioner.
- Petitioner's claim of a vested right is indefensible, as practice contrary to law cannot create a vested right. The lack of formal adoption or ratification invalidated the practice.
- The opinion of the SEC on the legal question was not the deciding factor; rather, it was merely cited by the HIGC in its decision-making process.

Doctrine:

The provisions of the Corporation Law require that members of the boards of corporations be elected from the body of stockholders or members. Past practice, even when long-standing, cannot grant a vested right to a corporate board seat if it contradicts statutory provisions and established legal requirements for amending corporate by-laws.

Class Notes:

Key elements to consider in corporate governance situations:

- Formal ratification of by-laws and amendments per existing by-laws and statutory provisions (Corporation Code, Sections 22, 28, 29, and 92).
- The established principle that board members of corporations should be elected by stockholders or members.
- Continued practice does not establish legality if it opposes statutory law.
- Acquiescence or tolerance by members of a corporation does not constitute formal adoption or ratification.

Historical Background:

The case reflects a tension between established corporate practices within a community and the formal requirements of corporate governance as prescribed by law. It underscores the importance of adhering to statutory mandates for by-law amendments and the election of corporate directors, emphasizing that longevity of practice does not supersede the necessity for such legal formalities. The case serves as a significant reminder of the primacy of law over unwritten traditions in the corporate arena.