

Title: John Gokongwei, Jr. vs. Securities and Exchange Commission, et al.

Facts:

The case revolves around the petitioner, John Gokongwei, Jr., a significant stockholder of respondent San Miguel Corporation (SMC). Gokongwei filed two cases before the Securities and Exchange Commission (SEC). The first case, SEC Case No. 1375, challenged the amended by-laws of SMC which effectively disqualified him from being elected as a director due to his interests in competing businesses. The second, SEC Case No. 1423, accused SMC of investing corporate funds in other corporations/businesses without the requisite stockholders' approval, an alleged violation of Section 17-1/2 of the Corporation Law.

In SEC Case No. 1375, Gokongwei contended that the Board of Directors of SMC had no authority to amend the by-laws to include disqualification provisions because the powers delegated to the Board in 1961 had already been exercised and thus exhausted. Furthermore, Gokongwei argued that the disqualification provisions were intended to suppress minority stockholders and were unreasonable, oppressive, and amounted to an ultra vires act.

In SEC Case No. 1423, Gokongwei alleged that SMC, without stockholders' approval, invested in other businesses outside its primary purpose, violating Section 17-1/2 of the Corporation Law, and sought that such action be declared illegal.

The SEC failed to act with deliberate dispatch on Gokongwei's petitions. Due to the impending annual stockholders' meeting of SMC and the potential for irreversible actions therein, Gokongwei sought recourse before the Supreme Court through a petition for certiorari, mandamus, and injunction, with a prayer for the issuance of a writ of preliminary injunction.

The Supreme Court issued a temporary restraining order, restraining SMC from disqualifying Gokongwei from running for directorship and from ratifying the by-laws amendment and the foreign investments in question.

Issues:

1. Whether the amended by-laws of SMC disqualifying a competitor from nomination or election to the Board of Directors are valid and reasonable.
2. Whether the SEC gravely abused its discretion in denying Gokongwei's request for an examination of the records of San Miguel International, Inc., a fully owned subsidiary of SMC.

3. Whether the SEC committed grave abuse of discretion in allowing the ratification of the foreign investment of corporate funds in violation of Section 17-1/2 of the Corporation Law.

Court's Decision:

1. The Court, though not unanimous, effectively upheld the validity of the amended by-laws disqualifying competitors from board nomination or election. The majority found the by-laws to be a reasonable exercise of corporate authority as a measure of self-protection.
2. The Court granted Gokongwei's petition to examine the books and records of San Miguel International, Inc., affirming his statutory right as a stockholder.
3. On the matter of ratifying the foreign investment, the Court found the issue moot, as the investment in question pertained to SMC's primary purpose and had been ratified by stockholders.

Doctrine:

1. Corporate by-laws may provide reasonable qualifications for directors; however, they must not be contrary to law or used to perpetuate a board or suppress minority rights.
2. A stockholder's right to inspect the books and records of the corporation extends to wholly owned subsidiaries where the parent corporation has control over the subsidiary's records.
3. A corporation may invest its funds in a business in line with its main purpose without the approval of stockholders, provided such investment does not violate the Corporation Law.

Class Notes:

- The Philippine Corporation Law provides that directors act as fiduciaries to the corporation and the stockholders, and must serve with utmost good faith and loyalty.
- A director may not use his position to further personal interests to the detriment of the corporation and its stockholders.
- The Anti-Trust Laws, inclusive of the Philippine Constitution, prohibit monopolies and combinations in restraint of trade or unfair competition.
- There is an inherent statutory right for a stockholder to inspect the books of the corporation, which must be exercised in good faith and for a lawful purpose.

Historical Background:

The case provides an instance where the internal governance mechanisms of a corporation were leveraged to address potential conflicts of interest arising from competition. It illustrates the balance sought by corporate governance between the rights of minority

shareholders and the protection of corporate interests. The decision also underscores the evolving jurisprudence on corporate law and stockholder rights in the Philippines during the period of economic expansion and diversification of business interests.