

****Title:**** Kwok v. Philippine Carpet Manufacturing Corporation (PCMC)

****Facts:****

- In 1965, Donald Kwok, alongside his father-in-law Patricio L. Lim and others, founded the Philippine Carpet Manufacturing Corporation (PCMC).
- Kwok served as general manager, executive vice-president, and COO, while Lim was president and chairman.
- Upon retirement on October 31, 1996, Kwok demanded P7,080,546.00 for his accumulated vacation and sick leave credits, which PCMC denied.
- Kwok claimed Lim verbally promised unlimited sick/vacation leave and conversion to cash upon retirement.
- PCMC denied unwritten agreements and stated that such claims weren't approved by the board nor covered by their policies.
- Kwok filed a complaint with the NLRC on non-payment of benefits. The Labor Arbiter ruled in favor of Kwok, awarding him P7,080,546.00 plus attorney's fees.
- PCMC appealed to the NLRC, arguing Kwok's position excluded him from stipulated benefits and citing prescription.
- The NLRC reversed the Labor Arbiter's decision, leading Kwok to appeal to the CA.
- The CA affirmed the NLRC decision, upholding the non-enforceability of Lim's verbal promise and lack of board approval.
- Kwok's subsequent motion for reconsideration was denied by the CA.
- Kwok elevated the case to the Supreme Court.

****Issues:****

1. Whether the verbal promise of Mr. Lim for the conversion of vacation and sick leave credits to cash is enforceable.
2. Whether the absence of board approval for such a promise affects its binding nature.
3. Whether evidence sufficiently supports the contention that Kwok was promised and entitled to such a benefit.
4. Whether Kwok's claims are barred by prescription.
5. The effect of company policy memoranda on Kwok's claims.

****Court's Decision:****

1. ****Verbal Promises of Benefits:****

The Court affirmed that verbal promises, while valid, must be supported by substantial

evidence. Kwok's claims were based on his testimony, lacking corroborative evidence of an established policy or written board approval, hence not binding on PCMC.

2. **Board Approval Necessity:**

Contracts made by corporate officers bind the corporation only if made within the scope of their authority or ratified by the corporation. Lim's verbal promise was not ratified by PCMC's board, making it unenforceable.

3. **Evidence of Entitlement:**

The evidence presented by respondents contradicted Kwok's claims. Testimonies and corporate policies indicated Kwok had unlimited leave but no entitlement to cash conversion, lacking formal applications validating his claims.

4. **Prescription of Claims:**

Even if valid, Kwok's claims related to leave credits from 1966 to 1993 were deemed barred by the three-year prescription rule under the Labor Code.

5. **Applicability of Memoranda:**

Company policies granting leave conversions did not apply to Kwok's executive rank. This was supported by internal memoranda and personnel testimonies establishing non-entitlement to such leave conversions.

Doctrine:

- **Authority & Ratification in Corporate Offers:** Actions by corporate officers bind corporations only if within their authority scope or ratified by the corporation. (Citing People's Aircargo and Warehousing Co., Inc. v. CA).

Class Notes:

- **Authority and Ratification:** Contracts made by corporate officers need either pre-approval or post-ratification by the board; personal promises without such are non-binding.
- **Prescription of Claims:** Labor-related claims must be filed within three years to avoid prescription.
- **Corporate Benefit Policies:** Written policies govern employee benefits unless substantial evidence proves otherwise.

Historical Background:

This case highlights the intricate issues surrounding corporate governance dynamics, the necessity of documented corporate policies, and the critical role of board resolutions in enforcing corporate agreements. It underscores the legal complexities retirees may face when relying on verbal assurances not formally documented or ratified by corporate boards. This case is deeply entrenched in corporate law principles, jurisprudence on employee entitlements, and the evidentiary burdens in proving unwritten benefits.