

Title

Filipinas Port Services, Inc. v. Victoriano S. Go, et al.

Facts

Filipinas Port Services, Inc. (Filport), a corporation engaged in stevedoring services, faced an intra-corporate dispute initially lodged with the Securities and Exchange Commission (SEC) but remained unresolved. On 19 July 2000, with the enactment of Republic Act No. 8799 (Securities Regulation Code), the case was transferred to the Regional Trial Court (RTC). The case eventually moved to the RTC of Davao City and returned judgment in favor of the petitioners. The respondents appealed, and the Court of Appeals (CA) reversed the decision, prompting petitioners to seek recourse in the Supreme Court.

On 4 September 1992, Eliodoro C. Cruz, Filport's president until 1991, wrote a letter challenging the board's creation of new positions with substantial monthly remunerations, filled by specific board members, demanding these funds be recovered. Dissatisfied with the board's response, Cruz, representing Filport's shareholders and Mindanao Terminal and Brokerage Services, Inc. (Minterbro), filed a derivative suit with the SEC on 14 June 1993 against the board for alleged mismanagement, citing several alleged irregularities and mismanagement issues:

1. Creation of an executive committee with per diem compensations
2. Disproportionate salary increases for certain corporate officers
3. Recreation of positions for AVPs and their subsequent election
4. Creation of special assistant roles, all with significant salaries

The respondents, in their defense, denied the mismanagement claims and insisted that the relevant actions were within the bounds of their authority and the company's financial capacity. The case idled at the SEC, was subsequently transferred to the RTC Manila, and then moved to the RTC of Davao City where it was favorably decided for the petitioners. Respondents appealed this decision, and the CA ultimately reversed the RTC's decision and dismissed the derivative suit. Petitioners then escalated the matter to the Supreme Court.

Issues

1. Whether Filport's Board of Directors acted within their power in creating additional executive positions and committees and increasing officer salaries.
2. Whether the CA had sufficient grounds to reject the finding of accommodation in the creation of certain positions.

3. Whether petitioners sufficiently proved the fact of actual payment of the contested salaries.

4. Whether the main action qualifies as a derivative suit.

Court's Decision

1. Creation of Positions and Salary Increases:

The Supreme Court held that the creation of various executive positions and committees, as well as the increase in officer salaries, fell within the board's managing authority as established by corporate by-laws and the Corporation Code. There was no bad faith, and the purported acts were a regular business practice authorized by the corporation's governing body.

2. Accommodation Purpose:

The CA correctly found no sufficient evidence to prove that the new positions were created merely for accommodation purposes. The Supreme Court upheld this, noting that Cruz's claims lacked evidentiary support beyond his testimony.

3. Proof of Payment:

The Supreme Court concurred with the CA's finding that petitioners did not adequately prove that salaries related to the contested positions were actually paid. Respondents' statements about work satisfaction and deserved compensation did not inherently imply payment.

4. Derivative Suit Nature:

The Supreme Court determined that Cruz had standing to file a derivative suit as it adhered to conditions specified for such actions. Cruz was a stockholder who had sought remedy within the corporation and initiated the suit to address perceived damages to the corporation.

Doctrine

1. **Corporate Governance and Board Authority:** The board of directors holds extensive authority over corporate affairs, allowing creation and compensation of positions unless explicitly restricted.
2. **Burden of Proof in Derivative Suits:** The complainant must substantiate claims of mismanagement or malfeasance with concrete evidence. Bare allegations are insufficient.
3. **Requirement for Actual Payment Proof:** In disputes about remuneration, it is essential to provide clear evidence of payment.

Class Notes

- **Corporate Powers:** Section 23, Corporation Code - Powers of the board over corporate affairs and property.
- **Executive Committee:** Section 35, Corporation Code - Requirements for creating executive committees, contingent on by-laws.
- **Derivative Suits:** Conditions allowing shareholders to sue on behalf of the corporation, including standing, exhausting intra-corporate remedies, and the nature of the damage primarily affecting the corporation.
- **Burden of Proof:** Rule-based necessity to provide preponderance of evidence in civil claims.

Historical Background

This case arose amid evolving corporate governance norms in the Philippines, highlighting shareholder activism and judicial oversight in corporate management. The Securities Regulation Code and subsequent legislative frameworks influenced the venue and progression of corporate litigation. This legal context underscores ongoing tensions between corporate control and stakeholder interests, reflective of broader global trends towards increased corporate transparency and accountability.