

**Title:** Joaquin T. Servidad v. National Labor Relations Commission, Innodata Philippines, Inc./Innodata Corporation, Todd Solomon

**Facts:**

- Employment Agreement:** Joaquin Servidad was employed by Innodata on May 9, 1994, as a “Data Control Clerk.” The contract specified a one-year term starting May 10, 1994, divided into:
  - An initial six-month period where the employer could terminate the employee’s services with written notice.
  - An additional six-month probationary period, after which the employee would be evaluated for regularization based on performance.
- Performance Evaluation:** During his tenure, Servidad received high performance ratings—100%, and 98% on July 7, 1994, and another 98.5% shortly thereafter.
- End of Contract & Dismissal:** As per the agreement’s terms, despite high performance evaluations, Servidad was dismissed on May 9, 1995, on the grounds of contract expiration.
- Labor Arbiter’s Decision:** Servidad filed an illegal dismissal complaint against Innodata. The Labor Arbiter ruled in his favor, declaring his dismissal illegal, ordering backwages of P53,826.50 and reinstatement without loss of seniority rights.
- NLRC’s Reversal:** Upon appeal, the NLRC reversed the Labor Arbiter’s decision, holding that the employment was for a fixed term and thus validly terminated at the end of the contract.
- Elevating to Supreme Court:** Petitioner sought certiorari from the Supreme Court, claiming that the NLRC acted with grave abuse of discretion by concluding that the employment contract was for a definite period.

**Issues:**

- Validity of Fixed-Term Employment Contract:** Whether the employment contract structured by Innodata was valid and enforceable as a fixed-term contract.
- Correctness of the NLRC’s Decision:** Whether NLRC’s finding that Servidad’s dismissal was lawful constituted grave abuse of discretion given the circumstances of the case.
- Entitlement to Regularization:** Whether Servidad should have been considered a

regular employee, thereby securing security of tenure from employment beyond the probationary period.

4. **Award for Moral Damages:** Whether Servidad was entitled to moral damages due to his dismissal.

**Court's Decision:**

1. **Invalidity of Fixed-Term Contract:**

- The Supreme Court deemed the contract contained stipulations that were dual-purpose and could be used to deny an employee security of tenure.
- The Court stressed that the contract's provision allowing termination within the year without just cause violated the employee's constitutionally protected right to security of tenure.

2. **Grave Abuse of Discretion by NLRC:**

- The Court held that the NLRC acted with grave abuse of discretion by interpreting the employment as validly fixed-term without accounting for public policy that discourages such to avoid regularization.
- The employment contract was interpreted unfavorably to the employer who caused its ambiguity pursuant to Article 1377 of the Civil Code.

3. **Entitlement to Regular Employment:**

- Even assuming initial probationary status, continuous employment beyond the six-month probationary period made Servidad a regular employee under Article 281 of the Labor Code.
- The documented performance ratings demonstrated that he met the employer's standards before transitioning to regular status as the contract implied.

4. **Denial of Moral Damages:**

- Insufficient factual basis for awarding moral damages, as allegations made by petitioner regarding besmirched reputation and sleepless nights were not substantiated with enough details to connect them directly to employer's actions.

**Doctrine:**

- **Employment Security of Tenure:** Any employment contract purporting to skirt around regular employment status by unduly lengthening probation or inserting clauses for termination outside just and authorized grounds is void.
- **Public Interest in Labor Contracts:** As emphasized in Article 1700, Civil Code, labor

contracts are constitutional, and public policy heavily influences employer-employee relations, making them subject to mandatory labor laws.

**\*\*Class Notes:\*\***

- **\*\*Probationary Period:\*\*** As per Article 281, probationary employment cannot exceed six months unless legally justified. Continuous employment past probation confers regular employment status.

- **\*\*Fixed-Term Employment Schemes:\*\*** Contracts designed to avoid regularization and circumvent statutory protections against wrongful termination are invalid.

Cite: Art. 1377, 1700, Civil Code; Art. 279, 281, Labor Code.

- **\*\*Grave Abuse of Discretion:\*\*** Acting outside acceptable legal standards of judgement, jeopardizing the constitutional rights of the employees, more so where ambiguous contract terms are involved.

**\*\*Historical Background:\*\***

- **\*\*Labor Rights Protection:\*\*** The case highlights entrenched constitutional provisions and labor laws aimed at safeguarding employee rights in the Philippines, particularly against exploitative labor practices. Amid economic transitions, employer practices adapting to find loopholes emphasized the need for strict judicial interpretations to enforce labor rights effectively.