

**ELCEE FARMS INC. AND CORAZON SAGUEMULLER, PETITIONERS,
VS. NATIONAL LABOR RELATIONS COMMISSION (FOURTH DIVISION)
AND SUGAR AGRICULTURAL INDUSTRY LABOR ORGANIZATION
(SAILO), PAMP...**

G.R. NO. 126428. January 25, 2007

Ponente: CHICO-NAZARIO, J.

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CHICO-NAZARIO, J.:

This is a Petition for Certiorari, under Rule 65 of the Rules of Court, assailing the Resolution, dated 29 May 1996, promulgated by the National Labor Relations Commission (NLRC), Fourth Division,[1] ordering the petitioners, Elcee Farms, Inc. (Elcee Farms) and Corazon Saguemuller, to pay each private respondent separation pay and moral damages.

Pampelo Semillano and one hundred forty-three (143) other complainants, represented by the labor union, Sugar Agricultural Industrial Labor Organization (SAILO), filed this complaint for illegal dismissal with prayer for reinstatement with back wages, or in the alternative, separation pay, with damages against Elcee Farms, Corazon Saguemuller, Hilla Corporation (HILLA), Rey Hilado, and Roberto Montaña.[2] Private respondents alleged that they were all regular farm workers in Hacienda Trinidad, which was owned and operated by petitioner corporation Elcee Farms. Complainants alleged that petitioner Corazon Saguemuller was the president of Elcee Farms, but records disclosed that it was her son, Konrad Saguemuller, who was the president thereof.[3] Some of the complainants allegedly worked in Hacienda Trinidad as early as 1960. [4] On 27 April 1987, Elcee Farms entered into a Lease Agreement with Garnele Aqua Culture Corporation (Garnele).[5] Nevertheless, most of the private respondents continued to work in Hacienda Trinidad. On appeal, they presented payrolls and Social Security System (SSS) Forms E-4 issued during the period that Garnele leased the hacienda, naming Elcee Farms as their employer.[6]

On 15 November 1990, Garnele sub-leased Hacienda Trinidad to Daniel Hilado, who operated HILLA. The contract of lease executed between Garnele and Daniel Hilado stipulated the continued employment of 120 of the former's employees by the latter, but the contract was silent as to the benefits which may accrue to the employees as a consequence of their employment with Elcee Farms.[7] Thus, private respondents were allowed to continue working in Hacienda Trinidad, under the management of HILLA.[8] Soon after HILLA took over, Daniel Hilado entered into a Collective Bargaining Agreement (CBA) with the United Sugar Farmers' Organization (USFO). The CBA contained a closed shop provision stating that:

Sec. 2 – Employees/laborers, who at the time of the execution of this Agreement are not yet members of the UNION be required by the EMPLOYER to join the UNION within thirty (30) days from the signing of this Agreement, and remain members in good standing as condition of continued employment. Should these employees/laborers refuse and fail to join and affiliate with the UNION within such a period of time, said employees/laborers shall be dismissed by the EMPLOYER upon recommendation by the UNION.[9]

Due to their refusal to join the labor union, the private respondents were terminated by HILLA.

On 26 December 1990, SAILO and 144 complainants, including the 131 private respondents herein, filed against Elcee Farms, Corazon Saguemuller, HILLA and its officers, Ray Hilado and Roberto Montaña, a complaint for illegal dismissal with reinstatement with back wages and separation pay with damages before the Labor Arbiter.[10] In a Decision, dated 20 October 1993, the Labor Arbiter noted that of the 144 complainants, only three were able to testify and only twenty-eight complainants, including the three who testified, signed the joint affidavit executed in support of their claims. Complainants who were unable to sign the said joint affidavit were dropped as party complainants for failure to adduce evidence in their favor.[11] The remaining twenty-eight complainants were considered by the Labor Arbiter as regular employees of HILLA entitled to separation pay, equivalent to one month pay as they were employed by HILLA for a period less than one year.[12] The Labor Arbiter dismissed their claim for damages and denied all claims made against Elcee Farms, Corazon Saguemuller, Rey Hilado and Roberto Montaña.[13]

Complainants appealed and argued that they had an employer-employee relationship with Elcee Farms before HILLA took possession of the hacienda in November 1990. They pointed out that Elcee Farms failed to present proof that they were employed by Garnele to substantiate the existence of a valid lease agreement between Elcee Farms and Garnele. They also pleaded that the closed shop provision of the CBA between HILLA and USFO cannot be made to apply to the complainants, who were members of another union.[14]

In a Decision dated 29 March 1995, the NLRC affirmed the amount awarded by the Labor Arbiter as separation pay, but modified the assailed Decision by holding Elcee Farms, Corazon Saguemuller, Rey Hilado and Roberto Montaña liable for the payment of the aforementioned separation pay, and added to their liability Five Thousand Pesos (P5,000.00) for moral damages to each of the 28 complainants.[15] The dispositive portion of this Decision reads:

WHEREFORE, respondents Elcee Farms Inc., Corazon Saguemuller, Hilla Corporation, Rey Hilado & Roberto Montaña are ordered to pay the complainants separation pay as awarded.

The respondents are further ordered to pay the complainants P5,000.00 each as moral damages for all their troubles and suffering from the disturbance of their rights to labor.

Appealed decision is hereby modified.[16]

The three sets of parties – (1) the complainants; (2) Elcee Farms and Corazon Saguemuller; and (3) Hilla, Rey Hilado and Roberto Montaña, filed their own Motions for Reconsideration. In a Resolution, dated 29 May 1996, the NLRC admitted that it overlooked vital points in its earlier Decision and made a finding that the lease contract between Elcee Farms and Garnele was simulated and that the former continued to act as the employer of the complainants, until Hacienda Trinidad was sub-leased to HILLA in 1990. It took into account the fact that the complainants' payrolls named Elcee Farms as the employer when the hacienda was supposed to have been leased to Garnele. During the same period, the SSS Forms E-4 used in paying the complainants' contributions which named Elcee Farms as employer were also included in the records. The NLRC ruled that the simulation of the lease agreement between Elcee Farms and Garnele smacks of bad faith and is the basis for its award of Five Thousand Pesos in moral and exemplary damages.[17]

In its Resolution, the NLRC also explained that Elcee Farms should have informed its employees of the lease made in favor of HILLA. Further, Elcee Farms was obligated to pay its workers' separation pay and other benefits due since the lease to HILLA was a virtual termination of the employer-employee relationship. Moreover, there is no showing that HILLA assumed Elcee Farms's obligation to pay the various benefits due to the workers from their employment with Elcee Farms. Thus, Elcee Farms and Corazon Saguemuller were held

liable to pay the complainants separation pay equivalent to one-half month pay for each year of service or one month pay for those who worked for only one year. [18]

On the other hand, the NLRC absolved HILLA and its officers from any liability to the workers since the dismissal of the complainants was due to their failure to join USFO, in accordance with the closed shop clause found in its CBA with the USFO. The NLRC found that there was no existing labor union at the time HILLA took legal possession of Hacienda Trinidad. On the other hand, SAILO filed a petition for certification elections only on 26 December 1990, after Daniel Hilado entered into the CBA with USFO.[19]

Finally, the NLRC significantly modified the Decision rendered by the Labor Arbiter. The earlier Decision rendered by the Labor Arbiter granted the claims of only 28 out of the 144 complainants. The NLRC ruled that the claim of 131 employees should be granted and that only 14 of the 144 complainants were to be excluded, based on the testimony of Pampelo Semillano. Incidentally, the NLRC erroneously included Alfredo Nicor, Sr. in the list of 131 employees who were awarded separation pay and damages even when it had specifically identified him in its Resolution among the fourteen complainants who were not bona fide employees of Elcee Farms.[20]

As a result, petitioners filed the present Petition for Certiorari, assigning to the NLRC the following acts of grave abuse of discretion:

- In impleading and adjudging Corazon Saguemuller as party respondent equally liable with Elcee Farms, Inc., public respondent has exercised its discretion whimsically, capriciously, arbitrarily and with grave abuse of discretion;
- In issuing the assailed decision and resolution, public respondent has contravened its own rules and established jurisprudence that findings of facts of a labor arbiter as the trier of facts based on substantial evidence should be respected and given weight;
- The 29 May 1996 resolution which deliberately misappreciated extraneous, incompetent and discredited evidences already passed upon by the Labor Arbiter was issued capriciously, whimsically and arbitrarily by public respondent; and
- Public respondent gravely abused its discretion tantamount to excess of jurisdiction in awarding moral damages of P5,000.00 to each individual private respondents, without any legal and factual basis, and without regard to the individual private respondents' length of service and employment history.[21]

Petitioners insist that the factual findings of the Labor Arbiter should be given preference over those made by the NLRC. However, there is no merit in the petitioners' insistence that the findings of fact of the Labor Arbiter, which happened to favor them, are infallible. The findings of the Labor Arbiter may be overturned by the NLRC if unsupported by the records. In this case, most of the factual findings made by the NLRC are better supported by the records than those made by the Labor Arbiter.

The NLRC made a crucial modification when it overturned the findings of the Labor Arbiter and held that the lease contract between Elcee Farms and Garnele is simulated. Records show that Elcee Farms was the employer named in the payrolls at the time when the hacienda was supposed to have been leased to Garnele. During the same period, the SSS Forms E-4 submitted before the SSS that were used in paying the complainants' contributions also named Elcee Farms as employer. Although these pieces of evidence were submitted only during the appeal before the NLRC, the petitioners had ample opportunity to submit opposing evidence, but failed to do so. The lease agreement between Garnele and Elcee Farms was a haphazardly drafted two-page document, which only provided for a uniform minimal rent for a period of fifteen years, and had not provided for the employment status of the employees of Elcee Farms. Furthermore, the lease agreement was entered into by the corporate officers of Garnele and Elcee Farms, who are members of the same family. In addition, the employees

were not informed of the lease agreement and were not paid by Elcee Farms the separation pay due at the time Garnele was supposed to have taken over and leased the hacienda.

The above findings show that even after the execution of the lease agreement between Elcee Farms and Garnele, Elcee Farms continued to act as the employer of the farm workers of Hacienda Trinidad. The employer-employee relationship between the farm workers and Elcee Farms was severed only when Garnele, acting in behalf of Elcee Farms, entered into a lease agreement with Daniel Hilado and, thereafter, Hilla took over the management of Hacienda Trinidad in November 1990. The NLRC, then, concluded that the claims of the private respondents against Elcee Farms had not yet prescribed at the time their complaint was filed on 26 December 1990.

The main issue in this case is whether the private respondents are entitled to the award of separation pay and moral damages. This Court finds that the NLRC's award of separation pay and moral damages are in accordance with law.

Moral damages are recoverable when the dismissal of an employee is attended by bad faith or fraud or constitutes an act oppressive to labor, or is done in a manner contrary to good morals, good customs or public policy. Exemplary damages, on the other hand, are recoverable when the dismissal was done in a wanton, oppressive, or malevolent manner.[22]

Bad faith on the part of Elcee Farms is shown by the act of simulating a lease agreement with Garnele in order to evade paying private respondents the proper amount of separation benefits based on the number of years they worked in the hacienda, as provided by the Labor Code. Records show that Elcee Farms did not pay any separation benefits to the private respondents when they allegedly leased the hacienda to Garnele, and again when the hacienda was leased to Daniel Hilado. When the employees filed their complaint with the Labor Arbiter, Elcee Farms, using the simulated lease agreement with Garnele, tried to deny liability by claiming that their claims had already prescribed. It claimed that the lease agreement with Garnele, which was allegedly executed in 1987, effectively terminated the employer-employee relationship before the complaint was filed in 1990, or more than three years after. These unlaudable acts undermine the workers' statutory rights for which moral damages may be awarded.

Liability for separation pay is provided under Article 283 of the Labor Code, as it existed in 1990, for the following circumstances, particularly the cessation of operations:

Article 283. Closure of establishment and reduction of personnel.—The employer may also terminate the employment of any employee due to the installation of labor-saving devices, redundancy, retrenchment to prevent losses or the closing or cessation of operations of the establishment or undertaking unless the closing is for the purpose of circumventing the provisions of this Title, by serving a written notice on the workers and the Department of Labor and Employment at least one (1) month before the intended date thereof. x x x. In case of retrenchment to prevent losses and in cases of closure or cessation of operations of establishment or undertaking not due to serious business losses or financial reverses, the separation pay shall be equivalent to at least one (1) month pay or at least one-half (1/2) month pay for every year of service, whichever is higher. A fraction of at least six (6) months shall be considered as one (1) whole year. (Emphases supplied.)

From this provision, three requirements are enumerated in cases of cessation of business operations of an employer company not due to business reverses: (1) service of a written notice to the employees and to the MOLE (now the Secretary of Labor and Employment) at least one month before the intended date thereof; (2) the cessation of or withdrawal from business operations must be bona fide in character; and (3) payment to the employees of termination pay amounting to at least one-half month pay for each year of service, or one month pay, whichever is higher.[23]

In the present case, Elcee Farms effectively ceased to operate and manage Hacienda Trinidad when, through Garnele, it leased the hacienda to Daniel Hilado. The validity of the aforementioned lease was not questioned by any of the parties. There is no question that the lease to Daniel Hilado effectively terminated the employer-employee relationship between Elcee Farms and the farmworkers. Private respondents Pampelo Semillano and Roel Benignos testified that HILLA took possession of the hacienda in 1990 and managed the same.[24] This was corroborated by the testimony of Anonio Sidayon, the administrator of HILLA.[25] After the said lease was executed, the employer-employee relationship between the farm employees and Elcee Farms was severed. The lease agreement between Garnele and Daniel Hilado identified the employees who will continue working with the new management and stipulated that workers who were not in the list, whether new or employed in the past, will not be employed by the lessee.[26] The lease contract even specified that Daniel Hilado will only be liable for all future labor cases, the cause of which arose during or by virtue of the sublease.[27] Clearly, there was a cessation of operations of Elcee Farms, which renders it liable for separation pay to its employees, under Section 283 of the Labor Code.

In a similar case, *Abella v. National Labor Relations Commission*,[28] the Court ruled that an employer whose lease agreement had already expired, and therefore no longer manages and controls the hacienda, is still required to pay the separation pay due to its former employees in connection with their employment with such employer, even if the said employees were terminated by the new employer. It justified this position thus:

The purpose of Article 284 as amended is obvious – the protection of the workers whose employment is terminated because of the closure of establishment and reduction of personnel. Without said law, employees like private respondents in the case at bar will lose the benefits to which they are entitled – for the thirty three years of service in the case of Dionele and fourteen years in the case of Quitco. Although they were absorbed by the new management of the hacienda, in the absence of any showing that the latter has assumed the responsibilities of the former employer, they will be considered as new employees and the years of service behind them would amount to nothing.[29]

There is a conspicuous change in the number of employees who were awarded separation benefits and moral damages, but it is supported by the evidence on record. Initially the Labor Arbiter awarded separation pay only to 28 complainants, which the NLRC increased to 131 complainants. However, it should be noted that there should only be 130 complainants to whom the NLRC awarded separation pay and moral damages since one of the complainants, Alfredo Nicor, Sr., was named as one of the 14 complainants who were not bona fide workers entitled to benefits, but was inadvertently included again as one of the 131 complainants who were awarded said benefits.

As regards the big increase in the number of employees who were awarded separation pay and damages, the records, indeed, show that only 28 complainants signed the affidavit, and only three were able to testify. Thus, the Labor Arbiter considered the claims of only the 28 complainants who signed the affidavit, including the three who testified. The Labor Arbiter reasoned that the other complainants failed to adduce evidence in their favor. The NLRC, however, took critical note of the testimony of private respondent Pampelo Semillano identifying who among the complainants were bona fide employees and those who no longer worked in the hacienda.[30] In addition, HILLA had submitted as its Exhibit 4 the list of 120 Hacienda Trinidad laborers that it was required to absorb,[31] which is a corollary affirmation that there were other laborers employed by Elcee Farms who were not required to be absorbed by HILLA. The private respondents were also able to present payroll documents showing the names of some of the private respondents. In stark contrast, the petitioners were not able to present evidence to support the fact that the private respondents were not bona fide employees.[32] Thus, the NLRC's award to 130 employees, excluding Alfredo Nicor, Sr., is justified.

This Court, nonetheless, finds merit in the petitioners' allegation that Corazon Saguemuller should not be subsidiarily liable with Elcee Farms for separation pay and damages. It is basic that a corporation is invested by law with a personality separate and distinct from those of the persons composing it as well as from that of any other legal entity to which it may be related. Mere ownership by a single stockholder or by another corporation of all or nearly all of the capital stock of a corporation is not of itself sufficient ground for disregarding the separate corporate personality.[33] In the case of *Santos v. National Labor Relations Commission*,[34] a corporate officer was not held liable for the obligations incurred by the corporation, where the corporate officer was not even shown to have had a direct hand in the dismissal of the employee enough to attribute to him an unlawful act.

In the case of *Malayang Samahan ng mga Manggagawa sa M. Greenfield. v. Ramos*,[35] the Court restated the rule that corporate directors and officers are solidarily liable with the corporation for the termination of employees done with malice or bad faith. Bad faith was defined by the Court thus: "It has been held that bad faith does not connote bad judgment or negligence; it imports a dishonest purpose or some moral obliquity and conscious doing of wrong; it means breach of a known duty through some motive or interest or ill will; it partakes of the nature of fraud."

In the aforecited *Santos* case, the Court discussed the attendance of exceptional facts and circumstances that could rightly sanction personal liability on the part of the company officer:

In *A.C. Ransom*, the corporate entity was a family corporation and execution against it could not be implemented because of the disposition post-haste of its leviable assets evidently in order to evade its just and due obligations. The doctrine of "piercing the veil of corporate fiction" was thus clearly appropriate. Chua likewise involved another family corporation, and this time the conflict was between two brothers occupying the highest ranking positions in the company. There were incontrovertible facts which pointed to extreme personal animosity that resulted, evidently in bad faith, in the easing out from the company of one of the brothers by the other.[36]

In the case of *Naguiat v. National Labor Relations Commission*,[37] the Court applied the doctrine found in the case of *A. C. Ransom Labor Union- CCLU v. National Labor Relations Commission*. There was a cessation of the operations of the employer-corporation and, thus, a problem as to who shall pay the employees. In holding the president solidarily liable, the Court considered that he had actively engaged in the management and operations of the corporation. Nevertheless, it absolved from liability the vice-president, since no evidence on the extent of his participation in the management or operation of the business was proffered.

In the present case, the NLRC took into account the testimony of the witness Roel Benignos who said that they believed that petitioner Corazon Saguemuller was the president of Elcee Farms because the employees would approach her if they needed help, as well as the fact that her sons were the officers of Elcee Farms and Garnele. Beyond these bare suppositions, no evidence, oral or documentary, was presented to prove that Corazon Saguemuller was truly the President of Elcee Farms. Nor was there even proof that she was in active management of the corporation and had dictated policies for implementation by the corporation. Extending help to private respondents certainly did not automatically vest upon her the position of President of the corporation. There, likewise, appears to be no evidence on record that she had acted maliciously or in bad faith in terminating the services of the private respondents; nor has it been shown that she has in any way consented to the simulated lease contract executed by her sons which effectively terminated the services of the private respondents.

IN VIEW OF THE FOREGOING, the instant Petition is partially granted. This Court AFFIRMS the award of separation pay and moral damages in favor of the private respondents as decreed in the assailed Resolution of the NLRC, to be paid by Elcee Farms with the modification that Corazon Saguemuller should not be held subsidiarily liable. This Court further orders that Alfredo Nicor, Sr. be excluded from the list of employees who are to be paid

separation pay and moral damages, for reason that he was inadvertently included in the said list. Costs against the petitioners.

SO ORDERED.

Ynares-Santiago, (Chairperson), Austria-Martinez, and Callejo, Sr., JJ., concur.

[1] Penned by Commissioner Amorito V. Cañete with Presiding Commissioner Irene E. Ceniza and Commissioner Bernabe S. Batuhan, concurring; rollo, pp. 55-64.

[2] Rollo, p. 65.

[3] Records, pp. 329-330.

[4] Id. at 2.

[5] Id. at 329-330.

[6] Id. at 512-518.

[7] Id. at 341-345.

[8] Records, p. 343.

[9] Rollo, p. 268.

[10] Records, pp. 1-12.

[11] Rollo, p. 21.

[12] Id. at 72-73.

[13] Id. at 73-74.

[14] Records, pp. 498-500.

[15] Rollo, pp. 53-54.

[16] Id. at 276-277.

[17] Id. at 279-281.

[18] Id. at 58-59.

[19] Id. at 59.

[20] Id. at 59-60.

[21] Id. at 18-19.

[22] *Kay Products Inc. v. Court of Appeals*, G.R. No.162472, 28 July 2005, 464 SCRA 544, 559; *Norkis Trading Co., Inc. v. National Labor Relations Commission*, G.R. No. 168159, 19 August 2005, 467 SCRA 461, 473.

[23] *Mobil Employees Association v. National Labor Relations Commission*, G.R. No. 79329, 28 March 1990, 183 SCRA 737, 745.

[24] Records, pp. 92, 170.

[25] Id. at 318.

[26] Id. at 343.

[27] Id. at 344.

[28] G.R. No. L-71813, 20 July 1987, 152 SCRA 140.

[29] *Abella v. National Labor Relations Commission*, id. at 145-146.

[30] *Rollo*, pp. 59-60.

[31] *Records*, pp. 405-406.

[32] Id. at 517-518.

[33] *Sunio v. National Labor Relations Commission*, G.R. No. L-57767, 31 January 1984, 127 SCRA 390, 397-398.

[34] G.R. No. 101699, 13 March 1996, 254 SCRA 673, 681-682.

[35] G.R. No. 113907, 20 April 2001, 357 SCRA 77, 93-94.

[36] *Santos v. National Labor Relations Commission*, *supra* note 34 at 683-684.

[37] G.R. No. 116123, 13 March 1997, 269 SCRA 564, 581-585.

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