

YU CHUCK, MACK YUENG, AND DING MOON, PLAINTIFFS AND APPELLEES, VS. KONG LI PO, DEFENDANT AND APPELLANT.*G.R. No. 22450, December 03, 1924*

Ponente: OSTRAND, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-22450/>**OSTRAND, J.:**

The defendant is a domestic corporation organized in accordance with the laws of the Philippine Islands and engaged in the publication of a Chinese newspaper styled Kong Li Po. Its articles of incorporation and by-laws are in the usual form and provide for a board of directors and for other officers, among them a president whose duty it is to "sign all contracts and other instruments of writing." No special provision is made for a business or general manager. Some time during the year 1919 one C. C. Chen or T. C. Chen was appointed general business manager of the newspaper. During the month of December of that year he entered into an agreement with the plaintiffs by which the latter bound themselves to do the necessary printing for the newspaper for the sum of P580 per month as alleged in the complaint. Under this agreement the plaintiffs worked for the defendant from January 1, 1920, until January 31, 1921, when they were discharged by the new manager, Tan Tian Hong, who had been appointed in the meantime, C. C. Chen having left for China. The letter of dismissal stated no special reasons for the discharge of the plaintiffs.

The plaintiffs thereupon brought the present action alleging, among other things, in the complaint that their contract of employment was for a term of three years from the first day of January, 1920; that in the case of their discharge by the defendant without just cause before the expiration of the term of the contract, they were to receive full pay for the remaining portion of the term; that they had been so discharged without just cause and therefore asked judgment for damages in the sum of P20,880. In its amended answer the defendant denies generally and specifically the allegations of the complaint and sets up five special defenses and counterclaims. The first of these is to the effect that C. C. Chen, the person whose name appears to have been signed to the contract of employment was not authorized by the defendant to execute such a contract in its behalf. The second special defense and counterclaim is to the effect that during the month of January, 1921, the plaintiffs purposely delayed the issuance of defendant's newspaper on three separate and distinct occasions causing damage and injury to the defendant in the amount of P300. Under the third special defense and counterclaim it is alleged that the plaintiffs failed, neglected, and refused to prepare extra pages for the January 1, 1921, issue of the defendant's newspaper and thus compelled the defendant to secure the preparation of said extra pages by other persons at a cost of P110. In the fourth special defense and counterclaim the defendant alleged that the plaintiffs neglected and failed to correct errors in advertisements appearing in defendant's newspaper, although their attention was specifically called to such errors and they were requested to make the corrections, as a result of which certain advertisers withdrew their patronage from the paper and refused to pay for the advertisements, thus causing a loss to the defendant of P160.50. For its fifth special defense and counterclaim the defendant alleged that the plaintiffs neglected and refused to do certain job printing, such neglect and refusal causing injury and damage to the

defendant in the sum of P150.

At the trial of the case the plaintiffs presented in evidence Exhibit A which purports to be a contract between Chen and the plaintiffs and which provides that in the event the plaintiffs should be discharged without cause before the expiration of the term of three years from January 1, 1920, they would be given full pay for the unexpired portion of the term "even if the said paper has to fall into bankruptcy." The contract is signed by the plaintiffs and also bears the signature "C. C. Chen, manager of Kong Li Po." The authenticity of the latter signature is questioned by the defendant, but the court below found that the evidence upon this point preponderated in favor of the plaintiffs and there appears to be no sufficient reason to disturb this finding.

The trial court further found that the contract had been impliedly ratified by the defendant and rendered judgment in favor of the plaintiffs for the sum of P13,340, with interest from the date of the filing of the complaint and the costs. From this judgment the defendant appeals to this court and makes eighteen assignments of error. The fourth and seventeenth assignments relate to defendant's special defenses and counterclaims; the sum and substance of the other assignments is that the contract on which the action is based was not signed by C. C. Chen; that, in any event, C. C. Chen had no power or authority to bind the defendant corporation by such contract; and that there was no ratification of the contract by the corporation.

Before entering upon a discussion of the questions raised by the assignments of error, we may draw attention to a matter which has not been mentioned either by counsel or by the court below, but which, to prevent misunderstanding, should be briefly explained: It is averred in the complaint that it is accompanied by a copy of the contract between the parties (Exhibit A) which copy, by the terms of the complaint, is made a part thereof. The copy is not set forth in the bill of exceptions and aside from said averment, there is no indication that the copy actually accompanied the complaint, but an examination of the record of the case in the Court of First Instance shows that a translation of the contract was attached to the complaint and served upon the defendant. As this translation may be considered a copy and as the defendant failed to deny its authenticity under oath, it will perhaps be said that under section 103 of the Code of Civil Procedure the omission to so deny it constitutes an admission of the genuineness and due execution of the document as well as of the agent's authority to bind the defendant. (Merchant vs. International Banking Corporation, 6 Phil., 314.)

In ordinary circumstances that would be true. But this case appears to have been tried upon the theory that the rule did not apply; at least, it was wholly overlooked or disregarded by both parties. The plaintiffs at the beginning of the trial presented a number of witnesses to prove the due execution of the document as well as the agent's authority; no objections were made to the defendant's evidence in refutation and no exceptions taken; and the matter is not mentioned in the decision of the trial court.

The object of the rule is "to relieve a party of the trouble and expense of proving in the first instance an alleged fact, the existence or nonexistence of which is necessarily within the knowledge of the adverse party, and of the necessity (to his opponent's case) of establishing which such adverse party is notified by his opponent's pleading." (Nery Lim-Chingco vs. Terariray, 5 Phil., at p. 124.)

The plaintiff may, of course, waive the rule and that is what he must be considered to have done in the present case by introducing evidence as to the execution of the document and failing to object to the defendant's evidence in refutation; all this evidence is now competent and the case must be decided thereupon. Moreover, the question as to the applicability of the rule is not even suggested in the briefs and is not properly before this court. In these circumstances it would, indeed, be grossly unfair to the defendant if this court should take up the question on its own motion and make it decisive of the case, and such is not the law. Nothing of what has here been said is in conflict with former decisions of this court; it will be found upon examination that in all cases where the

applicability of the rule has been sustained the party invoking it has relied on it in the court below and conducted his case accordingly.

The principal question presented by the assignments of error is whether Chen had the power to bind the corporation by a contract of the character indicated. It is conceded that he had no express authority to do so, but the evidence is conclusive that he, at the time the contract was entered into, was in effect the general business manager of the newspaper Kong Li Po and that he, as such, had charge of the printing of the paper, and the plaintiffs maintain that he, as such general business manager, had implied authority to employ them on the terms stated and that the defendant corporation is bound by his action.

The general rule is that the power to bind a corporation by contract lies with its board of directors or trustees, but this power may either expressly or impliedly be delegated to other officers or agents of the corporation, and it is well settled that except where the authority of employing servants and agents is expressly vested in the board of directors or trustees, an officer or agent who has general control and management of the corporation's business, or a specific part thereof, may bind the corporation by the employment of such agents and employees as are usual and necessary in the conduct of such business. But the contracts of employment must be reasonable. (14a C. J., 431.)

In regard to the length of the term of employment, Corpus Juris says:

"In the absence of express limitations, a manager has authority to hire an employee for such a period as is customary or proper under the circumstances, such as for a year, for the season, or for two seasons. But unless he is either expressly authorized, or held out as having such authority, he cannot make a contract of employment for a long future period, such as for three years, although the contract is not rendered invalid by the mere fact that the employment extends beyond the term of the manager's own employment. * * *" (14a C. J., 431.)

From what has been said, there can be no doubt that Chen, as general manager of the Kong Li Po, had implied authority to bind the defendant corporation by a reasonable and usual contract of employment with the plaintiffs, but we do not think that the contract here in question can be so considered. Not only is the term of employment unusually long, but the conditions are otherwise so onerous to the defendant that the possibility of the corporation being thrown into insolvency thereby is expressly contemplated in the same contract. This fact in itself was, in our opinion, sufficient to put the plaintiffs upon inquiry as to the extent of the business manager's authority; they had not the right to presume that he or any other single officer or employee of the corporation had implied authority to enter into a contract of employment which might bring about its ruin.

Neither do we think that the contention that the corporation impliedly ratified the contract is supported by the evidence. The contention is based principally on the fact that Te Kim Hua, the president of the corporation for the year 1920, admitted on the witness stand that he saw the plaintiffs work as printers in the office of the newspaper. He denied, however, any knowledge of the existence of the contract and asserted that it was never presented neither to him nor to the board of directors. Before a contract can be ratified knowledge of its existence must, of course, be brought home to the parties who have authority to ratify it or circumstances must be shown from which such knowledge may be presumed. No such knowledge or circumstances have been shown here. That the president of the corporation saw the plaintiffs working in its office is of little significance; there were other printers working there at that time and as the president had nothing to do with their employment, it was hardly to be expected that he would inquire into the terms of their contracts. Moreover, a ratification by him would have been of no avail; in order to validate a contract, a ratification by the board of directors was necessary. The fact that the president was required by the by-laws to sign the documents evidencing contracts of the corporation, does not mean that he had power to make the contracts.

In his decision his Honor, the learned judge of the court below appears to have placed some weight on a notice inserted in the January 14th issue of the Kong Li Po by T. C. Chen and which, in translation, reads as follows: "To Whom It May Concern: Announcement is hereby given that hereafter all contracts, agreements and receipts are considered to be null and void unless duly signed by T. C. Chen, General Manager of this paper.

(Sgd.) "Chen Yu Man

"General Manager of this paper"

(The evidence shows that Chen Yu Man and T. G. Chen is one and the same person.)

His Honor evidently overestimated the importance of this notice. It was published nearly a month after the contract in question is alleged to have been entered into and can therefore not have been one of the circumstances which led the plaintiffs to think that Chen had authority to make the contract. It may further be observed that the notice confers no special powers, but is, in effect, only an assertion by Chen that he would recognize no contracts, agreements, and receipts not duly signed by him. It may be presumed that the contracts, agreements, and receipts were such as were ordinarily made in the course of the business of managing the newspaper. There is no evidence to show that the notice was ever brought to the attention of the officers of the defendant corporation.

The defendant's counterclaims have not been sufficiently established by the evidence.

The judgment appealed from is reversed and the defendant corporation is absolved from the complaint. No costs will be allowed. So ordered.

Johnson, Avancena, and Romualdez, JJ., concur.

CONCURRING OPINION

STREET, J.:

I concur in the opinion of the court written by Mr. Justice Ostrand and wish to add an observation of my own on one or two points. In the first place I find nothing in the opinion of the court inconsistent with the decision in Ramirez vs. Orientalist Co. and Fernandez (38 Phil., 634). In that case we held that where a corporation wishes to raise the question as to the authority of an officer who has signed a contract purporting to bind the corporation, it should plead the lack of authority by way of special defense. In this case the defendant raised the point properly in its answer. This is something that was not done in the Ramirez case. Upon the issue thus presented the parties submitted their proof, and no notice was taken by any one of the failure of the defendant to verify its plea on this point by the oath of some proper officer. If the plaintiffs had raised a question as to the lack of the affidavit in the court below, as it might have done by objecting to testimony or moving to strike this special defense out of the answer, the oversight could have been corrected at once. On the contrary the parties proceeded on the mutual assumption that the point was properly raised, and the oversight should be ignored in this court. In the Ramirez case we held that the omission of the defendant to submit such special defense under oath might be cured by amendment even in this court, and we might here permit the amendment of the answer, if necessary to the administration of justice; but this step must be considered wholly superfluous in view of the course things have taken.

On the principal point in the case, namely, whether one C. C. Chen or T. C. Chen, who was running the Kong Li Po, had authority to bind the corporation to the plaintiffs by a contract for the term of three years, I find that the authorities fully support the proposition quoted in the opinion from Corpus Juris to the effect that a manager

cannot make a contract of employment for a long period, such as for three years, unless expressly authorized or held out by the corporation as having such authority. The distinction here, as I see it, is not so much a distinction between the reasonable and the unreasonable as it is between the usual and unusual, or the ordinary and extraordinary. There must be a limit somewhere upon the authority of a manager with respect to the duration of contracts which he makes for the corporation, and my eye has fallen upon no decision in which a contract for the period of three years, or longer, has been upheld on the bare fact that the contract was made by a manager, though there are cases in which contracts for the period of only one year have been sustained.

As sustaining the position taken by the court, the following authorities will be found instructive: *Laird vs. Michigan Lubricator Co.* (17 L. R. A., 177 [with note]) ; *Caldwell vs. Mutual Reserve Fund Life Association* (53 App. Div. [N. Y.], 245); *Carney vs. New York Life Ins. Co.* (162 N. Y., 453; 49 L. R. A., 471 [with note]) ; *Vogel vs. St. Louis Museum* (8 Mo. App., 587); *Manross vs. Uncle Sam Oil Co.* (88 Kan., 237; Anno. Cas., 1914B [with note]). In *Gamacho vs. Hamilton Bank-Note & Engraving Co.* (37 N. Y. Supp.f 725), it was said:

"* * * In the absence of proof of what exact authority belongs to a person descriptively styled a 'general manager' there is no rule by which a court can be guided in determining what the powers of such an official really are, except such as the evidence in a particular case may furnish of what the person has done in the general course of the business of the corporation. That the words 'general manager' would import that the person bearing that title is a general executive officer for all the ordinary business of the corporation is all that may properly be inferred; and this would justify, in connection with proof of acts done, a conclusion that all ordinary contracts made by such an official are authorized by the corporation. But no presumption of law can be indulged in that, because a person acts as such a manager, he has the power to bind his principal to contracts of an extraordinary nature, and of such a character as would involve the corporation in enormous obligations and for long periods of time. If a general manager, simply by virtue of his being charged with the ordinary conduct of the business, would have the right to bind his principal to a contract for services for three years, involving the obligation to pay thousands of dollars of salary to an employee, why may not that power extend indefinitely, so that he may make contracts for all employees for indefinite periods, and thus assume to himself a power which it cannot be supposed was ever intended to be lodged in him? * * *"

DISSENTING OPINION

MALCOLM, J., with whom concurs VILLAMOR, J.,

It is to be regretted that the prevailing opinion either neglects entirely or merely makes passing mention of certain points and facts, which demonstrate completely the tenability of plaintiffs' action, and the correctness of the judgment rendered in their favor by Judge of First Instance M. V. del Rosario. To elucidate—

-

The action was brought by certain printers on the Chinese newspaper *Kong Li Po* to recover on a written contract made a part of the complaint. The answer of the defendant made certain allegations, but failed to deny specifically under oath the genuineness and due execution of the instrument sued on. The resulting rule is as set forth in *Merchant vs. International Banking Corporation* ([1906], 6 Phil., 314), and many other cases, that failure by the defendant to deny under oath the execution of the instrument sued on, a copy of which is attached to the complaint, when such instrument purports to be signed by an agent of the defendant corporation, is an admission, not only of the genuineness of the signature, but also of the authority of the agent to sign it for the defendant and the power of the defendant to enter into such a contract, citing section 103 of the Code of Civil Procedure,

Bausman vs. Credit Guarantee Co. ([1891], 47 Minn., 377), and Knight vs. Whitmore ([1899], 125 Cal., 198). The case for the plaintiffs is thus premised on a written instrument which the defendant admits to be genuine, and as to which the defendant admits the authority of the agent to accomplish and the power of the defendant to make.

-

Not only is the foregoing true, but the defendant corporation held T. C. Chen out to the public as the business manager of the newspaper Kong Li Po and clothed him with apparent authority to bind the corporation. The president of the corporation admitted as much on the witness stand, while public announcement was made as follows:

"To Whom It May Concern: Announcement is hereby given that hereafter all contracts, agreements and receipts are considered to be null and void unless duly signed by T. C. Chen, General Manager of this paper.

(Sgd.) "CHEN YU MAN

"General Manager of this paper'

The action of the business manager was thus ratified by his superior officers and they are now in estoppel to deny such ratification. As held in the case of Macke vs. Camps ([1907], 7 Phil., 553), one who clothes another with apparent authority as his agent and holds him out to the public as such, cannot be permitted to deny the authority of such person to act as his agent in good faith and in the honest belief that he is what he appears to be. Unless the contrary appears, the authority of an agent must be presumed to include all the necessary and usual means of carrying his agency into effect, citing section 333, subsection 1, of the Code of Civil Procedure, and various cases. See also articles 1259, 1311, and 1313 of the Civil Code.

The case of Ramirez vs. Orientalist Co. and Fernandez ([1918], 38 Phil., 634, 641) is markedly similar to the instant one in the two respects here mentioned. In the opinion in the cited case. Mr. Justice Street, speaking for the court, said:

"As to the liability of the corporation a preliminary point of importance arises upon the pleadings. The action, as already stated, is based upon documents purporting to be signed by the Orientalist Company, and copies of the documents are set out in the complaint. It was therefore incumbent upon the corporation, if it desired to question the authority of Fernandez to bind it, to deny the due execution of said contracts under oath, as prescribed in section 103 of the Code of Civil Procedure.

* * * * *

"No sworn answer denying the genuineness and due execution of the contracts in question or questioning the authority of Ramon J. Fernandez to bind the Orientalist Company was filed in this case; but evidence was admitted without objection from the plaintiff, tending to show that Ramon J. Fernandez had no such authority. This evidence consisted of extracts from the minutes of the proceedings of the company's board of directors and also of extracts from the minutes of the proceedings of the company's stockholders, showing that the making of this contract had been under consideration in both bodies and that the authority to make the same had been withheld by the stockholders. It therefore becomes necessary for us to consider whether the admission resulting from the failure of the defendant company to deny the execution of the contracts under oath is binding upon it for all purposes of this lawsuit, or whether such failure should be considered a mere irregularity of procedure which was waived when the evidence referred to was admitted without objection from the plaintiff. The proper solution of this problem makes it necessary to consider carefully the principle underlying the provision above quoted.

"That the situation was one in which an answer under oath denying the authority of the agent should have been

interposed, supposing that the company desired to contest this point, is not open to question."

Then after citing *Merchant vs. International Banking Corporation*, supra, and other cases approvingly, the writer of the opinion continued:

"The reason for the rule enunciated in the foregoing authorities will, we think, be readily appreciated. In dealing with corporations the public at large is bound to rely to a large extent upon outward appearances. If a man is found acting for a corporation with the external indicia of authority, any person, not having notice of want of authority, may usually rely upon those appearances; and if it be found that the directors had permitted the agent to exercise that authority and thereby held him out as a person competent to bind the corporation, or had acquiesced in a contract and retained the benefit supposed to have been conferred by it, the corporation will be bound, notwithstanding the actual authority may never have been granted. The public is not supposed nor required to know the transactions which happen around the table where the corporate board of directors or the stockholders are from time to time convoked. Whether a particular officer actually possesses the authority which he assumes to exercise is frequently known to very few, and the proof of it usually is not readily accessible to the stranger who deals with the corporation on the faith of the ostensible authority exercised by some of the corporate officers. It is therefore reasonable, in a case where an officer of a corporation has made a contract in its name, that the corporation should be required, if it denies his authority, to state such defense in its answer. By this means the plaintiff is apprised of the fact that the agent's authority is contested; and he is given an opportunity to adduce evidence showing either that the authority existed or that the contract was ratified and approved.

"We are of the opinion that the failure of the defendant corporation to make any issue in its answer with regard to the authority of Ramon J. Fernandez to bind it, and particularly its failure to deny specifically under oath the genuineness and due execution of the contracts sued upon, have the effect of eliminating the question of his authority from the case, considered as a matter of mere pleading.

* * * * *

"We shall now consider the liability of the defendant company on the merits just as if that liability had been properly put in issue by a specific answer under oath denying the authority of Fernandez to bind it. Upon this question it must at the outset be premised that Ramon J. Fernandez, as treasurer, had no independent authority to bind the company by signing its name to the letters in question. It is declared in section 28 of the Corporation Law that corporate powers shall be exercised, and all corporate business conducted by the board of directors'; and this principle is recognized in the by-laws of the corporation in question which contain a provision declaring that the power to make contracts shall be vested in the board of directors. It is true that it is also declared in the same by-laws that the president shall have the power, and it shall be his duty, to sign contracts; but this has reference rather to the formality of reducing to proper form the contracts which are authorized by the board and is not intended to confer an independent power to make contracts binding on the corporation.

* * * * *

"In passing upon the liability of a corporation in cases of this kind it is always well to keep in mind the situation as it presents itself to the third party with whom the contract is made. Naturally he can have little or no information as to what occurs in corporate meetings; and he must necessarily rely upon the external manifestations of corporate consent. The integrity of commercial transactions can only be maintained by holding the corporation strictly to the liability fixed upon it by its agents in accordance with law; and we would be sorry to announce a doctrine which would permit the property of a man in the City of Paris to be whisked out of his hands and carried into a remote quarter of the earth without recourse against the corporation whose name and authority had been used in the manner disclosed in this case. As already observed, it is familiar doctrine that if a corporation

knowingly permits one of its officers, or any other agent, to do acts within the scope of an apparent authority, and thus holds him out to the public as possessing power to do those acts, the corporation will, as against any one who has in good faith dealt with the corporation through such agent, be estopped from denying his authority; and where it is said 'if the corporation permits' this means the same as 'if the thing is permitted by the directing power of the corporation.' "It being determined that the corporation is bound by the contracts in question, it remains to consider the character of the liability assumed by Ramon J. Fernandez, in affixing his personal signature to said contracts. * * *"

- The court really decides the case in favor of the appellant on a legal point which was not raised in the lower court, which was not assigned as an error in this court, and which was not argued in the brief of the appellant. This point is that the contract of employment made by the business manager of Kong Li Po with the plaintiffs was unusually long and onerous and was not binding on the corporation. The legal rule so announced, while having much to commend it, abstractly, can only be applied in the Philippines to the instant case, concretely. Our understanding of the meager demand for technical employees on newspapers in the Philippines, and particularly for technical employees on Chinese newspapers, is that a contract extending over a period of three years and calling for the payment of a salary of P480 per month for three persons, which contract was entered into in a written instrument by the business manager of the paper, presumably under genuine power but at any rate under apparent power, and which contract was ratified by the officers of the corporation, is not invalid. To continue the quotation from volume 14a Corpus Juris, pages 431, 432, where it stops in the prevailing opinion: The contract is not rendered invalid "where there is no abuse of the manager's authority and no fraud practiced, and where the contract is definite in terms, duly accepted, and the work entered upon." (McGuire vs. Old Sweet Springs Co. [1913], 73 W. Va., 321.) Volume 2, Thompson on Corporations, sections 1576 to 1583 can be read with profit.

For three fundamental reasons, therefore, it is my firm opinion that the contract sued on should be held valid and enforceable and that as was done in the lower court, the plaintiff should obtain redress pursuant to this contract.

My vote is for straight affirmance.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.