

VALLUM SECURITY SERVICES AND BAGUIO LEISURE CORPORATION (HYATT TERRACES BAGUIO), PETITIONERS, VS. THE NATIONAL LABOR RELATIONS COMMISSION, RUBEN ABELLERA, MANUEL GANANCIAL, SAMS...

G.R. Nos. 97320-27. July 30, 1993

Ponente: FELICIANO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-nos-97320-27/>

FELICIANO, J.:

On 1 September 1986, petitioner Baguio Leisure Corporation (Hyatt Terraces Baguio) ("Hyatt Baguio") and petitioner Vallum Security Services ("Vallum") entered into a contract for security services under the terms of which Vallum agreed to protect the properties and premises of Hyatt Baguio by providing fifty (50) security guards, on a 24-hour basis, a day.

On 1 June 1988, Heinrich L. Maulbecker, Hyatt Baguio's General Manager, wrote to Domingo A. Inocentes, President of Vallum advising that effective 1 July 1988, the contract of security service would be terminated.

Vallum informed Mr. Maulbecker, on 22 June 1988, that it was agreeable to the termination of the contract.

On 30 June 1988, private respondents, who were security guards provided by Vallum to Hyatt Baguio, were informed by Vallum's Personnel Officer that the contract between the two (2) had already expired. Private respondents were directed to report to Vallum's head office at Sucat Road, in Muntinlupa, Metropolitan Manila, not later than 15 July 1988 for re-assignment. They were also told that failure to report at Sucat would be taken to mean that they were no longer interested in being re-assigned to same other client of Vallum.

None of the private respondents reported at Sucat for re-assignment. Instead, between July and September 1988, private respondents filed several complaints against petitioners in the National Labor Relations Commission's Office ("NLRC") in Baguio City for illegal dismissal and unfair labor practices; for violation of labor standards relating to underpayment of wages, premium holiday and restday pay, uniform allowances and meal allowances. They prayed for reinstatement with full backwages. The several cases were consolidated together.

On 19 May 1989, the Labor Arbiter rendered a decision dismissing the complaints. He found Vallum to be an independent contractor and, consequently, declined to hold Hyatt Baguio liable for dismissal of private respondents. He also held that the termination of services of private respondents by Vallum did not constitute an unfair labor practice, considering that such termination had been brought about by lack of work. Furthermore, the Labor Arbiter held that private respondents were not entitled to backwages or separation pay, in line with the "no work, no pay" principle. Lastly, he found no violation of the labor standard provisions on payment of wages and other employee benefits.[1]

Private respondents appealed the Labor Arbiter's decision to the NLRC. On 31 July 1990, the NLRC promulgated a resolution reversing the Labor Arbiter's decision, the dispositive portion of which resolution reads as follows:

"WHEREFORE, the decision appealed from is hereby REVERSED and set aside and a new one entered ordering the respondent Hyatt Terraces Baguio to reinstate the complainants to their former positions with full backwages limited to one (1) year. In view of supervening event which makes the reinstatement impossible, respondents Hyatt Terraces Baguio and Vallum Security Services Corporation, are directed, jointly and severally to pay complainants, in lieu of reinstatement, separation pay equal to one (1) month per year of service. Service of six month shall be considered a year for the purpose of the same."[2]

Petitioners moved for reconsideration, without success.

Vallum and Hyatt Baguio are hence before this Court on certiorari seeking to: (a) reverse and annul the Resolutions of the NLRC of 31 July 1990 and 31 January 1991; and (b) reinstate the decision of the Labor Arbiter dated 19 May 1989. Petitioners assert that the NLRC's finding that an employer-employee relationship had existed between Hyatt Baguio and private respondents, is tainted with arbitrariness.

The main issue here presented and addressed below is whether or not private respondent security guards are indeed employees of petitioner Hyatt Baguio.

In determining whether a given set of circumstances constitute or exhibit an employer-employee relationship, the accepted rule is that the elements or circumstances relating to the following matters shall be examined and considered:

1. the selection and engagement of the employees;
2. the payment of wages;
3. the power of dismissal; and
4. the power to control the employees' conduct.[3]

Of the above, control of the employees' conduct is commonly regarded as the most crucial and determinative indicator of the presence or absence of an employer-employee relationship.[4] We examine below the circumstances of the relationship between petitioners and private respondents under the above four (4) rubrics.

In respect of the selection and engagement of the employees, the records here show that private respondents filled up Hyatt employment application forms and submitted the executed forms directly to the Security Department of Hyatt Baguio.[5] It appears that these executed application forms were returned to the respective applicants;[6] nonetheless, however, a few days after the applications to Hyatt Baguio were submitted, Vallum sent letters of acceptance to private respondents. Petitioners do not deny that private respondents had applied for employment at Hyatt's Security Department and that that Security Department was used to process the applications. Petitioners argue that because the premises to be secured were located in Baguio, Vallum found it more advantageous to recruit security guards from the Baguio area. It would have been most inconvenient for applicants from the Baguio area to have gone all the way to Sucat in Makati to file and follow-up their applications; accordingly, Vallum was provided with its own office at Hyatt Baguio and there the applications, with the assistance of Hyatt Baguio's Security Department, were processed.[7] Petitioners' argument here, while understandable, does not negate the fact that the process of selection and engagement of private respondents had been carried out in Hyatt Baguio and subject to the scrutiny of officers and employees of Hyatt Baguio.

In respect of the mode or manner of payment of wages, private respondents submitted in evidence four hundred twenty-three (423) pay slips (Exhibits "A" for complainants-private respondents), which bore Hyatt Baguio's logo.[8] These pay slips show that it was Hyatt Baguio which paid their wages directly and that Hyatt Baguio deducted therefrom the necessary amounts for SSS premiums, internal revenue withholding taxes, and medicare contributions. The Labor Arbiter had found that a separate payroll was maintained for Vallum by Hyatt Baguio;

the NLRC, however, held that this finding had no factual basis, and we are compelled to agree with this finding. It is true that a subsequent agreement (10 September 1986) between Vallum and Hyatt Baguio had provided:

"1. That for the purposes of facilitating and prevention of delays in the distribution of payroll to all Security Guards assigned at the premises of the company and as embraced in the contract of Security Services, the [Vallum] shall herewith authorize the [Hyatt Baguio] to undertake the distribution of the payroll directly to the guards as mentioned herein. (Emphasis supplied)

2. That for purposes of the payroll distribution as stated above, the company shall devise ways to ensure the efficient and prompt distribution to the guards of the irrespective salaries."[9] (Emphases supplied)

The fact that this agreement had stipulated for direct payment by Hyatt Baguio of private respondents' wages did not, of course, dissolve the relevance of such direct payment as an indicator of an employer-employee relationship between Hyatt Baguio and private respondents. Vallum did not even provide Hyatt Baguio with Vallum's own pay slips or payroll vouchers for such direct payments. What clearly emerges is that Hyatt Baguio discharged a function which was properly a function of the employer.

Turning to the matter of location of the power of dismissal, we note that the contract provided that upon loss of confidence on the part of Hyatt Baguio vis-a-vis any security guard furnished by Vallum, such security guard "may be changed immediately upon the request to [Vallum] by [Hyatt Baguio]." Notwithstanding the terms of the formal contract between petitioners, the NLRC found that, in operative fact, it was Hyatt Baguio's Chief Security Officer who exercised the power of enforcing disciplinary measures over the security guards.[10] In the matter of termination of services of particular security guards, Hyatt Baguio had merely used Vallum as a channel to implement its decisions, much as it had done in the process of selection and recruitment of the guards.

Coming then to the location of the power of control over the activities of the security guards, the following factors lead us to the conclusion that that power was effectively located in Hyatt Baguio rather than in Vallum:

(a) the assignments of particular security guards was subject to the approval of Hyatt Baguio's Chief Security Officer;[11]

(b) promotions of the security guards from casual to regular employees were approved or ratified by the Chief Security Officer of Hyatt Baguio;[12]

(c) Hyatt Baguio's Chief Security Officer decided who among the various security guards should be on duty or on call, as well as who, in cases of disciplinary matters, should be suspended or dismissed;[13]

(d) the petitioners themselves admitted that Hyatt Baguio, through its Chief Security Officer, awarded citations to individual security guards for meritorious services.[14]

Petitioners contend that what existed between Vallum and Hyatt Baguio was simply close coordination and dove-tailing of operations, rather than control and supervision by one over the operations of the other, and that Hyatt Baguio's Chief Security Officer had acted as the conduit between Hyatt Baguio and Vallum in respect of the implementation of the contract of security services. That is not, however, the characterization given by the NLRC to the details of the factual relationships between Hyatt Baguio (acting through its Chief Security Officer) and Vallum and private respondent security guards and it is clear to the Court that the characterization reached by the NLRC is not without the support of substantial evidence of record. We agree with the NLRC's characterization.

One final circumstance seems worthy of note: orders received by private respondent security guards were set forth on paper bearing the letterheads of both Hyatt Baguio and Vallum.[15] It appears to us, therefore, that Hyatt Baguio explicitly purported, at the very least, to share with Vallum the exercise of the power of control and supervision with Vallum over the security guards, if indeed Vallum was not functioning merely as an alter ego of

Hyatt Baguio in respect of the operations of the security guards. In the ordinary course of business, security guard agencies are engaged because of their specialized capabilities in the matter of physical security. It is a security agency's business to know the most efficacious manner of protecting and securing a particular place at a particular time. In the case at bar, the functions performed by Hyatt Baguio's Chief Security Officer were precisely the duties which the head or senior officer of a legitimate security agency would be exercising over its own employees.

Finally, we note that the contract for security services between Vallum and Hyatt Baguio contained the following provisions:

"x x x x x x x x

3. The AGENCY shall exercise discipline, supervision, control and administration over the security guards so assigned to the premises of the COMPANY in accordance with the Rules and Regulations of the PCSUSIA, the Local Police Departments, the AGENCY and the COMPANY.

4. The AGENCY shall provide at its own expense all necessary, proper and duly licensed firearms, ammunitions, nightsticks, and other paraphernalia for security purposes, to the guards it assigns to the COMPANY and shall shoulder all taxes and licenses relating to the Security Services referred to in this agreement.

5. It is expressly understood and mutually agreed by the parties hereto that the AGENCY shall be held solely liable for any claim for security guards' wages and/or damages arising out of personal injury including death caused, either by the AGENCY'S guard upon a third party or by the AGENCY'S guard or third party upon a guard assigned by the AGENCY to the COMPANY, and should the COMPANY be held liable therefore, the AGENCY shall reimburse the COMPANY for any and all amounts that it may have been called upon to pay.

x x x x x x x x

7. The AGENCY shall always detail within the hours the period provided for and in the paragraph 1 of this contract, an authorized representative who shall handle for the AGENCY all matters regarding security and enforcement which the COMPANY may wish to implement."

The thrust of the foregoing discussion, however, is that the relationship between Vallum and Hyatt Baguio as actually conducted departed significantly from the formal written terms of their agreement. It is to us self-evident that the characterization in law of such relationship cannot conclusively be made in terms alone of the written agreement -- which constitutes but one factor out of many that the Court must take into account -- but must rest upon an examination of the detailed facts of such relationship in the world of time and space.

We find no basis for overturning the conclusions reached by the NLRC that Vallum, in the specific circumstances of this case, was not an independent contractor but was, rather, a "labor-only" contractor. Section 9 of Rule VII of Book III entitled "Conditions of Employment" of the Omnibus Rules Implementing the Labor Code provides as follows:

"Sec. 9. Labor-only contracting. (a) Any person who undertakes to supply workers to an employer shall be deemed to be engaged in labor-only contracting where such person:

- (1) Does not have substantial capital or investment in the form of tools, equipment, machineries, work premises and other materials; and
- (2) The workers recruited and placed by such person are performing activities which are directly related to the principal business or operations of the employer in which workers are habitually employed.

(b) Labor-only contracting as defined herein is hereby prohibited and the person acting as contractor shall be considered merely as an agent or intermediary of the employer who shall be responsible to the workers in the same manner and extent as if the latter were directly employed by him.

x x x x x x x x

Sec. 8. Job contracting. - There is job contracting permissible under the Code if the following conditions are met:

(1) The contractor carries on an independent business and undertakes the contract work on his own account under his own responsibility according to his own manner and method, free from the control and direction of his employer or principal in all matters connected with the performance of the work except as to the results thereof; and

(2) The contractor has substantial capital or investment in the form of tools, equipment, machineries, work premises, and other materials which are necessary in the conduct of his business."

In the case at bar, we noted that Vallum did not have a branch office in Baguio City and that Hyatt Baguio provided Vallum with offices at Hyatt's own premises and allowed Vallum to use its Security Department in the processing of applications. That was the reason too why Vallum had stipulated that Hyatt Baguio was to distribute the salaries of the security guards directly to them and that Hyatt had used its own corporate forms and pay slips in doing so. The security guards were clearly performing activities directly related to the business operations of Hyatt Baguio, since the undertaking to safeguard the person and belongings of hotel guests is one of the obligations of a hotel vis-a-vis its guests and the general public.

Where labor-only contracting exists in a given case, the law itself implies or establishes an employer-employee relationship between the employer (the owner of the project or establishment) (here, Hyatt Baguio) and the employees of the labor-only contractor (here, Vallum) to prevent any violation or circumvention of provisions of the Labor Code.[16]

The issue of illegal dismissal need not detain us for long. It has not been alleged by petitioners that a just or authorized cause for terminating private respondents' services had existed. And even if such lawful cause existed, it is not alleged that private respondents' rights to procedural due process in that connection had been appropriately observed.

We conclude that petitioners have not shown any grave abuse of discretion or any act without or any in excess of jurisdiction on the part of the National Labor Relations Commission in rendering its Resolutions dated 31 July 1990 and 31 January 1991.

WHEREFORE, premises considered, the Petition for Certiorari is hereby **DISMISSED** for lack of merit. Costs against petitioners.

SO ORDERED.

Bidin, Romero, Melo, and Vitug, JJ., concur.

[1] Decision of the Labor Arbiter, 19 May 1989, pp. 3-14; Rollo, pp. 87-98.

[2] National Labor Relations Commission Resolution dated 31 July 1990, p. 11; Rollo, p. 110.

[3] Canlubang Security Agency Corporation vs. National Labor Relations Commission, et al., G.R. No. 97492, 8 December 1992; Aboitiz Shipping Employee's Association vs. National Labor Relations Commission, 186 SCRA

825 (1990); *Deferia vs. National Labor Relations Commission*, 194 SCRA 525 (1990); *Phil. Bank of Communications vs. National Labor Relations Commission*, 146 SCRA 347 (1986).

[4] *Great Pacific Life Assurance Corp. v. National Labor Relations Commission*, 187 SCRA 694 (1990); *Hydro Resources Contractor's Corporation v. Pagalilauan*, 172 SCRA 399 (1989); *Sara v. Agarrado*, 166 SCRA 625 (1988); *Investment Planning Corp. of the Phils. v. Social Security System*, 21 SCRA 924 (1967).

[5] Reply, p. 3; Rollo, p. 171.

[6] NLRC Case Profile Index, Position Paper for the Complainants, p. 17; Rollo, p. 50.

[7] Petition for Review on Certiorari, pp. 15-16; Rollo, pp. 16-17; see also Reply p.3; Rollo, p. 171.

[8] Exhibit "A" for Complainants NLRC Case Profile Index, pp. 58-201.

[9] Annex "C," Petition for Review, Rollo, p. 78.

[10] National Labor Relations Commission's Resolution of 31 July 1990, Rollo, p. 108

[11] National Labor Relations Commission's Decision, p. 10; Rollo, p. 109.

[12] Exhibit "G," pp. 252-256, 228-231, NLRC Case Profile Index.

[13] Comment of the Solicitor General, p. 8; Rollo, p. 157.

[14] Petition, pp. 19-20; Rollo, pp. 19-20.

[15] Exhibit "G," NLRC Case Profile Index, pp. 220-260.

[16] *Phil. Bank Communications v. National Labor Relations Commission*, 146 SCRA 347 (1986); *Ecal v. National Labor Relations Commission*, 195 SCRA 224 (1991); *Associated Anglo-American Tobacco Corporation v. Clave*, 189 SCRA (1990).

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.