

## FIRST DIVISION

[ G.R. NO. 162839, October 12, 2006 ]

**INNODATA PHILIPPINES, INC., PETITIONER, VS. JOCELYN L. QUEJADA-LOPEZ AND ESTELLA G. NATIVIDAD-PASCUAL, RESPONDENTS.**

### DECISION

#### **PANGANIBAN, CJ:**

A contract that misuses a purported fixed-term employment to block the acquisition of tenure by the employees deserves to be struck down for being contrary to law, morals, good customs, public order and public policy.

#### The Case

Before us is a Petition for Review<sup>[1]</sup> under Rule 45 of the Rules of Court, seeking to reverse the September 18, 2003 Decision<sup>[2]</sup> of the Court of Appeals (CA) in CA-GR SP No. 73416, as well as its March 15, 2004 Resolution<sup>[3]</sup> denying petitioner's Motion for Reconsideration. The decretal portion of the Decision states:

"**WHEREFORE**, the challenged decision of November 27, 2001 and resolution of July 22, 2002 of the National Labor Relations Commission are **SET ASIDE**, and the decision of the Labor Arbiter of December 29, 1999 in NLRC NCR CASE NO. 00-03-02732-98 is **REINSTATED** and **AFFIRMED** in all respect."<sup>[4]</sup>

#### The Facts

The factual antecedents are narrated by the CA as follows:

"Innodata Philippines, Inc., is engaged in the encoding/data conversion business. It employs encoders, indexers, formatters, programmers, quality/quantity staff, and others, to maintain its business and do the job orders of its clients.

"Estrella G. Natividad and Jocelyn L. Quejada were employed as formatters by Innodata Philippines, Inc. They [worked] from March 4, 1997, until their separation on March 3, 1998.

"Claiming that their job was necessary and desirable to the usual business of the company which is data processing/conversion and that their employment is regular pursuant to Article 280 of the Labor Code, [respondents] filed a complaint for illegal dismissal and for damages as well as for attorney's fees against Innodata Phils., Incorporated, Innodata Processing Corporation and Todd Solomon. [Respondents] further invoke

the stare decisis doctrine in the case of Juanito Villanueva vs. National Labor Relations Commission, et al., G.R. No. 127448 dated September 17, 1998 and the case of Joaquin Servidad vs. National Labor Relations Commission, et al., G.R. No. 128682 dated March 18, 1999, arguing that the Highest Court has already ruled with finality that the nature of employment at [petitioner] corporation is regular and not on a fixed term basis, as the job in the company is necessary and desirable to the usual business of the corporation.

"On the other hand, [petitioner] contends that [respondents'] employment contracts expired, for [these were] only for a fixed period of one (1) year. [Petitioner] company further invoked the Brent School case by saying that since the period expired, [respondents'] employment was likewise terminated.

"After examination of the pleadings filed, Labor Arbiter Donato G. Quinto rendered a judgment in favor of complainants, the dispositive portion of which reads:

'WHEREFORE, foregoing premises considered, judgment is hereby rendered:

(1) Holding complainants Estella G. Natividad and Jocelyn Quejada to have been illegally dismissed by [Petitioners] Innodata Philippines Incorporated and Innodata Processing Corporation and ordering said [petitioners] to reinstate them to their former position without loss of seniority rights, or to a substantially equivalent position, and to pay them jointly and severally, backwages computed from the time they were illegally dismissed on March 3, 1998 up to the date of this decision in the amount of P112,535.28 EACH, or in the total amount of P225,070.56 for the two of them;

(2) Further, [petitioners] are ordered to pay, jointly and severally, [respondents] attorney's fees in the amount equivalent to 10% of their respective awards; and

(3) All other claims are hereby dismissed for lack of merit.

'SO ORDERED.'

"Not satisfied, [petitioner] corporation interposed an appeal in the National Labor Relations Commission, which reversed and set aside the Labor Arbiter's decision and dismissed [respondents'] complaint for lack of merit. It declared that the contract between [respondents] and [petitioner] company was for a fixed term and therefore, the dismissal of [respondents], at the end of their one year term agreed upon, was valid.

"A motion for reconsideration was filed but was denied in an order dated July 22, 2002."<sup>[5]</sup>

### **Ruling of the Court of Appeals**

The CA ruled that respondents were regular employees in accordance with Section 280 of the Labor Code. It said that the fixed-term contract prepared by petitioner was a crude attempt to circumvent respondents' right to security of tenure.

Hence, this Petition.<sup>[6]</sup>

### **Issues**

Petitioner raises the followings issues for the Court's consideration:

#### **I**

"Whether or not the Court of Appeals committed serious reversible error when it did not take into consideration that fixed-term employment contracts are valid under the law and prevailing jurisprudence.

#### **II**

"Whether or not the Court of Appeals committed serious reversible error when it failed to take into consideration the nature of the business of petitioner vis-à-vis its resort to fixed-term employment contracts.

#### **III**

"Whether or not the Court of Appeals seriously erred when it failed to consider the fixed-term employment contracts between petitioner and respondents as valid.

#### **IV**

"Whether or not the Court of Appeals seriously erred when it held that regularity of employment is always premised on the fact that it is directly related to the business of the employer.

#### **V**

"Whether or not the Court of Appeals committed serious reversible error in setting aside the Decision of the National Labor Relations Commission, dated 27 November 2001 and Resolution of 22 July 2002, respectively[,] and reinstated the decision of the Labor Arbiter dated 29 December 1999."<sup>[7]</sup>

The foregoing issues may be reduced into one question: whether the alleged fixed-term employment contracts entered into by petitioner and respondents are valid.

### **The Court's Ruling**

The Petition has no merit.

**Sole Issue:**  
**Validity of the Fixed-Term Contract**

Petitioner contends that the regularity of the employment of respondents does not depend on whether their task may be necessary or desirable in the usual business of the employer. It argues that the use of fixed-term employment contracts has long been recognized by this Court.

Petitioner adds that *Villanueva v. NLRC*<sup>[8]</sup> and *Servidad v. NLRC*<sup>[9]</sup> do not apply to the present factual circumstances. These earlier cases struck down the employment contracts prepared by herein Petitioner Innodata for being "devious, but crude, attempts to circumvent [the employee's] right to security of tenure x x x." Petitioner avers that the present employment contracts it entered into with respondents no longer contain the so-called "double-bladed" provisions previously found objectionable by the Court.

Petitioner's contentions have no merit.

While this Court has recognized the validity of fixed-term employment contracts in a number of cases,<sup>[10]</sup> it has consistently emphasized that when the circumstances of a case show that the periods were imposed to block the acquisition of security of tenure, they should be struck down for being contrary to law, morals, good customs, public order or public policy.<sup>[11]</sup>

In a feeble attempt to conform to the earlier rulings of this Court in *Villanueva*<sup>[12]</sup> and *Servidad*,<sup>[13]</sup> petitioner has reworded its present employment contracts. A close scrutiny of the provisions, however, show that the double-bladed scheme to block the acquisition of tenurial security still exists.

To stress, *Servidad* struck down the following objectionable contract provisions:

"Section 2. This Contract shall be effective for a period of 1 [year] commencing on May 10, 1994, until May 10, 1995 unless sooner terminated pursuant to the provisions hereof.

"From May 10, 1994 to November 10, 1994, or for a period of six (6) months, the EMPLOYEE shall be contractual during which the EMPLOYER can terminate the EMPLOYEE'S services by serving written notice to that effect. Such termination shall be immediate, or at whatever date within the six-month period, as the EMPLOYER may determine. Should the EMPLOYEE continue his employment beyond November 10, 1994, he shall become a regular employee upon demonstration of sufficient skill in the terms of his ability to meet the standards set by the EMPLOYER. If the EMPLOYEE fails to demonstrate the ability to master his task during the first six months he can be placed on probation for another six (6) months after which he will be evaluated for promotion as a regular employee."<sup>[14]</sup>