



The Emergence of Multinational Enterprise in Ecuador: The Case of the Ecuadorian Corporation

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Ecuador's first multinational enterprise, the Ecuadorian Corporation, was founded in London on April 19, 1913, by members of the same syndicate of North American and British capitalists who financed and built Ecuador's Guayaquil and Quito Railroad. In exploring the connection between the railroad promoters and the Ecuadorian Corporation, I place special emphasis on two members of the original railroad syndicate: Archer Harman and Evermont Hope Norton. Between 1904 and 1913, Harman and Norton developed several subsidiary companies to enhance the railroad's earnings prospects. When political problems arose between the railroad and the Ecuadorian government over distribution of the earnings of the subsidiary companies, the Ecuadorian Corporation was formed as a separate holding company to protect the subsidiary companies from a possible government intervention. I provide a history of the Ecuadorian Corporation from its founding in 1913 to its dissolution in 1986 as the result of a hostile takeover by the Rooney-Pace Corporation.

Ecuador's first multinational enterprise, the Ecuadorian Corporation, was founded on April 19, 1913, in London by the same syndicate of American and British capitalists who financed and built Ecuador's famous Guayaquil and Quito Railroad. In this essay, I explore the connection between the subsidiary companies that the syndicate developed and the founding of the Ecuadorian Corporation in 1913. I place special emphasis on two American entrepreneurs, Archer Harman and Evermont Hope Norton, and the important role they played in promoting the railroad and establishing the subsidiary companies subsequently taken over by the Ecuadorian Corporation.

On June 14, 1897, the Ecuadorian government awarded the contract to build the Guayaquil to Quito railroad to a syndicate of twelve investors located in New York City. Former New York City mayor Abram S. Hewitt; former Ohio governor George Hoadly; the private investment banker Evermont Hope Norton; Archer Harman, a railroad contractor from Virginia with extensive railroad construction experience in the United States; and Stuart Auchincloss Coats, the New York representative of the Coats Thread

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Company (the powerful Scottish thread monopoly with extensive interests in textile mills in Rhode Island and Massachusetts) headed the syndicate.¹

The syndicate sent Harman to Ecuador in February 1897 to make a preliminary survey of the proposed route and to negotiate the terms of the concession contract with the Ecuadorian government. Harman estimated the cost of the railroad at some \$17,284,000: \$5,284,000 in stock and \$12,284,000 in first mortgage bonds, with the Ecuadorian government to guarantee all interest and principal payments. The incorporation of the Guayaquil and Quito Railroad Company occurred on September 1, 1897, upon Harman's return to New York.²

A major obstacle to the placing of the railroad bonds was Ecuador's so-called English Debt, incurred in the 1820s in winning the country's independence from Spain. All the Ecuadorian debt was held by Europeans, the majority by English bondholders. To facilitate the placement of the first mortgage bonds, Harman went to London to purchase the Ecuadorian debt from the London-based Council of Foreign Bondholders, which represented the British holders.³

While negotiating with the Council of Foreign Bondholders, Harman made the acquaintance of Sir John Lubbock, the Council's president and the principal shareholder in the investment-banking firm of Lubbock, Robarts, & Company. Lubbock introduced Harman to his brother-in-law, St. George Lane Fox Pitt, who offered to interest some of his wealthy Scottish relatives in investing in the railroad.⁴ After successfully purchasing Ecuador's debt, Harman returned to New York and organized the South American Railway Construction Company to take charge of building the road in Ecuador. Harman then approached Thomas Carmichael, the representative of the New York City branch of the British investment bank of Dent, Palmer, & Company, about arranging the financing of the construction in Ecuador. Carmichael accepted Harman's proposal, and on September 16, 1898, Harman, Norton, Fox Pitt, and Carmichael organized the Ecuador Development Company as a holding company for the railroad's stocks and bonds. In the fall of 1898, Carmichael and Fox Pitt accompanied Harman to Ecuador, but soon had a falling out with Harman over modifications in the concession contract. Dent, Palmer, & Company then withdrew their offer to finance the construction of the road, forcing Harman to look for another source of financing.⁵

¹ John F. Uggen, "Archer Harman y la construcción del Ferrocarril del Sur," *Procesos: Revista Ecuatoriana de Historia* 20 (II Sem/2003-I Sem/2004): 37-54.

² "To Build a Road in Ecuador," *New York Times*, Sept. 8, 1897, p. 3.

³ Council of Foreign Bondholders, *Agreement between the Guayaquil and Quito Railway and the Council of Foreign Bondholders* (London, 1897).

⁴ United States District Court for the Southern District. *George D. Mumford and St. George Lane Fox Pitt vs. The Ecuador Development Company and the Ecuadorian Association, Defendants*, vols 1-21, 1913.

⁵ *Ibid.*

The concession contract called for the railroad to be finished to Quito by 1902, but opposition to the terms of the concession in the Ecuadorian legislature and the outbreak of the Spanish American War in the spring of 1898 made it difficult to raise the capital in the United States. Harman once again returned to London in search of financing and made the acquaintance of Sir James Sivewright, a wealthy Scotsman from Edinburgh who had made his fortune in South Africa as a business associate of Cecil Rhodes. Harman succeeded in interesting Sivewright in the Ecuador project, and together they organized the Ecuadorian Association in Edinburgh, on April 4, 1899, with an initial capitalization of £500,000. The Ecuador Development Company then assigned its interest in the stocks and bonds of the railroad to the Ecuadorian Association, which assumed the responsibility of financing the construction in Ecuador.⁶

The actual cost of construction turned out to be considerably higher than originally calculated, forcing the association into liquidation in 1904, after completing only about half the distance to Quito. In recognition of the Ecuadorian Association's investment, the Guayaquil and Quito Railroad Company agreed to an exchange of stock with the shareholders of the association, a majority of whom exchanged their shares for stock in the railroad company.⁷ After the failure of the Ecuadorian Association, Archer Harman incorporated the Inca Company in New York in November 1904 as a construction company, and he successfully finished the line to Quito in June 1908.⁸

In the early 1900s, Quito lagged far behind most other Latin American capitals in the amenities associated with modern city life. Quito lacked a modern urban transport system, electric lighting, potable water, a modern sewer system, and a public market capable of meeting the demands of a growing population. To help meet these demands, the liberal government that swept into power in 1895 instituted a series of reforms aimed at modernizing Quito. To finance the expansion of urban services the Quito City Council "rapidly resolved to sell *all* its property in 1897, regardless of whether it was occupied." With the cash accumulated from the auction of municipal lands, the city "was able to extend or inaugurate an impressive number of urban services over the next two decades that rapidly altered the city."⁹

Archer Harman, the main force behind the financing and construction of the railroad, was an entrepreneur with a keen sense of the business

⁶ Ibid.

⁷ The Ecuadorian Association, *Stockholder List*, Company Number 4201, Kew Archives: National Archives of Great Britain; and the Guayaquil and Quito Railroad, *List of Common and Preferred Stockholders*, October 1, 1910, file no. 4211.G93/339, National Archives and Records Administration, College Park, Md.

⁸ "Incorporated in New Jersey," *New York Times*, 18 Nov. 1904, p. 10. See also "Quito Railway Opened," *New York Times*, 19 June 1908, p. 6.

⁹ Ernesto Boland Capello, "City Fragments: Space and Nostalgia in Modernizing Quito" (Ph.D. Diss., University of Texas, 2005), 128 [emphasis added].

opportunities that would open up once the line reached Quito. Between November 1904 and June 1910, Harman, with the collaboration of Norton and the railroad management, organized nine subsidiary companies: the Inca Company, November 22, 1904; the Anglo French Pacific Syndicate, May 26, 1905; the Quito Electric Light and Power Company, November 5, 1905; the Quito Tramways Company, November 14, 1905; the Recreo Company, December 5, 1905; the Inca Springs Company, August 6, 1906; the New Guayaquil Land Company, January 10, 1909; the Ecuador Express Company, May 1, 1909; and the Farms Company, June 1, 1910.¹⁰ The Anglo French Pacific Syndicate was organized in London with some of the same English and Scottish capitalists who had invested in the bankrupt Ecuadorian Association. The syndicate's main purpose was to purchase prime Quito real estate that the city was auctioning off to finance its own development projects.¹¹

In 1905, the northern boundary of Quito was the Ejido Park. The railroad management correctly predicted that the direction of the city's growth would be to the area north of the park. The Anglo French Pacific Syndicate raised \$125,072 sucres (U.S. \$25,000), and hired Ecuadorian Modesto Sanchez Carbo to purchase seven parcels of land in his name and then transfer them to the syndicate. The seven parcels formed one solid block of land of some 33 acres in what is today the Barrio Mariscal Sucre, the heart of Quito's modern financial district.¹²

The Quito Electric Light and Power Company and the Quito Tramways Company were both incorporated in the United States during November 1905. The Quito Electric Light and Power Company purchased a controlling interest in a local utility company, which operated a small power plant in Guápulo, on the eastern edge of Quito. The power company won the contract to provide electricity for the city, and service was inaugurated on October 8, 1908, just four months after the railroad's arrival in Quito.

The terms of the 1897 concession stipulated that the railroad terminal be located within the Quito city limits. The railroad's original choice for the terminal was the site occupied by the Hipodromo immediately to the north of the lands purchased by the Anglo French Pacific Syndicate on Avenida Colón. When the railroad finally reached Quito in June 1908, a temporary terminal was built in an area known as Chimbacalle, at a considerable distance from downtown Quito on the eastern side of the Machangara River, which formed the city's eastern boundary. Because the cost of building a railroad bridge across the Machangara was deemed too expensive, the railroad decided to locate the terminal permanently in Chimbacalle, and then build a tramway from Chimbacalle to the Hipodromo station on Avenida Colon. The city

¹⁰ List elaborated by the author from certificates of incorporation in the Archivo Nacional de Historia, Quito.

¹¹ "Anglo French Pacific Syndicate," *Notaría Primera: 1905-1906*, 456-537, Archivo Nacional de Historia.

¹² *Ibid.*

granted the Quito Tramway Company the contract, which inaugurated Tramway service in 1914, on the eve of the First World War.¹³

In the early 1900s, the city of Guayaquil was Ecuador's principal port and the economic center of the trade in cocoa, the country's principal export crop. The city itself was notoriously unhealthy, with malaria, yellow fever, and bubonic plague constant threats to the population. Although the line was officially called the Guayaquil and Quito Railroad, its Guayaquil terminal was actually located in the small town of Duran across the Guayas River from Guayaquil. Passengers from Guayaquil who wanted to take the train to Quito had to cross the Guayas River by ferryboat.

On December 5, 1905, Archer Harman organized the Recreo Company in New York City to purchase the 8,000-acre estate of the same name, which surrounded the town of Duran.¹⁴ Harman's plans were to build a modern train station and to transform Duran into a modern "New Guayaquil" that would rival the old colonial city across the river.

To raise capital to develop the Recreo estate, Harman traveled to Paris, where he organized the New Guayaquil Land Company, largely with French investors. When a legal dispute arose between Harman and the French investors over title to the Recreo estate, the French investors sued Harman in New York and won a \$22,643 judgment against him.¹⁵ To ward off further legal action, the French investors were later offered the opportunity to exchange their shares in the New Guayaquil Land Company for equivalent shares in the Ecuadorian Corporation.

In April 1906, Quito's first independent bank, the Banco del Pichincha, was incorporated. Archer Harman and his brother, Major John Harman, the engineer in charge of construction of the railroad in Ecuador, provided approximately 16 percent of the initial capital.¹⁶ John Harman and two Harman cousins also provided \$3,000 in start-up capital for the Inca Springs Bottling Company to develop an artesian well located on a tract of land they had purchased near Quito. Quito's water supply was notoriously contaminated and the Inca Springs Mineral Water Company would provide a safe alternative source of drinking water.

Throughout the period of construction, opposition from the conservative and nationalist forces in Ecuador, which objected to the \$870,000 annual interest payment on the railroad bonds, plagued the railroad company. The Ecuadorian government insisted that the American management open the railroad to traffic as soon as each section of the line was completed. A major point of disagreement between the government and the railroad concerned the traffic receipts from the railroad. The government insisted that any

¹³ "The Guayaquil and Quito Railroad con la Sociedad del Hipódromo de Quito," *Notaría Primera: 1911-1912*, 545/152.

¹⁴ "New York Incorporations," *New York Times*, 5 Dec. 1905, p. 14.

¹⁵ "Satisfied Judgments," *New York Times*, 4 June 1909, p. 14.

¹⁶ "Promotores del Banco del Pichincha, 11 de abril de 1906," *Notaría Cuarta*, 183/1886, Archivo Nacional de Historia.

earnings produced by the railroad be devoted to paying the bonded debt of the railroad rather than to pay for construction costs.

The conflict between the railroad company and the government was further exacerbated after the railroad organized the Ecuador Express Company in May 1909. The opening of the Express Company service aroused widespread outrage in Ecuador. The Ecuadorian government accused the railroad of organizing the Express Company for the sole purpose of siphoning off profits earned from freight and passenger traffic, instead of paying off the interest on the railroad bonds. Government opposition became so intense over the Express Company business and other alleged abuses committed by the railroad company that it defaulted on its interest payments for 1910 and 1911.¹⁷ The Farms Company, a holding company incorporated in the state of Delaware to acquire title to both the Anglo French Pacific Syndicate lands in Quito and the Recreo estate in Duran, was the last subsidiary company organized by Archer Harman.

The Anglo French Pacific Syndicate went into voluntary liquidation in 1916, and transferred title of its lands to the Farms Company. In 1922, the Farms Company sold off the remainder of the Quito lands to the Junta del Centenario, organized to celebrate the centennial of the Battle of Pichincha, in which Ecuador won its independence from Spain. The Farms Company retained title to the Recreo estate in Duran.¹⁸

In the fall of 1910, Harman attempted to purchase the Galapagos Islands for the United States. The reaction against Harman and the United States was so intense that the State Department intervened and convinced Harman that he should retire from Ecuador in the best interests of the railroad and the relations between the two countries. Harman left Ecuador for the United States in April 1911, never to return to Ecuador. He died on October 9, 1911, in a horseback riding accident while on vacation in Hot Springs, Virginia.¹⁹

After Harman's death, Evermont Hope Norton became president of the Guayaquil and Quito Railroad. The government default on the bond payments and increasing hostility against the railroad company convinced Norton and the directors of the railroad to organize a holding company to protect the subsidiary companies from possible expropriation by the government. On April 19, 1913, the organization of the Ecuadorian Corporation in London transferred title of the following to the new corporation: two-thirds interest in the Guayaquil Brewery; the Ecuador Express Company; 16 percent of the Banco del Pichincha stock; the Quito

¹⁷ "La Express Company," *El Comercio* (Quito), 18 Oct. 1911. See also 422.11G93/475-499. National Archives and Records Service, for a detailed account of the dispute between the Ecuadorian government and the Guayaquil and Quito Railroad Company.

¹⁸ "Transacción: El Supremo Gobierno del Ecuador y La Anglo French Pacific Syndicate, Ltd.," *Registro Oficial* (Quito) 17 (3 Feb. 1926).

¹⁹ "Archer Harman Dead: Built 300 Mile Railroad in Ecuador, of which he was President," *New York Times*, 10 Oct. 1911, p. 3.

Electric Light and Power Company; the Quito Tramways Company; the Inca Springs Company; water rights to the San Pedro River; the Quito Lands; and the Recreo Lands.²⁰

The Ecuadorian press angrily denounced incorporation of the company on publication of the prospectus, as it was widely suspected that the stockholders of the Ecuadorian Corporation were identical to the stockholders of the Guayaquil and Quito Railroad. Norton denied these charges, but research into the Ecuadorian Corporation archives in London confirms that the majority stockholders of the two entities were essentially identical.²¹

The Ecuadorian Corporation's original stockholder list, preserved in the British National Archives in Kew Gardens, reveals the "multinational" character of its stockholders. Approximately 51 percent of the shareholders were British, 32 percent were Americans, and the remaining 17 percent were primarily the French investors in the New Guayaquil Land Company who had exchanged their shares in the Recreo estate for shares in the new corporation. E. H. Norton and Erskine Hewitt, with 71 percent, and 12 percent, respectively, were the largest of the American holders. The Harman estate held 4 percent, and other original investors in the railroad held another 5 percent of the shares.

On May 27, 1913, barely five weeks after the founding of the Ecuadorian Corporation, incorporation of the Ecuador Breweries Company occurred to acquire title to the Fábrica de Hielo y Cervezas, owned by Ecuadorian politician Enrique Gallardo. In 1929, the Ecuadorian Corporation purchased the 15,000-acre San Miguel cocoa plantation on the outskirts of Milagro and the Salango hacienda on the Ecuadorian coast south of the port city of Manta. In 1934, the San Eduardo cement plant was added, and in 1938, the Ecuadorian corporation went "international" when it purchased a controlling interest in the International Products Corporation in Paraguay.²²

Evermont Hope Norton served as managing director and president of the Corporation from 1913 until his death in 1961. When he died, he left a company that was virtually debt-free and that had a retained earnings reserve of some \$8 million. Norton groomed his favorite grandson, Hope Norton Stevens, to take over the company.²³ He joined the board of directors in 1958 upon his graduation from Harvard Business School and rapidly moved up the corporate ladder after his grandfather's death, becoming successively vice-president, executive vice-president, and then president of the company in 1962.²⁴

²⁰ *The Ecuadorian Corporation, Ltd., Prospectus* (London, 1913).

²¹ See the series of articles published in *El Comercio* of Quito during June 1913, under the general title of "Un Trust Anglo-Yanqui en el Ecuador."

²² See "Ecuadorian Corporation," *Moody's Industrial Manual, 1928-1948*.

²³ Carlos Romo Leroux (former Ecuadorian Corporation executive), interview with author, summer 1995.

²⁴ Ecuadorian Corporation, Ltd., *Annual Reports, 1928-1985*.

When E. Hope Norton died in 1961, the corporation's consolidated balance sheet was \$14,861,066.²⁵ By 1979, under Norton Stevens's management, the company's consolidated balance sheet had grown to \$238,426,000, a sixteen-fold increase.²⁶

Unfortunately, diversification had its price. In the 1980s recession, the corporation, which had since changed its name to Norlin Corporation, suffered significant losses and Rooney, Pace, Inc., acquired it in a bitter seven-month hostile takeover fight, in 1984. Norton Stevens resigned from the Norlin board in 1985, and seventy-two years of Norton family control of the corporation ended.²⁷

The Ecuadorian Corporation made significant contributions to the economic development of Ecuador during its seventy-two years of operation. The Ecuadorian Corporation's founders financed and built the Guayaquil and Quito Railroad, established the modern beer and cement industries, developed significant agricultural holdings, developed the modern cut flower industry on lands owned by the company north of Quito, established one of the first modern dairy and meat operations on their San Miguel property, and laid out and urbanized the Mariscal Sucre neighborhood, today the heart of Quito's modern financial and service district.

In 2002, La Cemento Nacional and La Cerveceria Nacional both remained among the top ten companies in the country as measured by total capital investment and profits.²⁸ In June 2008, Ecuador celebrated the hundred-year anniversary of the completion of the Guayaquil and Quito Railroad, perhaps the crowning achievement of the American and British investors who founded Ecuador's first multinational corporation.

²⁵ Ecuadorian Corporation, Ltd., *Moody's Industrial Manual*, 1961, p. 1635.

²⁶ *Ibid.*, 1979, p. 5753.

²⁷ "Norlin Reorganizes its top Executives," *Wall Street Journal*, 5 March 1985, p. 1.

²⁸ "25 de Gestión: Mayores inversiones y mayores ganadores de dinero," *Gestión: Economía y Sociedad* (Quito) 96 (June 2002): 17.