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Gringo Entrepreneurship in Latin America. The Thorndikes of Peru, 1901-1938

Abstract

This article studies with a business history framework the history of immigrant entrepreneurship of a North American family in Peru, whose origin goes back to the second half of the nineteenth century and its development takes place in the first forty years of the twentieth century. The origins go back to Ernesto Thorndike, a North American businessman whose business trajectory was situated principally in Peru. At the end of his life, he saw the decline of his fortune despite his social and intellectual capital, of being part of the economic and social elite of Lima at the end of the nineteenth century and the beginnings of the twentieth, and of the diversification of its businesses. The article analyzes this evolution and indicates driving factors of success and decline: intellectual capital un-exploitable because of Peru's political and economic instability (the construction of railroads was paralyzed at the end of nineteenth century); the lack of speed to produce the necessary *tacit technical knowledge* to diversify of its businesses; and the lack of *bonding social capital*, which prevented the constitution of a family business group that capitalized contacts and relationships that extends in time the existence of firms beyond a generation.

Keywords: Business History; Management; Railroads

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1. Introduction

Business history has flourished in recent decades to study the history of immigrant entrepreneurship in the United States before World War II, focusing in the arrival and varied fortunes of European, Asian, and African immigrants. However, literature for this chronological period very rarely has paid attention to the history of North American emigrants in other regions of the world. Latin America was an important destination of multinationals in the first half of the twentieth century as demonstrated by works, among others, of Mira Wilkins, Geoffrey Jones, Andrea Luch, Erika Salvaj, Norma Lancioti, Marcelo Buchelli, Mario Cerutti, Eva Rivas, Armando Dalla Costa, Martin Monsalve, Javier Vidal, María Inés Barbero, and Paloma Fernández.

Studies about multinationals in Latin America have studied knowledge transfer, partnerships, patents, brands, investments, institutional connections with political powers and the local elites. Yet, there is almost no literature about North American entrepreneurs remaining in Latin America, and about families in business established in the region by North American entrepreneurs. This study aims to contribute to filling this gap with a case study: the Thorndike family. This paper develops the business dynamics of the engineer, businessman, financier and constructor Ernesto Thorndike (Valparaíso 1859 – Lima 1938), son of the North American engineer John Larkin Thorndike (1834-1901).

This case study is, besides, also important for the Peruvian economic history of the late nineteenth century and early twentieth century because of the singular, uncommon profile, of Thorndike. He was a cosmopolitan businessman born in Chile, son of a North American railway engineer who was hired by Henry Meiggs to work in the modernization of the region in the construction of railways, first in Chile and later in Peru, and whose career was affected by the

Grace Contract after the Pacific War. Ernesto diversified his capital from the accumulation of his father's capital. He joined the bourgeois upper Peruvian class, especially in Lima. He pretended to extend financial and business interests in London for projects in Peru and Bolivia, thanks to his North American citizenship, being English-speaker, and the social capital cultivated since the generation of his father. He operated in a complicated political context: the Pacific War (1879-1883), the subsequent national bankruptcy, the Grace Contract (1889), the national reconstruction and the First World War. He finally entered in the agriculture business, although late in his life. Despite having six brothers, being married and having nine children, the businesses founded by his father, John Larkin, never became something even similar to a family business group due to familiar contingencies. Only Ernesto stood out as a businessman and followed his father's trajectory.

This paper aims to answer the following question: why and how the fortune of Ernesto declined in the last decade of his life, if he had enjoyed from the very beginning many positive advantages to build successful businesses? May the history of this singular entrepreneur illustrate about the driving factors that led to decline and failure to other immigrant ventures in the region before World War II, particularly those created by North American immigrants?

This paper presents some answers with a study case, and a business history approach. The case method is relevant because it shows facts and a process that has a revelatory nature, with historical transcendence. Also, because it shows a problem or issue not well known or studied previously (Yin 2003). In this case, it is the biography of a North American immigrant with sophisticated technical and academic skills, who migrated towards Latin America. In Peru, he developed his professional career and had an offspring that integrated with the native society. We present, therefore, a detailed analysis of the skills of an entrepreneur who migrated from a

developed country to an undeveloped one (an example of the poorly studied case of North-South Migration), where he diversifies his investments. The relevant literature details few cases of North American entrepreneurs who made fortune in Latin America. It is well known the case of Steve Aronso Fletcher in Costa Rica, a North American economist, who founded the firms linked to the Britt Group, a coffee producer. He later entered in the chocolate, theater, tourism and gift shop businesses (Leiva and Guillén 2015, 311). North American entrepreneurs in Lima were very few: in a detailed research of big Peruvian fortunes during 1916-1960, Portocarrero (2010) only found seven North Americans who died in Peru and left a testament to his inheritors. However, the details of their businesses and their lives remains unstudied.

The structure of the paper is like this. First, a brief biography of John Larkin and Ernesto Thorndike. Second, the theoretical approaches used to analyze the case. Finally, an analysis of the decline of Ernesto's fortune using the theoretical concepts presented before.

In regards to the sources for the reconstruction of the business career of Ernesto Thorndike, we have used the private family archive of "Ricardo Wiese Thorndike." The mentioned archive is composed of: personal correspondence, balance sheets, testimonies of deeds, leases, property purchase and sale contracts, articles of incorporation from commercial companies, list of inventories and books from the "Buenavista" Fund diary (Chao Valley, Trujillo), and stocks and bonds from banks and companies. These sources of information will be contrasted and complemented with the "probate records" of Ernesto Thorndike, which contains his will and property inventory list from different years prior to his death. Also, we were able to find information in the Public Notary Archive and the Archive of the Peruvian Foreign Office concerning some of the investments of John and Ernesto Thorndike.

2. The Thorndike case

Background: the vicissitudes of politics and the economy in mid-19th-century Peru

Some eleven million tons of seabird excrement resolved the economic and political crisis that beset Peru a few short decades on from its independence: from 1840 to 1880, the country sold around US\$ 700 million of guano, the nitrate-rich fertilizer required for agriculture the world over (Klaren 2012, 203). However, by the mid-1870s, reserves had run out, guano had started to be replaced by saltpeter, and a vast external debt had been built up entirely due to loans tied to the commodity.

General Diez Canseco was installed as interim president in 1868, entering into agreements with the contractor Henry Meiggs during his brief term in office. José Balta became president in August 1868. Balta's appointment as finance minister was Nicolás de Piérola, who Quiroz says “took the country to the brink of financial disaster by signing nine agreements for exporting guano, obtaining sizable foreign loans, and lavishly constructing railroads and other public works of dubious origin” (2016, 161).¹ Quiroz makes reference to the Dreyfus Contract, signed by the Peruvian government and Dreyfus, the French-owned trading house. Despite being an open tender, Piérola had already approved Dreyfus's offer, which entailed the advancement of funds against guano wealth. The railway project consisted of ten lines started almost simultaneously in all the Peruvian territory.

It was Manuel Pardo (1834-1878) who inspired the railroad system as a nationwide political project, and that system's role as the rational and integrational basis of an organic project for developing the country. Pardo, influential public figure, son of the notable writer Felipe Pardo y Aliaga, founder of the country's first modern and organic political party, and first civilian and

¹ Translation by authors.

democratically-elected president of Peru, publicized this developmental philosophy widely and accommodated it in his role as head of state. In 1860, he noted that the revenues from the exploitation of guano were being squandered, and condemned this occurrence. He called for three transversal lines throughout Peru, connecting Cusco, Lima, and Cajamarca with the coast. He also referred to the extraordinary potential for mining in the highlands and for agriculture in the jungle region, all of which more than justified the urgency of this modern means of communication and transport, the train. In making this argument, he drew technical inspiration from the Polish engineer Ernest Malinowski (1818-1899) (Malinowski 1869).

John Larkin Thorndike: the father

John Larkin Thorndike was born in 1834 in Malone, capital of Franklin County, located in the northern part of New York state. He studied engineering at a prestigious school in New York city (Camacho 1871, 165). In 1852, at the age of 18, he began his career working on the Ogdensburg and Lake Champlain Railroad² in his native New York. Four years later, in 1856, he moved to Canada to take part in the construction of the London and Port Stanley Railway (American Society of Civil Engineers 1908, 590).

John Larkin moved to Michigan to work on the construction and maintenance of the Detroit–Milwaukee Railroad; during his time there he met the engineer and rail entrepreneur Walton W. Evans.³ Years later, in 1857, Evans would offer him an attractive contract to work in Chile as part of his team of engineers; John Larkin accepted, and immediately relocated to that country. His first job was assistant engineer on the Copiapó-Chañarcillo Railroad, then, in 1858,

² This line belonged to the Northern Railway of Canada (1849), and it was this very 200-kilometer section that was leased to Central Vermont Railroad in the late 19th century.

³ In later years, Evans also worked as a consultant to the La Oroya railway works.

he became resident engineer on the San Antonio Railroad and the Tongoy section. That same year, John Larkin got married to Genoveva Mathieu, a Chilean of French descent. The couple had seven children: Ernesto, Juan, Alfredo, Aurora, Inés, Carlos and Luis Samuel.

Now established in Chile, John Larkin Thorndike's efforts saw him gain recognition among the group of foreign engineers; he assumed responsibility for one of the most complicated sections in the construction of the Valparaíso-Santiago line. It was on this project that he met Henry Meiggs, who had signed a contract with the Chilean government (Alliende 1993, 29). Henry Meiggs invited John Larkin to join his team of engineers to execute a number of contracts for Peru's great railroad project. In 1868, John Larkin and his family moved to Arequipa, Peru. His initial responsibilities were to prepare the drawings and routes of the railroad that would join Arequipa and Puno. Once construction of the line was underway, Meiggs placed John Larkin in charge of machinery before naming him chief engineer of the Railroad of the South (Ferrocarril del Sur).

In late December, 1869, Meiggs signed the contract for the construction of the so-called Trans-Andean Railroad (Ferrocarril Transandino) from Callao in Lima to Cerro de Pasco, Jauja, and Huancayo, as part of the Dreyfuss Contract, the execution of which began on January 1, 1870 with the laying of the first stone at Monserrate Station, Lima (Bartkowiak 1998, 170-172). In this context, John Larkin was sent by Meiggs to supervise certain sections of the Central Railroad, given his experience with bridges and in mountainous areas (Gallegos 2001, 82).

In May 1873, on the back of 20 years of professional experience, John Larkin gained entry into the prestigious American Society of Civil Engineers. He moved his family to Lima, and they settled in the district of Chorrillos (Wiesse 2011, 28). Once there, he got involved with the most select groups of contemporary Lima society. In 1879, just before the War of the Pacific, John

Larkin teamed up with a group of North American and British immigrants – some of them former workmates – to found the *Phoenix Club*⁴ (Phoenix Club 1936, 3-4). During the final decades of the 19th century, Larkin was also one of the most active members of the *Club Nacional* – an organization associated with the Lima aristocracy. These clubs⁵ played an important role in bringing together different groups in society, but also functioned as spaces for closing trade deals and building entrepreneurial networks.

However, works were suspended in 1876. October 1877 saw the passing in Lima of the controversial Henry Meiggs, an individual who was forever surrounded by his closest circle, made up of Ernesto Malinowski, Eduardo C. Dubois, Jacobo Backus, Carlos H. Watson, Guillermo H. Cilley, Howard Johnston, and John Larkin Thorndike (Hampe 2010, 87). Added to this was the dramatic War of the Pacific in 1879, in which Chilean troops were posted in the Peruvian capital for almost three long years between January 1881 and October 1883. In the final decades of the 19th century, John Larkin Thorndike fell victim to the disastrous consequences of Peru's defeat in the war, which caused the slump in the Peruvian economy – already underway since 1876 – to hasten, resulting in an annual downturn of 3.48% (Seminario and Alva 2013, 149).

From 1885, after Meiggs's death, Larkin assumed ownership of the Railroad of the South concession; these rights were transferred to him⁶ by Charles Watson, the owner of the venture until then (Salinas 2007, 107). However, in 1888 the government of President Andrés Avelino

⁴ With the aim of ensuring that Lima's British community would not be denied a point of encounter following the closure of the Club de Viajeros, a meeting was arranged in a café close to Calle Mercaderes which culminated in the decision to establish the Phoenix club. This club is one of the few immigrant-founded institutions that remains active to this day.

⁵ According to Carlos Forment, at least 600 associations emerged in Peru between 1830 and 1879. Fifty-five were founded 1845 and 1855; 164 between 1856 and 1865; and 371 between 1866 and 1879 (Forment 1999, 202-203).

⁶ We do not have knowledge of the details of this operation.

Cáceres⁷ annulled the agreement following the signature in 1889 of the Grace Contract: the outcome of a highly complex political process in which creditors, for the most part British, who had financed railroads and other works sought to recover their money; the contract was the means of regulating the reimbursement process. As part of this agreement, the railroads were handed over to the creditors for a 66-year period, during which time they repaired the damage inflicted by the conflict through the company they set up, Peruvian Corporation (Contreras and Cueto 2009, 178-180). This served to negate the agreements signed by the government prior to the Grace Contract. John Larkin was directly and adversely affected by this situation given his rights and interests in relation to the railroads. Indeed, he was left on the brink of financial ruin, but was spared by his son, Ernesto Thorndike, and his efforts at diversification. However, John Larkin's investments in railroad construction and administration were not confined to the Peruvian sphere, as he extended his interests to Bolivia in 1890. In that country, John Larkin was granted a 20-year concession to build railroads and tramlines on the banks of the Desaguadero River and Lake Poopó, to the population centers and mining sites.⁸

Despite these adversities, John Larkin decided to remain in Peru but to withdraw from all business activities, passing the baton on to his sons before he did so. He saw out the rest of his days in the tranquility of his home in Chorrillos, Lima, in the company of his wife, Genoveva Mathieu (Wiese 2011, 31). He died on October 12, 1901, he was 67 years old.

⁷ See Decree of May 1, 1888, the Peruvian state "dismiss the administrator of the Railroad of the South, Juan L. Thorndike, and appoint Ladislao Folkierski." Translation by authors.

⁸ See Decree Law of December 2, 1891, Government of Bolivia, "Navigation of the Desaguadero River—extension of the term of privilege conceded to Juan L. Thorndike" (translation by authors) and Archivo de RREE, Series: Correspondence B.7.4.1, Box: 348, File: 7, Year: 1893, Folio: 163.

Ernesto Thorndike, son of John Larkin, and the diversification of their wealth

Ernesto Thorndike was born in Valparaíso, Chile, in 1859. Just like his father, he studied engineering in New York. In 1889, he married María Carmela Galup. They had nine children together: María, Carlos, Jorge, Felipe, Roberto, Victoria, Juan, Alicia and Augusto. He accumulated considerable social capital; from the age of nine, he accompanied his father to social gatherings and meetings. And as an adult, according to a family tradition, transmitted by Father Ricardo Wiese Thorndike, Ernesto Thorndike became acquainted in London to a Jewish financier and entrepreneur. Some clues in the narrative (the fact that Thorndike and this gentleman had both interests in the Indian Railways, or the name of future Lady Mountbatten, Cassel granddaughter) point out to -but this is an just an educated guess- Sir Ernest Cassel, one of the richest men in the world and friend and financier of the future King of Britain, Edward VII.

Ernesto's contacts included S. Pearson & Son Ltd, Bolivian Development Syndicated Limited, and Anglo-Swiss Industrial Syndicated Limited, the most important engineering firms of their day. Ernesto and his family lived in London from 1903 to 1910.

As such, it is pertinent to infer that his possible ties to a prominent entrepreneur, his contact with major contractors, and his London residence would have assured Ernesto of an international-scale portfolio of investors. However, as we will see later, the only extant evidence concerns his ventures that were based primarily in Peru. Ernesto died in Lima in 1938.

3. Factors of wealth and growth: environment and resources.

In the following section we present the concepts that can explain the historical sequence of John Larkin and his son Ernesto.

An entrepreneur grows if he finds an auspicious environment and have the pertinent resources and capabilities. Some theoretical approaches help to explain this evolution. Concerning the environment, it's pertinent the approach of McGahan and Porter (1997). Regarding the resources, the following approaches help: *resource-based view*, the concept of *tacit knowledge* and *learning curve economy*. A business prospers if it encounters adequate political, socioeconomic, cultural, and environmental environments. McGahan and Porter (1997) maintain that these factors represent 19% of a business profitability. Nonetheless, this study is located in the North American, a market that, unlike Peru, has a developed financial market and institutions functions reasonably well (Carney 2007).

McGahan and Porter (1997) also maintain that resources and capabilities explain 32% of profits. *Resource-based view* is one of the most influential approaches in management. Resources must be valuable (they exploit opportunities and neutralize threats), rare and scarce (uncommon), non-imitable (they pose intangible barriers that limit the entrance of competitors), and non-replaceable (it's difficult that an alternative strategy would outcompete it). All of these competences must generate a valuable, rare, non-imitable, and non-replaceable strategy (Barney 1991).

There are two type of resources. First, human capital: acquisition of knowledge, abilities, and capabilities in a person. Knowledge can be of two types: tacit, which can't be expressed, formulated or transmitted easily; and formal, which can be expressed, formulated and

transmitted. We are interested in the first one because it's distinctive of the business and can be converted in a key factor of competitiveness:

“Tacit knowledge is non-codified and non-patentable knowledge. It is accumulated in an organization through business activities that include the production and marketing of goods or services. Compared with codified or formal knowledge, tacit knowledge is ineffable or inexpressible.” (Jaskiewicz et al. 2013).

The second type of resource is social capital, which consists of contacts accessible by relationships. Business evolution is dynamic and needs new information that secures businesses or to facilitate loans obtained by those deals. Concerning social capital, there are three dimensions (Nahapiet and Ghosal 1998) (Wong et al. 2018). First, the structural, which refers to “the overall pattern of connection between actors, who you reach and how you reach them”. This resource comes from two sources: *bounding social capital*, which “stems from the network closest to the individual”; the second, *bridging social capital*, “is a product of new bonds formed in society”. Different combinations of these sources generate different organizational forms until reaching *family business group*, which maximizes contacts. For the ends of this paper, we must explain the case of *transnational trading networks*, a combination of high *bridging social capital* and low *bounding social capital*. The advantages of *bridging social capital* have its origins in the role of the broker, which is the intermediary between seller and buyers of goods and services (Carney, 2007: 295). The second dimension, the cognitive, refers to “the resources that allow networks of contacts to communicate accordingly through language, vocabulary, and collectively shared narratives”. The third and last dimension, the relational, refers to the possibility of qualifying a transaction an *arm's length transaction*, where you are sure to receive a product or service according to specified (Hite and Hesterly 2001).

About the theoretical approach of *learning curve*: a firm grows by harnessing economies of scale. It is supposed that learning leads to reducing the unitary cost of production. This theory say that “increases in cumulative production have been associated with the improvement of work methods, a fine-tuning of the production operation, and detailed learning about how to make the production of products as efficient as possible” (Barney 2001, 240).

4. Investment portfolio of Ernesto Thorndike and the reasons for his fortune’s fall

The investment portfolio of Ernesto Thorndike

We show the composition of the investment portfolio of Ernesto. Later, with the information provided by the archive of the Thorndike family and his property distribution inheritance file⁹, we analyze the factors that allowed the scope of the portfolio and its subsequent deterioration. To understand the portfolio, a starting point is the research of Portocarrero (2010), who analyzes eight-hundred testaments from 1916 to 1960 of the Peruvian economic elite. Landowners (*hacendados*) and rentiers abound. Portocarrero (2010) typify Ernesto as a *hacendado*.

Table 1. Composition of the main fortunes in Peru 1916-1960

	Number	%
Merchants	117	15
Hacendados	277	35
Industrialist	86	11
Miners	25	3
Rentiers	274	34
Urban developers	14	2
Bankers and Financiers	7	1
Total	800	100

Source: From Portocarrero F. (2010)

⁹ Archivo general de la Nación (AGN), Archivo de Sucesiones de Lima, Expediente No 9306.

However, a detailed analysis clarifies the real economic situation of Ernesto. In table 2 we summarize the information of his fortune for nine years. His wealth is concentrated in real estate and not in his agricultural terrains (farms) of Chao. One of the reasons for this concentration of assets in real estate, 18 in total (10 inherited from his father, John Thorndike), is related to the context of the time of urban expansion of the city of Lima, where it experienced a growth in the real estate market. The price of the land rose which, in turn, made owning these urban properties a lucrative business (Portocarrero, 2010:88).

Table 2. Portfolio of Ernesto Thorndike

Years (%)	1908	1912	1914	1916	1918	1920	1924	1926	1929
Real estate (without Chao)	54.6	54.5	56.4	48.1	51.9	56.1	63.4	61.8	61.1
Chao Valley	-	-	-	13.3	27.0	22.8	18.0	17.1	16.7
Credits	3.1	0.0	0.0	0.0	1.0	0.6	2.1	3.2	1.8
Cash	7.0	6.7	4.2	0.7	1.5	5.6	2.0	1.6	1.4
Securities, stocks	30.2	30.9	28.1	23.6	12.6	1.1	1.7	1.5	4.6

Source: Estate of Ernesto Thorndike 1908-1929, Inheritance File No. 9306, Notary Manuel Iparraguirre (1902) and Portocarrero (2010), Private Archive Thorndike Family in Lima, Peru.

It's important to note that, by the time of his death in 1938, the family fortune was reckoned in 10,356,047 soles (following Ernesto's calculations). According our own estimates, this amounted to 8,800,000 of 1990 dollars. The family occupied the 18th place in the ranking of the biggest fortunes in Peru (Portocarrero 2010).

✓ Railroads

After John Larkin's retirement, following on from the War of the Pacific and the Grace Contract, Ernesto Thorndike, his eldest son, persisted in the railroad field: on July 5, 1899, the Peruvian government awarded him, as the sole bidder, the contract for the construction of the

railroad between La Oroya and Cerro de Pasco (Samamé 1979, 167). On July 13, the contract was enacted by public deed. However, that same year, Ernesto transferred his rights to the railroad to the Cerro de Pasco Corporation; in payment, he received 300,000 dollars' worth of shares in the Compañía del Ferrocarril de Cerro de Pasco. In 1907, Ernesto sought to initiate new railroad projects, the first of these covered the Paita-Marañón (port of Manseriche) route in Peru; while the second, in Bolivia, covered the Guaqui-La Paz route (98 km).

Then, in 1926, Ernesto, in partnership with his children, founded Compañía del Ferrocarril y Muelle de Chao, for the purpose of constructing a wall along the Chao inlet as well as a 15 km-long industrial railroad. The aim was to transport and load products from the family business through a company created for that purpose, the Sociedad Agrícola de Chao¹⁰, and from neighboring haciendas. This entailed a total investment of 5,000 Peruvian libras¹¹.

✓ Imports and exports

From a young age, Ernesto embarked upon business ventures that would earn him a small fortune. He developed a timber marketing business, importing cedar from Nicaragua¹² and selling it in Peru as an input for the ship- and railroad-building sectors. All indications suggest that these activities were significant, as towards the end of the 19th century the Nicaraguan government appointed Ernesto its consul in Peru. This activity constituted a significant new means of accumulation.

¹⁰ Archivo Ricardo Wiese Thorndike, "Papeles de E. Thorndike," "Compañía del ferrocarril y muelle de Chao, 1926," folios 3-5

¹¹ Copy of the articles of incorporation of the company, signed before notary Carlos Sotomayor. Archivo general de la Nación, Archivo Notarial.

¹² Archivo Ricardo Wiese Thorndike, Papeles E. Thorndike, "Discurso de Felipe Thorndike Beltran: Thorndike in Perú, 1980."

Ernesto went on to export cocaine¹³ and then cotton, in both cases for the European export market. Cocaine, obtained from coca leaves grown in Peru and Bolivia, peaked between 1860 and 1910 (Gootenberg 2003). On the development of that industry, Alejandro Garland stated that at the beginning of the 20th century, cocaine exports easily covered worldwide demand (Garland 1905); it should be noted that the industry was, at that time, legal. Companies specializing in its production emerged, such as Pinillos, Vergil, Durand, and San Miguel. The latter firm and Ernesto Thorndike had exclusive rights to exporting the product, in an operation that yielded a two percent margin on the price.¹⁴ Between 1897 and 1904, average annual cocaine exports totaled six and a half tons (Garland 1905, 144). As to cotton, Ernesto exported the product under the Bolognesi brand, and starting from 1910 marketed it on behalf of the Compañía Mercantil de Lima, of which he was general manager and shareholder.

✓ Agriculture and basic water services

In 1914, having amassed a considerable fortune, Ernesto engaged in the purchase of haciendas in northern Peru. He acquired a complex of haciendas from a Ms. Gilda Larco de Ganoza, for 120,000 silver soles, as per the notarized deeds of sale.¹⁵ This land was comprised of the Buenavista, Chao, Coronado, La Victoria, El Porvenir, Entre-Ríos, Montegrande, and Huamanzaña haciendas, which together covered an expanse of 8,450 hectares. In this complex, also known as the “Buenavista and Annexes” hacienda, Ernesto undertook an ambitious irrigation project in an attempt to channel water from the Santa and Chuquisaca rivers and the lakes of Santiago de Chuco, and transport it to the small dams he had built on the hacienda.

¹³ The alkaloid was used medicinally, associated with healing mental and nervous disorders, as well as industrially, as a raw material in the preparation of syrups and soft drinks.

¹⁴ Archivo Ricardo Wiese Thorndike; Papeles Ernesto Thorndike (1903).

¹⁵ Archivo general de la Nación, Fondo Documental Aguas de Regadío; Section: Distribución de Aguas; Box: 34, Record No. 67, 1915.

This vast majority of this huge expanse of land was used for the production of cotton, alfalfa, corn, and beans, as well as for rearing cattle and poultry.¹⁶ The provision of water on the coast of Peru, where the family engaged in agriculture, is important. As such, Ernesto first carried out irrigation works in the port of Lomas¹⁷ (Arequipa), and then, in 1900, founded the Empresa de Agua de Lomas (with a 50% stake); in 1904, he became a minority shareholder of the Sociedad de Irrigación de Piura.

✓ Finances and Mining

The Thorndike family sensed that their proximity to certain sectors could render them a strategic resource. Thus, they were minority shareholders in the Banco de Arequipa. Then, in the mining sector, they acquired silver mines in Copiapó (Chile), and purchased 300 shares in the Montebello-Orcco Mining Company in the department of Puno, Peru, in 1908.

✓ Real estate

We deduce that the family sought to reduce the level of risk in their investment portfolio by investing in real estate. As such, they owned a dozen properties distributed across Chorrillos in Lima and Callao, Lima's port region. These properties were valued at 5,786,336 constant soles of 1950, and accounted for 70% of the total inheritance of the second generation of Thorndikes (Portocarrero 2010). In addition, Ernesto was a minority shareholder in the Compañía Mercantil de La Oroya and in the Compañía de Obras Publicas de Lima, of which his father had been a director.

¹⁶ Archivo Ricardo Wiese Thorndike, Papeles E. Thorndike, "Inventarios de la Hacienda," several years.

¹⁷ For having executed these irrigation works in the locality of Lomas, Arequipa, in 1891 the Peruvian government transferred a plot of land totaling 3,000 square meters to Ernesto in perpetuity, in recognition of his work for the community and the port of Lomas (Archivo Ricardo Wiese Thorndike, "Papeles Ernesto Thorndike.")

✓ Senior management positions

Finally, Ernesto also occupied senior posts in companies across the banking, industrial, and basic service sectors. He was on the first Board of Directors of the Banco Internacional del Perú (1897), alongside Elías Mujica, Jorge A. Vigors, Demetrio Olavegoya, Pedro Oliveira, Ismael Aspillaga, and Augusto B. Leguía (Basadre 1961, 3621). Moreover, he was manager and shareholder of the Compañía Mercantil de Lima, and liquidator of the Empresa de Gas de Lima.

Reasons of Ernesto's fortune fall

There are two reasons why Ernesto saw the decline of his fortune: the Peruvian government insolvency that limited its options to fund new railroads (the management of this type of projects were Ernesto's principal expertise); and Ernesto's inability to generate competencies to enter in new lucrative ventures.

Now we analyze the first reason. Ernesto suffered the shocks of a negative environment, product of the economic crisis that followed the Pacific War. His main *know-how* was the construction and management of railway projects. He was an engineer graduated from a North American university. His father influenced in this learning process. However, around 1910, at the advanced age of 51 years, he realized that his possibilities to continue linked with railway projects were scarce. This conclusion comes from three important circumstances: a. the difficulty to build railways in Peru, because of its rugged geography; b. railway's profitability; and c. the negative credit rating of the Peruvian government.

The construction of railroads' know-how was centered in flat territories. European and American experiences maintained the consideration that this transport fostered development (Miller 2011). Manuel Pardo retook this idea for Peru. However, in Peru, the benefits were minor: with a mountain range that reaches five thousand meters high, it was necessary a

sophisticated innovation for a railway to be installed in very steep slopes. For example, in the 20 km that separate Matucana and San Mateo, the route of the Central Railway, the terrain elevates 800 m. (Dóriga 1993). It's not the purpose of this paper to make an economic or social evaluation of Peruvian railways, because of lack of information. Around 1892, there were intentions to build railways after the constructions of the Central Railway (the stretch of La Oroya ended around this time).

After the Grace Contract of 1889, the Peruvian government tried to promote the construction of new railways (aside from the ones the Peruvian Corporation was committed to build). In 1904 a law was passed with a complementary one in 1905 for the construction of new railways: Oroya-Huancayo, Sicuani-Cuzco, Ilo-Moquegua, and Yonán-Magdalena (Dávalos y Lissón 1919), and for the section between Oroya-Cerro de Pasco to a navigable point of any tributary of the Ucayali river (Basadre 1961). New attempts for railways occurred in 1918 and 1919. A contract with Robert William Dunsmuir was signed for 6 new railways (Kemp 2002). The government never executed most of these projects. About the profitability of some of them, there are some appreciations: Basadre (1961) says about the railway to the Ucayali river that was correctly discarded due to technical and economic difficulties, high construction costs and the lack of a fluvial fleet worth the investment. On the other side, according to estimates by Miller (2011), the rate of return of Peruvian railway projects only surpassed five percent in the 1920s. This rate, according to Miller, suggested that the railways were not very profitable.

Ernesto lived in London from 1903 to 1910. It is presumed that the reason for his stay in England was to obtain funding for new railway projects. Letters show the communication between him and British firms.

The attempts of Ernesto to get railway contracts matched with the new version of the Grace Contract (1907), which was signed originally in 1889 to solve the Peruvian debt with the Council of Peruvian Bondholders. Peru gave up the use of railroads in exchange to pay their debt.

Table 3. Communication between Ernesto and British contractors

Director of S. Pearson & Son Limited Contractors	The Director rejects Ernesto's proposal to build a railway between Paita (Piura) and the Marañón River, to transport rubber. Reasons: high taxes; the price of rubber will fall by the time the railways would be finished because of rising global production; the certified rubber production is not optimum. They could reconsider their position if the Government undertakes to invest 8,000 pounds per mile.
Ethelburga Syndicate Limited	The firm tells Ernesto why they didn't fund the Paita-Marañón River project in the past: the Government wasn't disposed to pay for exploratory and research costs if the project wasn't approved. In addition, the firm already had a concession (Lima-Huacho) that apparently had problems with the Government, and were not disposed to initiate a new business with them until that one got resolved. They agreed to talk about the matter in a future appointment.
Bolivian Development Syndicate	Letter that confirms the hiring of Ernesto as a lawyer by the firm, to obtain contracts with the Peruvian and Bolivian governments, among other duties of representation for the firm.
Frederick J. Benson & Co.	Rejection of an Ernesto's proposal to build a railway (doesn't say which one), because they weren't interested at that moment.
R. W. Peirs	Mr. Peirs gives his impressions about a railway project proposed by Ernesto, but can't assure if their partners would agree.
R. W. Peirs	Mr. Peirs rejects Ernesto's proposal for lacking a better investment profile.
Director de S. Pearson & Son Limited Contractors	A financial advice to Ernesto: the Peruvian government must ensure certain quantity of money to pay the bonds they're about to emit for funding a railway. The Peruvian government has been in default for several years and it will not be credible unless it mortgages a great quantity of revenues.

Source: compiled by authors

The Council created a firm called Peruvian Corporation, which gained the concession for some railways. In 1907, the Peruvian government couldn't pay an annual sum accorded in the contract, so they gave the railways for 17 more years, but they still had to pay some money to the Council. In 1924, the railways became property of the Peruvian Corporation because of the government's inability to pay the annual sums. These three factors: the geographical difficulties to build railways; their probably low profitability; and the Peruvian government's insolvency, convinced Ernesto that, probably, business opportunities might have ended in this sector.

The letters in Table 3 show that British firms saw several difficulties to fund railway projects in Peru. A reason mentioned in various letters was the inability of the government to co-fund projects. It happened that by 1906, the government had signed a contract with the German Transatlantic Bank in Lima and with the French Bank for Trade and Industry in Paris to secure a loan to enable the continuation of the railroad company. The means had to be acquired by loans in Europe and the United States. But the conditions of the European market changed to such an extent that the banks asked to postpone the bonds of the debt in the market, in addition to conditions that the government could not accept, thus stopping the loans (Kemp 2002, 71).

The second reason of Ernesto's fortune fall was his inability, due to his old age, to acquire tacit knowledge of new businesses. A detailed profile of Ernesto could offer the scope and limitation of his fortune's size. He could not build a family organization (bonding social capital) that could enable differential elements in his businesses beyond himself. His strength rested in his bridging social capital contacts. Business knowledge that he acquired was linked to railways, because of his father's influence. However, the business opportunities in this sector ended because of the government's insolvency after the Pacific War. At an advanced age, he tried to start in an axis business: Northern "Haciendas" agriculture.

Table 4. Business activities of Ernesto Thorndike

Year	Business
1888	Cáceres canceled previous railway contracts because of the Grace Contract. Ernesto returns from Nicaragua.
1897	He joins the financial sector: becomes part of the first board of directors of the Banco Internacional del Perú.
1899	Construction of La Oroya-Cerro de Pasco railway. He gives his rights to the Cerro de Pasco Corp. in exchange of stocks (we don't know his exact role).
1899	Ernesto is appointed consul in Nicaragua (we ignore the reasons).
1900	Foundation of Lomas Water Company, in Arequipa, which owned 50% (he had equity, but we don't know his exact role).
1903	Cocaine exports (probably in management).
1904	Minority shareholder of Sociedad de Irrigación de Piura.
1907	Hired as a lawyer for the Bolivian Development Syndicate. Functions: represent the firm in the search of new contracts with the Peruvian and Bolivian governments, and other legal activities.
1908	300 shares in Cia. Minera Montebello-Orcco Mining Co. (shareholder).
1910	Cotton exports (raw materials) and cotton item imports (Bolognesi brand), with Cia. Mercantil de Lima (he was CEO and shareholder).
1914	Purchase of haciendas: Buenavista farm and annexes (landowner and manager of ventures related with Chao)
1915	Chao's irrigation Project.
1922	Inauguration of Chao's dock.
1925	El Niño Phenomenon causes destruction in Chao.
1926	Cia. Del Ferrocarril y Muelle del Chao
1928	Liquidation of Cia. Del Muelle y Ferrocarril de Chao. Still, the family augments the capital of the company.
	Cedar import from Nicaragua (probably a manager)
	Owner of silver mine lands in Copiapó, Chile.
	Owner of a real estate company (according to Ricardo Wiese)
	Liquidator of Empresa de Gas de Lima

Source: compiled by authors

The table 4 offers precise data of Ernesto's fortune size. This businessman was successively or alternatively, a broker, merchant, rentiers and *hacendado*. He was a broker in the adjudication of the construction of Cerro de Pasco's railway (he gave the rights to the Cerro de Pasco Corporation), and in his role as a lawyer in the Bolivian Development Syndicate, to search new contracts and to represent the firm in the search of railway projects in Peru and Bolivia in 1907. Probably, his role as a broker might had been more extensive if his attempt to find funding in London would had paid off. As a merchant, Ernesto imported cedar and cotton item, exported cotton (as raw material) and cocaine. In addition, the exported some agricultural goods while in Chao. He was a manager in Cia. Mercantil de Lima, a trade related firm. As a rentier, he owned a real estate Company (Wiesse 2011).

After his stay in London, Ernesto analyzed what to do. In 1915, with 55 years old, he decided to buy an *hacienda* called Chao. At the beginning of twentieth century, big foreign firms dominated mining, while agricultural businesses like sugar, cotton, and wool were operated by Peruvian families (Thorp and Bertram 2013). In interviews made to Ernesto's great grandchildren, they say, according to the testimonies of parents and grandparents, Chao was never profitable. Irrigation projects of Chao, Virú, Moche and Chicama were declared of public necessity by the government, but they never materialized. Labor was scarce and it was necessary to hire Japanese workers (Wiesse 2011).

In order to achieve success, the large landowners of the Peruvian north coast acquired political and social prominence in the Peruvian government. Most of them joined the Civil Party in the early years of the 20th century, which gave them a platform and the necessary influence to implement policies that favored foreign investment, ensured low tariff rates (both export and import), promoted a centralized government and suppressing popular participation in politics

(Gonzales 1985, 41). On the other hand, the success of the landowners is also partly due to the technological development they could implement to their production, since it was useless to have large quantities of harvest if they were not able to process and transport it. This progressive mechanization of agricultural work made it necessary to pay attention to other variables, such as the choice of seeds and fertilizers, the use of groundwater currents, simplifying harvesting techniques, hiring teams of agronomists and having laboratories in the same haciendas (Gonzales 1985, 58).

If the cases of the cotton farms are analyzed, as was in Buenavista & Anexos, it is observed that their production had a constant growth in the first decades of the 20th century. However, prosperity stopped in the mid-1920s due to the recovery of the U.S. cotton market (after the 1921 weevil plague) and the disastrous floods of the El Niño phenomenon of 1925. To these factors, consider that the cotton farmers did not play an important role in the promotion of large projects, unlike those dedicated to sugar production. This is because their profits did not reach the same level as the large sugar estates and because, in contrast to these, they concentrated their investments at a local level instead of operating on the large scale (Thorp and Bertram 2013, 88-9).

Ernesto did not generate the necessary expertise to raise production, improve work methods, neither generate an efficient production. The limits of Ernesto's wealth were the lack of a familiar organization of support, the ending of opportunities for railway projects, joining short-term businesses, and lack of agricultural knowledge.

5. Conclusions

The case of Ernesto Thorndike, an immigrant businessman of American origin, who developed ventures in Peru during the end of nineteenth century and the beginning of the twentieth century,

found a limit in his fortune's growth, and a subsequent fall, despite his intellectual, social, and human capital, due to worth considering factors.

This factors relate to the changing and unpredictable environment; the crisis after the Pacific War; the inability of the Peruvian government to generate trust and solvency to comply with commitments; and the inadequacy of Ernesto's capital accumulation methods, expertise, bonding capital, and tacit knowledge of alternative businesses.

Ernesto's alternative was venture diversification. But considering that, in order to be successful, resources must be valuable, non-replaceable, and hard to be replicated by competitors; and the entrepreneur must have accumulated expertise and trusting relationships from bonding social capital; one can infer that this was not the case. Even more, the bet on agriculture, in his advanced age, was not supported by his siblings or offspring (lack of a family business group). Ernesto, a bourgeois businessman, with accumulated intellectual capital, of American origin, well integrated with Lima society, finally got his fortune dissolved in his last years, because of an unstable environment, lack of bonding social capital, lack capabilities or expertise that had to be learned rapidly due to the diversification he was forced to do, and to lack of expertise in his last venture: agricultural exploitation.

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