

***Black Swan Records — 1921–1924:  
From a Swanky Swan to a Dead Duck***

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## *Abstract*

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In 1921, Harry Herbert Pace founded a highly influential record company, the Pace Phonograph Corporation, in Harlem, New York. Pace both initiated and operated the famous Black Swan label, which was one of the first to enable black musicians to record music in their own style. Many famous black artists, such as Ethel Waters, Fletcher Henderson, the Harmony Five and Alberta Hunter made their early appearances on the Black Swan label. In its heydays of 1921-1922, the company was the most successful Afro-American owned business of its time. Several factors that led to the company's demise after its initial success and rapid growth can be identified. In addition to economic and technological factors, it is likely that poor management accounting, underestimation of overheads, under capitalization and 'ad hoc' decision making all led to financial distress. Racial prejudice and discrimination also played a crucial role. By today's standards, the company's fall in 1924 would have been easily foreseen, but in the business climate of the 1920s, better management may have been no more successful in keeping the company afloat. Nevertheless, today's recording industry, particularly in the field of jazz, owes much to the pioneering work of Harry Pace and the Black Swan label.



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## *Acknowledgements*

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## Introduction

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In the late nineteenth and early twentieth centuries, blacks in New York faced many difficulties building businesses. The post-Civil War riots and other social upheavals caused black businesses to lose considerable white patronage (Ottley and Weatherby 1967). Attempts were made to encourage black businesses<sup>1</sup>, but it remained hard for them to raise adequate capital because banks and other financial institutions were predominantly white owned. Therefore, black businesses were typically small-scale service sector activities such as dressmaking, poolrooms, grocery stores, restaurants and barbershops. At the same time, more and more blacks migrated from southern states to northern cities in order to obtain employment. With this mass migration, a new musical and cultural heritage spread across the nation. In uptown New York (Harlem), there was a buoyant nightlife, but the black musicians engaged in it were relatively unknown and, with one or two exceptions, neither they nor their new style of music were recorded by the major record companies of the time<sup>2</sup>. Thus jazz music, which was seen by some as a 'dangerous' type of music anyway, had little overall impact prior to 1920. In fact, black musicians were so little known that the first jazz recording ever made was in 1917 by a white band called the Original Dixieland Jass (sic) Band (Cook and Morton 1996).

In response to the lack of opportunity for black musicians in the recording industry, Harry Herbert Pace formed his own recording company, the Pace Phonograph Corporation Inc., in 1920 which founded and operated the influential Black Swan label. Black Swan became the most successful Afro-American business of the early 1920s, even though it was started during an economic recession.

Pace explicitly used the race issue in promoting his records, saying, "Every time you buy a Black Swan record, you buy the only record made by coloured people." (*New York Age*, January 21 1922, p. 6). He signed top black artists such as Ethel Waters and Fletcher Henderson to the label, although he declined others such as Bessie Smith. In 1921 and 1922, Pace organized a vaudeville tour across the United States by his most famous musicians. This tour established the company firmly on the recording map. The company earned \$104,628 during its first eleven months of operation (*New York Age*, January 28, 1922).

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1 Such as the National Negro Business League, founded in 1900 by Booker T. Washington.

2 Halper (1999) states that the first time African-Americans were recorded by the major record companies was in 1901, when Bert Williams and his stage partner George Walker, who had a minstrel act, were allowed to make a recording for Victor. The only other black voice to be heard on record until the 1920s was Mamie Smith's on Okeh (Weusi 1996).

However, it fell into decline soon after, due partly to poor investment decisions. Partnerships were entered into with white people's businesses which, since Pace had earlier exploited the race issue, eventually worked against the Black Swan label and the company. The major record companies entered the niche market first exploited by Pace, and this competition also had a severe adverse effect on his business. The end of Pace's company came in May 1924 when Paramount announced it was leasing the Black Swan catalogue, thus making the Pace Phonograph Corporation's main asset worthless.

The remainder of this paper analyses the rise and fall of the Black Swan label considering both cultural and economic elements. Management accounting theory is applied to examine the company's financial statements and investment decisions. A summary highlights the most important findings.

## *The foundation and growth of Black Swan*

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Harry Herbert Pace was born in 1884 in Covington, Georgia. He taught Greek and Latin before holding various junior executive positions with banks and insurance companies in Atlanta and Memphis. In this stage of his career, Pace made a name for himself as a rebuilder of failing enterprises (Weusi, 1996) and, despite being black, gained valuable experience in obtaining and handling capital. In 1907 (Allen, 1973) or 1912 (Weusi, 1996), Pace started a songwriting partnership with W. C. Handy, a popular black composer, with the aim of composing songs that the pair hoped to sell to major record companies. In due course, they founded the Pace and Handy Music Company. Pace and Handy moved their music publishing firm from Memphis to New York in 1918. In its heyday of 1920, the Pace and Handy Music Company had a staff of 15-20 people, including Fletcher Henderson (who Pace had probably first met when both he and Henderson studied at Atlanta University around 1903) as a pianist, songplugger and demonstrator, William Grant Still as head arranger, J. Russell Robinson as business manager, and Daniel F. Haynes<sup>3</sup> as chief bookkeeper.

In January 1921<sup>4</sup>, Pace left Handy and founded his own all-black recording company, taking with him ex-Handy employees Still (who kept his previous function), Henderson (who became musical director), and Haynes (who signed as Notary Public on Black Swan's trademark registrations and was secretary of the firm) (Allen, 1973). The Pace Phonograph Corporation's initial capital stock was \$30,000 (Ottley and Weatherby, 1967). The company was incorporated under Delaware law, and Pace borrowed about \$110,000 to get the company started (Weusi, 1996)<sup>5</sup>.

Black Swan, the name for the company's record label, was chosen to honour Elizabeth Taylor Greenfield (1809-1876), a talented black singer who was known by that name. Weusi (1996) calls Black Swan the first black-owned recording company, but Allen (1973) notes that, around 1915, a black recording business owned by Gotham & Attucks, was located on West 37th Street.

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3 This is probably the same person referred to by Pace in his personal reflections as Daniel L. Haynes (Ottley and Weatherby 1967, p. 233).

4 This is the date listed by Allen (1973), although Pace himself listed March 1921 as the company's starting date (Ottley and Weatherby, 1967, and Weusi, 1996). However, a newspaper clipping that is quoted in Weusi (1996) reinforces the probability of the January 1921 date. Black Swan's first recordings were completed in February/March 1921 (Allen, 1973), which also makes the January 1921 date more likely. Calt (1988) also gives the January date, although a January 28 1922 New York Age article suggests February 1921 as the correct starting date.

5 However, Calt (1988) thinks the Pace Phonograph Corporation was started on a \$5000 shoestring. This seems an incredibly small amount given Pace's banking reputation. Despite his colour, he should have been easily able to obtain a much larger amount. We will therefore use the \$110,000 figure mentioned in Weusi (1996) as the company's start-up capital throughout this paper.

Pace said about the emergence of his own phonograph corporation:

The organization was an outgrow of my observation as President of the Pace and Handy Company ... that phonograph companies were not recording the voices of black singers and musicians. ... I ran up against a colour line that was very severe. ... I therefore determined to form my own company and make recordings as I believed would sell. (Ottley and Weatherby, 1967, p. 232)

Given that 1921 was a recession year, Pace probably had a hard time getting his company on the road. Among his difficulties was the problem of finding a plant that would actually press his records. Weusi (1996) says that, when Pace wanted to use a local pressing company, “a large white company purchased the plant to keep him out”. No other source mentions this problem, and Pace himself did not address this issue in his own recollections, stating only that many other companies:

... refused to press records for outsiders and I finally learned of the New York Recording Laboratory located in Port Washington, Wisconsin, who was willing to press the records for me if I would have them recorded and furnish them a complete master. (Ottley and Weatherby, 1967, pp. 232-233)

Despite the travel required between Port Washington and New York every time a record was to be pressed, a manufacturing agreement was soon made. The New York Recording Laboratory was owned by Paramount. The Paramount label was started in January 1915 but, by the time of the 1921 recession, Black Swan remained Paramount’s only customer (Calt, 1988).

In May 1921 the first three records on the Black Swan label (with label numbers 2001, 2002, and 2003) were released. Fletcher Henderson, who played piano on these dates, as he did on virtually all Black Swan records until at least the fall of 1921, acknowledged that these first records had little to do with jazz. That changed when the company signed Ethel Waters. Accounts of who discovered Waters differ<sup>6</sup>, but the Black Swan label really rose to fame after she joined it. She had recorded before, for Cardinal, yet somehow hit a purple patch when she came to Black Swan. Although she was primarily regarded as a blues singer, Gavin Bushell, who played clarinet on many of the later Black Swan recordings, saw her as a jazz singer:

Ethel was a jazz singer. She didn’t sing real blues ... she syncopated .... Fletcher didn’t write out anything for Ethel’s record dates. You didn’t have written music to back singers in those days. ... We’d spend the greater part of the day making two numbers. (Quoted by Hentoff and McCarthy 1959, p. 41)

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6 Ethel Waters herself said she simply did an audition for Fletcher Henderson, who liked what he heard (Waters and Samuels, 1951).

Waters' first sides for the company were 'Down Home Blues' and 'Oh Daddy'. They were released as Black Swan 2100. Allen (1973) thinks that, during the first couple of months after their release, about 118,000 copies of the record were sold. In his own recollections, Pace even names a figure of 500,000 sold copies within the first six months (Ottley and Weatherby, 1967). A hit record like this naturally boosted Black Swan's (and Ethel Waters') reputation considerably and, for at least the year immediately following her first Black Swan recording, Waters recorded for Pace's company exclusively on a monthly basis, although the success of that first record could never be topped. Nevertheless, it led to Black Swan becoming quite a name in the record business and ensured that other famous black singers and musicians of the day were more than willing to make records for the company<sup>7</sup>. Artists who recorded for the label include Alberta Hunter, the Harmony Five, Revella Hughes, Joe Smith, Julia Moody and Fletcher Henderson.

In his report for 1921, Pace stated total receipts of \$104,628 and disbursements of \$101,327 and expected growth "... in the face of keen, unscrupulous, underhanded, malicious and persistent opposition from several of the large white companies in the phonograph industry." (Reported by the *New York Age*, January 28 1922, p. 6)

Apart from manufacturing Black Swan records, Pace had also been involved in marketing the so-called 'Swanola' phonograph player, with which he was still concerned in the summer of 1922 when he was interviewed by the *New York Age* newspaper<sup>8</sup>. According to Weusi (1996), Pace stated that this part of the business had not yet been fully developed. Alas, it never would be.

Following the success of 'Down Home Blues', the company continued to expand, with staff numbers growing to 15-30 people. Meanwhile, Pace sent Ethel Waters and some of Black Swan's other popular artists on a vaudeville tour across the United States. Although, by the 1920s, such tours were not as common or successful as they had been (Allen, 1973), it turned out to be a great move. The tour lasted from late October 1921 until early July 1922. Fletcher Henderson led Waters' backing band, to which newspapers gave such fanciful labels as the 'Black Swan Dance Orchestra', the 'Black Swan Jazzmen', the 'Black Swan Troubadours', the 'Black Swan Jazz Masters' and the 'Black Swan Jazz Boys'. In total, 21 states and 53 cities were visited (Weusi, 1996), and huge crowds came out to see Ethel Waters and her Black Swan Jazzmen. Highlights included an April 1922 concert being broadcast in five states as well as in

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7 Label restrictions obviously were not as strict in the 1920s as they are for popular artists today.

8 This was a weekly Afro-American newspaper that was founded in 1884 by T. Thomas Fortune.

Mexico (which made Ethel Waters the first black woman to sing on radio), and the gigs played in Richmond, Virginia to an audience of more than 4000 in June 1922 (Allen 1973).

The company's expansion accelerated due to the effects of the vaudeville tour. In addition, with Fletcher Henderson being on tour with Ethel Waters, William Grant Still (Henderson's boss) had taken over arranging duties. Still expanded Black Swan's repertoire to include all musical genre, including operas and symphonic works, which led to additional orders. The expansion also led to the opening of overseas offices of Black Swan, in such 'outskirts' as the Philippines and the West Indies among others. To further accommodate the expansion, Pace bought a house at 2289 Seventh Avenue on 135th Street, moving the company's offices into the two upper floors and using the street floor as a shipping room.

## *Enter John Fletcher*

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Business had become so brisk that Pace became impatient with the delay in extra orders coming from the Port Washington plant. He approached various independent pressing companies, including Olympic Disc Record Corporation, a subsidiary of the Remington Phonograph Corporation, but they all flatly refused his business. Possibly in desperation after repeated failure to obtain the services of an independent pressing plant, Pace went into partnership with a white man called John Fletcher in 1922. Fletcher had been an executive officer with Olympic. His duties included managing the recording studio at the Long Island City plant. When the Remington Phonograph Corporation failed in December 1921, Fletcher purchased Olympic's trademark, masters, and facilities (Rust 1978).

Pace and Fletcher acquired the idled Olympic facilities in Long Island City to form the Fletcher Record Company, Inc. in 1922. In a teaming of black and white businessmen unprecedented for its day, Fletcher served as president and Pace as vice president and treasurer. Initially, under the Fletcher-Pace partnership, the new company served only as a studio and pressing plant for Black Swan (Sutton, 2001), Fletcher oversaw physical production, while Pace continued to determine artists and repertoire.

Pace claimed that, in those days he was selling "7,000 records a day and had only three presses in the [Long Island City] factory which could make 6,000 records daily, so that we were running behind." (Quoted by Ottley and Weatherby, 1967, p. 234)

Because Pace had used the race issue to promote his records, many African-Americans, especially from the entertainment industry, believed that Pace, by working so closely with John Fletcher, a non-black, had broken his promise to build an all-black recording company. They therefore deliberately neglected Black Swan and refused to record for the label (Weusi 1996). Ethel Waters and Fletcher Henderson, two of Black Swan's biggest names, stopped recording exclusively for the label in mid-1922. In addition, larger record companies, such as Columbia, Victor and Okeh, seeing Black Swan's success, began imitating its strategies by making more and more recordings featuring black musicians playing in their own style. These big companies were better equipped to reach a mass market more quickly than Black Swan (which, despite its early success and growth, was still basically a start-up company) and began pushing Black Swan out of what had been its exclusive market.

## *The dying Swan*

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In a desperate attempt to recapture market share, in a move uncharacteristic for Harry Pace but not unprecedented for John Fletcher (Sutton (2001), Black Swan issued a growing number of records by white musicians, altered recording details, then implied they were recorded by blacks. When this became known, the label's reputation suffered even more damage<sup>9</sup>.

Black Swan's troubles were compounded following the purchase of the Olympic plant to cope with the increasing demand for its records. By the time the plant was refurbished and ready to start pressing in early 1923, radio broadcasting was coming to the fore, and record dealers began cancelling orders and returning records already delivered (Weusi, 1996). Worsening general economic conditions exacerbated Black Swan's problems. Pace found his company:

... making and selling only 3,000 records daily and then it came down to 1,000, and our factory was closed for two weeks at a time, and finally the factory was sold at a sheriff's sale and was bought by a Chicago firm who made records for Sears & Roebuck Company. However, this did not completely defeat us and we continued to have records made at a concern in Connecticut and sold these repeat orders for a year or so until the thing finally came to a close. (quoted by Ottley and Weatherby, 1967, pp. 234-235)

In March 1923, the Pace Phonograph Corporation changed its name to the Black Swan Phonograph Corporation. A 1923 trade directory lists the (presumably final) Pace Phonograph Corporation group of officers as: Harry H. Pace, president and general manager; J.P. Quander (who may have succeeded Daniel F. Haynes) secretary; and V.L. Bibb, treasurer (Allen, 1973).

By the summer of 1923, Black Swan Records stopped issuing any new recordings. In December 1923, the Black Swan Phonograph Corporation declared bankruptcy and, in May 1924, Paramount leased the Black Swan catalogue directly from Pace. This sounded the death knell of the company (Weusi 1996)<sup>10</sup>. Black Swan had become a dead duck.

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9 As we already indicated, John Fletcher had been a senior executive with the Olympic Disc Record Corporation and had obtained all of its material, which was primarily recorded by white musicians. Fletcher reissued some of this material on the Black Swan label as new material by black musicians (Allen 1973). Weusi (1996) names the records by the Original Memphis Five as an example. Another example is found at <http://www.mainspringpress.com/blkswan.htm>, where we see that a performer named Lorenzo Wells on Black Swan records was in fact Charles Hart, a popular white tenor. Thygesen, Berresford and Shor (1996) fully cross-reference Black Swan records with those from other labels.

10 In 1987 Jazzology Records started to reissue some of the early recordings of the label on CD.



Pace still held stock in W.C. Handy's company but quit the music business forever in 1930. He again became a successful insurance agent, forming several companies, Chicago's Supreme Liberty Life Insurance Company among others. Harry Herbert Pace died in Chicago in 1943 (Thygesen, Berresford and Shor, 1996).

## *Management accounting issues*

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The Black Swan case raises several interesting management accounting issues. Firstly, it raises questions of how Black Swan set up its financial statements, what accounting standards were used, and how this compares with the practice of other (particularly record) companies of the time.

Secondly, a typical investment decision problem underlies the purchase of the three pressing machines in 1922. If the radio broadcasting explosion of 1923 was a major factor in the company's decline, and if it could have been anticipated, was it really such a wise decision to go ahead buying these machines, particularly as Pace and Fletcher must have been aware they were already doing things that could seriously damage Black Swan's reputation? Were Pace and Fletcher perhaps blinded by their own success, or did they honestly believe that their luck would hold<sup>11</sup> and they would sell even more records? Or was it a timing problem: a commitment had been made to buy the pressing machines and, soon after, information came (albeit too late) that radio broadcasting would take away a substantial portion of the record market?

It would be easy to form judgemental answers to such questions based on the accounting and financial reporting standards of today, but they need to be studied within the framework of the 1920s. This means analyzing books on management accounting, newspaper articles, and other references from the 1920s in order to understand the perspectives then prevailing.

Many modern accounting techniques were developed by engineers of American railroad companies in the 1850s and 1860s and refined in the 20-30 years that followed (Chandler, 1977<sup>12</sup>; Hoskin and Macve, 1988). Although the standard double-entry bookkeeping systems remained in use, there were several major innovations in the financial, capital, and cost accounting fields. Within financial accounting, balance sheets assumed much greater importance than before and operating ratios were increasingly being used to assess managerial performance (such as the ratio of net earnings to total revenue or sales). In capital accounting, more attention was directed towards renewal accounting, in which both repairs and renewals were charged to operating expenses and not to capital or property accounts. This approach maintained the value of fixed assets at their original level, and tended to overstate operating costs.

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11 Recall that the highly successful vaudeville tour was still going on when the decision to buy the additional pressing machines was made.

12 Loft (1986) feels that the perspective taken by Chandler (1977) is too strict, in the sense that he discusses only the so-called 'accounting-organization relationship' and does not examine the broader social context out of which accounting procedures have arisen.

Within cost accounting, innovation was slower and did not really establish itself until around 1880<sup>13</sup>. Much effort was expended in building divisional accounts by means of acceptable and comparable unit cost measures. Some firms also constructed their own performance ratios such as the rate or velocity of inventory turnover and gross margin as a percentage of net sales. Wholesalers, large retailers and mail-order houses, which all became significant businesses as the nineteenth century progressed, used financial, capital and cost accounting methods and techniques that were very similar to those developed by the American railroads. The Pace Phonograph Corporation was probably no exception.

Although more and more specialized accounting measures had come into use after 1850, accounting education was still in its infancy at the turn of the century. According to Chandler (1977):

... both financial and cost accounting began to be taught extensively in colleges and universities. In 1900 accounting courses were given in only 12 institutions of higher learning, and these courses were little more than surveys of commercial bookkeeping. By 1910, 52 colleges and universities offered accounting courses, and by 1916 the number had risen to 116. By then, these courses included auditing, public accounting, and cost accounting. (p. 465)

Given the conditions of the time in which he operated, it is highly unlikely that Harry Pace knew about the latest developments in accounting. Pace had been to university around 1900 but did not study accounting<sup>14</sup>. The entry of blacks into university programs was very restricted, so it is unlikely that any of Pace's staff had either a strong academic accounting background or knowledge of the latest techniques. Even in its heyday, with a staff of up to 15-30 people and offices overseas, Pace still ran a comparatively small company and probably did not need to use sophisticated performance measures. The Pace Phonograph Corporation may have published standard financial reports but, as it was not an SEC-registered or publicly listed company, it is unlikely that 'fancy' or 'new' accounting methods were used. This view is reinforced by published reports on its financial affairs. The first published account on the Pace Phonograph Corporation is found in the *New York Age* January 28 1922 issue:

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13 Parker (1969) analyses innovations in cost accounting techniques in the United Kingdom and notes that "cost accounting was developed mainly by financial accountants and engineers with little help from economists, much to the detriment of cost accounting and also, perhaps, of economic theory" (p. 17). In fact, not until Clark (1923) did economists study cost accounting issues closely.

14 Since Daniel F. Haynes kept the company's books, it would be informative to know his business and academic background. However, we could find no detailed information. While still with the Pace and Handy Music Company, Haynes was named 'chief bookkeeper' (Allen 1973), which indicates that he probably did little more than keeping the books for someone else to interpret. Parker (1969) states that, generally speaking, even by the 1920s, "The scorekeeper did not regard making decisions as part of his function" (p. 21). Taken together, this suggests that Haynes' role in the decision to buy the pressing machines may have been rather limited.

## \$104,628.74 PAID FOR 'BLACK SWAN' RECORDS

Patrons of the Black Swan records paid \$104,628.74 for reproductions of the singing and playing of black musicians during the eleven months from February, 1921 to January 1st, 1922 ... Beginning February, 1921, Mr. Pace devoted all of his time to the Black Swan proposition, and cash receipts for the month totalled only \$674.64. But receipts for December, 1921, were \$20,467.82, the eleven months bringing in a total of \$104,628.74. The receipts for this corporation are largely from coloured people ... The company announces disbursements for the period of \$101,327.17. (p. 6)

Although larger record companies probably kept similar books<sup>15</sup>, the above report indicates that a rather unsophisticated reporting procedure was employed by Pace (or Daniel F. Haynes). It gives little insight into the company's affairs or capital structure, although Chandler (1977) implies that they probably had, at the least, precise information on a transaction basis<sup>16</sup>.

Given that the company had presumably been started on \$110,000 of borrowed capital<sup>17</sup>, Black Swan's reported 1921 surplus of \$3,302 (approximately \$3,600 annualised) is not very impressive. Thygesen, Berresford and Shor (1996), using data from other sources, also obtain a 1921 profit figure of approximately \$3,000 but, without providing any reason, think that the reported profit of \$41,763 in a *Chicago Defender* newspaper article from April 1922 must be more accurate. The discrepancy in the reported profits could be due to the use of renewal accounting in the first case, and the absence of it in the latter. Renewal accounting overstates operating costs since capital costs are directly charged to the operating accounts, thus reducing total profits. The difference may also be due to the higher figure being earnings before interest and taxation. This is consistent with the difference between the capital stock of the company of \$30,000 and the \$110,000 funds borrowed by Pace to get the company started.

It is likely that the company used renewal accounting techniques but, as the company was new, little asset maintenance or replacement would have been charged in its first year. If we hold to the lower profit being net of all charges and the higher EBIT, we have a return on equity of 11%. If the difference of approximately \$38,400 is for interest alone, it implies an interest rate of 40% on

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15 Annual reports and other financial data from a typical early twentieth century record company are not easy to find. Most were not required to publish or file accounts and a lot of data has been lost for a variety of reasons. For example, Calt (1988) mentions that many of Paramount's corporate records may have been deliberately destroyed when the Wisconsin Chair Company, under which Paramount operated, went bankrupt and was wound up in 1954.

16 If they did not, it may be another reason for the company's failure.

17 See footnote 5.

borrowed capital. However, if it also includes a charge for taxes, given that the company was a high-risk new venture by a black businessman, the debt-servicing estimate is probably reasonable.

Nevertheless, in Black Swan's first year of operation, it only earned a little over \$3,300 to plough back into the business, repay borrowing, and provide a return for stockholders. Although 1922 was probably a more successful year as it would include the income from the vaudeville tour (the set-up costs of which must also have been included in the company's total cost figure of \$101,327 for 1921) it is unlikely that the original capital of stock of \$30,000 could have been repaid, let alone the total investment of \$110,000. Cash had also been spent on the unsuccessful 'Swanola' phonograph, the economic recession was becoming worse, and Black Swan was also declining for the non-financial reasons outlined in the previous section of this paper.

We now move to a consideration of the decision to invest in the three additional pressing machines in mid-1922. Since the use of investment-decision aides such as discounted cash flows, payback period, the internal rate of return, or the return on investment were not widespread in 1920 (Parker, 1969, Zimmerman, 2000)<sup>18</sup>, and because the use of renewal accounting may have given misleading information, Pace's decision to buy the three additional pressing machines was possibly made in a rather 'ad-hoc' fashion<sup>19</sup>. Profits from the vaudeville tour were coming in and cash may have seemed plentiful, so Pace probably just decided to go ahead and do it! Maybe Black Swan had hit a purple streak at last! From our personal observation, small firms still make decisions in a similar way today and, certainly for the early 1900s, it was not untypical to make an investment decisions in the way Harry Pace may have made this one.

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18 Yet, Parker (1969) says that an NPV-approach for evaluating financial investments was already advocated by Simon Stevin of Bruges in 1582! Knowledge of compound interest even goes as far back as the Old Babylonian Period (1800-1600 BC). However, although developments in capital theory were made especially by political economists like Fisher (1907) and his contemporaries, the use of net present value or other discounted cash flow methods were not common before the 1960s.

19 We could be accused of adopting an 'objective view' here with regard to the role of management accounting in the Pace Phonograph Corporation. The objective view examines how far available management accounting methods from outside of an organization's realm are employed in the 'micro-world' of an owner-manager's business (Burrell and Morgan, 1979). This perspective differs from the so-called 'subjective view' (in which the extent to which businesses devise their own management accounting measures is studied) and the 'social construction perspective' (in which both the 'objective' and 'subjective views' are combined) taken by Perren and Grant (2000). However, these authors state that empirical research is often conducted in an 'objective' vein, which does not make our line of reasoning abnormal or invalid.

When the Black Swan Phonograph Corporation declared bankruptcy, its material was leased to Paramount, and that company carried on reissuing the material under both its own and the Black Swan label until the market dried up (Rust 1978). Perhaps Pace's problem, then, was not so much a lack of demand for black recordings or a wrong investment decision but excessive overheads. That would be an interesting path to investigate but evidence to sustain or disprove this view seems unobtainable (certainly, Thygesen, Berresford and Shor, 1996 could not find much financial information on Black Swan either, even after 15 years of research)<sup>20</sup>.

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<sup>20</sup> See also footnote 16.

## *What else killed Black Swan?*

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A firm's production techniques and the nature of its production processes were generally not considered of primary importance to its long-term success. It was thought that profits could be enhanced by controlling competition and by managing securities (and the financial statements). In order to control competition, some industrial firms undertook vertical integration by the beginning of the twentieth century. According to Chandler (1977):

The creation of distributing and marketing networks to provide ... coordination, facilities and services caused the mass producers to internalize several processes of production and distribution and the market transactions between them within a single enterprise. ... Such administrative coordination in turn created formidable barriers to entry. ... Rival firms were rarely able to compete until they had built comparable marketing organizations of their own. (p. 364)

A major reason why Pace's company was initially successful was his stressing of the race issue and allowing black musicians to record in their own style, which the larger record companies simply refused to do until they saw Pace's success in this field. Pace's move to buy his own pressing plant in Long Island City (together with John Fletcher), instead of having all records pressed at the Wisconsin plant with which he had a contract, suggests that he also saw benefits in vertical integration (although this decision was also influenced by a demand and supply problem). Despite differences between record companies and typical industrial firms, the Black Swan case shows moves towards vertical integration and a desire to control competition in this business sector as well.

Vertically integrated firms could create more internally generated capital than others. Markets were thus increasingly dominated by a small number of large vertically integrated enterprises. The record business was not the typical industry group, yet a small number of companies (especially Victor, Columbia and Okeh) did dominate the market. Black Swan finally lost the battle against these competitors, which had better distribution and marketing networks and were able to raise large sums of money quickly (Pace's banking history suggests that he was no slouch in this regard either, but his was a small business, and his colour probably worked against him).

This leaves us with the question of the role of radio broadcasting in Black Swan's demise. Although commercial radio broadcasts began in late 1920, it was still in an experimental stage and the role of black Americans in its development was negligible (relatively few black people took up technical studies at that time). Performances by black musicians (mostly gospel singers) did not reach a mass audience until early 1922. As described in Section 2, Ethel

Waters' path-breaking radio broadcast occurred in April 1922. Even Duke Ellington, already famous by the early 1920s, did not have his first radio performance until August 1923 (Halper, 1999). Pace's decision to buy the pressing machines just before the explosion of radio broadcasting, of which he could have had limited knowledge at best, thus appears to have been an unfortunate coincidence rather than negligence.

However, although record companies generally blamed radio broadcasting for their decline in the 1920s and 1930s (Calt, 1988), the potential appeal of phonographs and records was constricted by their very high price in already hard economic times. Phonographs were essentially a luxury product, and customers mostly bought records just for the sake of operating their victrolas. Although phonographs could be bought for \$100 (the 'Swanola' for example), quality players cost about \$750 in the early 1920s. This represented 37% of average 1930 family income in the United States. Only one in ten families, black or white, had such an income. Record prices were standardized at 75¢ as the 1920s progressed, but they had been much higher. Black Swan records were initially sold for \$1, the equivalent of \$12 mid-1990 US Dollars (Thygesen, Berresford and Shor, 1996). Furthermore, of nearly one thousand rural black Southern households surveyed in the mid-1930s, only 17.4% owned radios as opposed to 27.6% with victrolas. As radio stations rarely played black music and featured no programming aimed at black audiences, it is unlikely that radios ever competed with recordings from companies like Black Swan as a black consumer item (Calt and Wardlow, 1992). The steep prices of both records and record players were the prime cause for the industry's fall during the Great Depression. Fierce competition for a small, and possibly diminishing, market rather than radio broadcasting is therefore considered a more likely explanation for the decline of record sales and record companies in the late 1920s and 1930s and the demise of Black Swan in particular.



## Conclusions

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There are many reasons why businesses may fail. General economic conditions may be harsh, businesses may be undercapitalized, books may have been tampered with to cover defalcation, or an unexpected and ruthless competitor may enter the market. In the case of the Pace Phonograph Corporation, in its heydays of 1921-1922 the most successful Black American-owned business of its time, we have identified several key factors for its demise:

1. A bad investment decision was made halfway through 1922. The three additional pressing machines should never have been bought, even though the company had great difficulties handling all its orders at that time. Although management accounting methods and techniques were not as well-developed or widespread by the 1920s as they would become by the 1960s, and thus cannot have contributed much to the decision to buy the extra machines, it might have been clear that people would probably have waited for the additional orders since Harry Pace — at that moment — still operated the only company that had dived into a seemingly highly profitable market niche. However, it is likely that he just wanted to keep his customers satisfied for fear of orders being cancelled or losing clientele, which makes the decision to buy the machines more comprehensible<sup>21</sup>.

The fact that radio broadcasting would take away a substantial part of the record market probably could not have been anticipated, and when it was, the decision to buy the pressing machines had already been made. The company's management therefore cannot be held culpable for this factor in explaining the decline of the Black Swan, a factor that is arguable at best.

Although they may not have altered Pace's decision to invest in new machinery, management accounting techniques may have helped in detecting unduly high overheads, another possible cause of the company's failure.

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21 Nearly eighty years later, sophisticated businesses were making the same mistakes. Air New Zealand purchased the 50% share of Ansett Australia which it did not already own in order to maintain its market in Australia and internationally. However, it was in such a hurry to buy the airline before competitors did that it failed to carry out adequate due diligence. Consequently, the true state of the Ansett finances only became known after the purchase, and Air New Zealand finally had to admit defeat and hand Ansett over to the administrators. Coupled with the sharp decline in the airline industry following the September 11th 2001 terrorist attacks in the US, the losses sustained at Ansett very nearly brought down Air New Zealand as well.

2. The larger record companies were better equipped to reach the mass market more quickly than the Pace Phonograph Corporation. As soon as they saw Pace's success, they started copying his ideas, ultimately driving him out of his own niche market — an occurrence not unknown in today's market place.
3. Finally, the role that cultural elements played in the Black Swan case is extremely important and may be the strongest explanation of both the company's rapid rise and its even faster fall. Pace ran a black-owned business (at least until John Fletcher joined in), and had to deal with prejudice, oppression, and limited access to capital on a far greater scale than white persons in a similar situation. Not only were blacks taken advantage of by club owners and band leaders, they were also discriminated against by publishers, distributors, financiers and other people in the music business. Pace's idea of starting a completely black-owned and operated business thus was a bold one, yet it appealed to the needs of a large section of the American people, which led to the company's initial big boom. A dream seemed to come true.

In the end, however, the race issue worked against Pace. It became known that he issued records by white musicians implying that blacks had recorded them, a move unworthy of Pace<sup>22</sup>. Perhaps this deception was spurred on by the heat of the moment, in a vain attempt to appeal to white people in order to make at least some money and to regain some of Black Swan's lost market share (albeit in a different segment of the market) as more labels started to make black recordings<sup>23</sup>. The start of the decline in the

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22 At <http://www.mainspringpress.com/fletcher.html> it is suggested however that John Fletcher had exhibited a rather 'flexible' approach with regard to reissuing records before, although Pace must have had a definite role herein as well. Nevertheless, Fletcher is labelled as the man whose "involvement with Black Swan almost certainly contributed to that label's demise".

23 In fact, Paramount, which originally pressed all of Black Swan's records, decided to become a label specializing in blues recordings in 1922 as well, possibly after having seen Black Swan's initial success. Only then did the label attain the status it currently has among collectors (Calt 1988).

company's fortunes that occurred by the end of 1922<sup>24</sup> can be identified with the change in recording policy. It may thus be another key point in explaining why Black Swan failed so quickly. Within the Afro-American community, the company's recording hoax caused a lot of bad blood and, since Pace's alliance with John Fletcher already made it appear as if he had broken his promise to build an entirely black-owned record corporation, the company was deserted more and more by artists and customers alike. These effects were too powerful to correct, even for a man of Pace's experience and fame as a rebuilder of falling enterprises.

Yet, whatever may have happened, we should never forget that Harry Pace had a dream, a dream to build the first black-owned record company and to establish it firmly on the recording map. Given that he had to cope with excess orders virtually every day, this must have soon seemed like a dream to come true. It makes many of his decisions all the more understandable — even if he did have foreknowledge of the rise of radio broadcasting (both the knowledge and influence of which can be challenged), even if he was blinded by his own success, even if overheads were too high, and even if he knew he was doing things that might affect the company's reputation. Despite the demise of the Black Swan label, Pace's vision was picked up by the larger record companies, and thus we can still see his influence on the recording industry today. We might even claim that the record business would not be the same without the influence of Harry Pace.

24 Black Swan's original 2000 series already falsified recording dates, band names etc. Nevertheless, the number of forgeries drastically increased as the company issued its 10000 and 2100 series (in that order). Black Swan's 10000 series, which dates from the summer and fall of 1922, is filled with incorrect label information. Matters got even worse when the 2100 series came out. For example, in this run, Black Swan 2100 is credited to Fletcher Henderson, but its A-side is in fact by The Novelty Syncopaters, a white jazz band. The B-side is by Fletcher Henderson and contains a tune recorded in June 1921, called 'Baby Girl'. However, it is unlikely that the 2100 run started in 1921, for Thygesen, Berresford and Shor (1996) say that it was the third series that was released by Black Swan. All other references to it are from early 1923 or later. Probably Henderson's original recording was stored and remained unissued until a year later since Black Swan 2079 was recorded in July/August 1922 and Black Swan 2116 (on which Henderson both participated) dates from February 1923 (Allen 1973). The start of the 2100 run must therefore lie somewhere in between, as Thygesen, Berresford and Shor (1996) also indicate. We may thus assume that, as total falsifications expanded when Black Swan's demise began, the company may indeed have initiated an elaborate, but vain, attempt to appeal to white people, which finally worked against it.

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