Black Swan Records – 1921-1924:  

From a Swanky Swan to a Dead Duck

David Davis*

Ivo De Loo**

October 2002

* Open Polytechnic of New Zealand, Private Bag, 31914, Lower Hutt, New Zealand. E-mail: davdav@topnz.ac.nz; fax: +64 4 566 5633.

** Open University of the Netherlands, P.O. Box 2960, 6401 DL Heerlen, the Netherlands. E-mail: ideloo@cobweb.nl; fax: +31 45 576 2103.

Ivo De Loo is the corresponding author.

The idea for this paper arose when the authors met at the Third Asian Pacific Interdisciplinary Research in Accounting (APIRA) conference in Adelaide, Australia, in July 2001, and discovered that they shared not only similar occupations but also a passion for jazz. The paper has been presented at both the 9th World Congress of Accounting Historians in Melbourne, Australia on 30 July-2 August 2002 and the Accounting, Business & Financial History Conference in Cardiff, Wales on 17-18 September 2002. The authors wish to thank those who have provided valuable comments on both occasions.

In addition, the authors wish to thank Cindy Stark from the New York State Library, Suzanne Flandreau from the library of the Center for Black Music Research in Chicago, Dennis East from the Archives Service Center of the University of Pittsburgh, and Art Kara from the 78 Quarterly journal for their assistance and the insights they shared with us. The comments and suggestions received from Ray Harris, former broadcaster based in Wellington, New Zealand; Harry Keating, organizer of jazz tours and former president of the Wellington Jazz Club; and Bernard Verstegen, professor in Management Accounting at the Open University of the Netherlands, are also gratefully acknowledged. The usual caveats apply and all errors are solely the authors' responsibility.
Abstract

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 leading 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.
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 but it remained hard for Afro-American entrepreneurs 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 the southern states in order to obtain employment in northern cities. 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 music style were recorded by the major record companies of the time. 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, in 1921, Harry Herbert Pace formed his own recording company, the Pace Phonograph Corporation Inc., 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 colored 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 Pace’s company firmly on the recording map. It earned $104,628 during its first eleven months of operation (New York Age, January 28 1922). 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

---

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

2 Halper (1999) states that the first time Afro-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).
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 analyzes the rise and fall of the Black Swan label considering both cultural and economic elements. Management accounting principles are applied to examine the company’s financial statements and investment decisions. A summary highlights the most important findings.

2 The foundation and growth of Black Swan

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 song-writing 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. Handy and Pace 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 probably had 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 as chief bookkeeper.

In January 1921, 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). The way Pace set up his record

---

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 lists March 1921 as the company’s starting date (Ottley and Weatherby, 1967; 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 This is equal to about $1,320,000 mid-1990 American Dollars. 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
late 1910s and 1920s. In this period, most record companies were started as a subsidiary of furniture factories that, since they produced victrolas already, also decided to press some records to operate them (Calt, 1988).

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, another black-owned recording business, Gotham & Attucks, was located on West 37th Street.

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 Negro singers and musicians. … I ran up against a color line that was very severe. … I therefore determined to form my own company and make recordings as I believed would sell. (Quoted by 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. (Quoted by 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 a larger amount. We will therefore use the $110,000 figure mentioned in Weusi (1996) as the company’s start-up capital throughout this paper.
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)

Waters’ first sides for the company were ‘Down Home Blues’ and ‘Oh Daddy’. They were released as Black Swan 2010. 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 her 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. 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. (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, which had a different shape than standard victrolas, and with which he remained concerned until at least the summer of 1922 when he was interviewed by the New York Age newspaper. According to Weusi (1996), Pace stated that this part of the business had not yet been fully developed. Alas, it never would be.

---

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

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.
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 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 4,000 in June 1922 (Allen, 1973).

The company’s expansion accelerated due to the effects of the vaudeville tour. 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 genres, 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.

3 Enter John Fletcher

Business had become so brisk that Pace became impatient with the delay in extra orders coming from the Port Washington plant. In an attempt to have additional records pressed Pace approached various independent pressing companies, including the Olympic Disc Record Corporation (a subsidiary of the Remington Phonograph Corporation). They all flatly refused his business. After repeated failures to obtain the services of an independent pressing plant, Pace went into partnership with a white man called John Fletcher in the spring of 1922. Fletcher had been an executive officer with the Olympic Disc Record Corporation, and had previously held positions with various other record companies such as his own Operaphone Manufacturing Corporation of New York (Sutton, 2001). Fletcher’s current duties included managing Olympic’s recording studio at its Long Island City plant. When the Remington Phonograph Corporation failed in December 1921, Fletcher purchased Olympic’s trademark, masters, and facilities (Rust, 1978).

9 It may be that the “large white company” that purchased a pressing plant in order to keep Pace out, as mentioned in Section 2, was in fact the Remington Phonograph Corporation. If this is correct, the reference made to it by Weusi (1996) is sited at a wrong point in time (for he thinks the occurrence took place near the start of Pace’s company in 1921).
Fletcher Record Company, Inc. The Long Island City plant had a recording room, plating outfit, and pressing room. Pace moved his entire company there in April 1922, abandoning the house he had bought on 135th Street not long before. In a teaming of black and white businessmen unprecedented for its day, Fletcher served as president and Pace as vice president and treasurer of the new company. Under the Fletcher-Pace partnership, their newly formed company served only as a studio and pressing plant for Black Swan (Sutton, 2001). Fletcher oversaw the physical production of Black Swan records, while Pace and his staff continued to determine artists and repertoire.

Pace claimed that, in those days, he was selling:

\[\ldots\] 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 Afro-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). Furthermore, 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.

4 The dying Swan

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, implying that they were recorded by blacks and altering recording details along the way. When this became known, the label’s reputation suffered even more damage\(^\text{10}\).

\(^{10}\) 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 of the Original Memphis Five as an example. Another example can be 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.
machines for the Long Island City plant to cope with the increasing demand for its records in mid-1922. By the time the machines were set up 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). Black Swan had become a dead duck.

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).

5 Management accounting issues

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

11 In 1987, Jazzology Records started to reissue some of the early recordings of the label on cd.
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\textsuperscript{12} 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\textsuperscript{13}; Hoskin and Macve, 1988\textsuperscript{14}). In that specific period, 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.

Within cost accounting, innovation was slower and did not really establish itself until about 1880\textsuperscript{15}. 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 or gross margin as a percentage of net sales. Wholesalers, large retailers and mail-order houses, which all

\begin{itemize}
  \item \textsuperscript{12} Recall that the highly successful vaudeville tour was still going on when the decision to buy the additional pressing machines was made.
  \item \textsuperscript{13} Loft (1986) feels that the perspective taken by Chandler 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.
  \item \textsuperscript{14} Hoskin and Macve (1988) also attribute an important role in the development of management accounting methods and techniques in and around 1850 to engineering graduates of the military academy in West Point, Pennsylvania.
  \item \textsuperscript{15} Parker (1969) analyzes 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.
\end{itemize}
capital and cost accounting methods and techniques that were very similar to those
developed by the American railroads. The Pace Phonograph Corporation probably was
no exception.

Although more and more specialized accounting measures came 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 16. The entry of blacks into university
programs was very restricted so it is unlikely that any of Pace’s staff either had 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 a SEC-registered or publicly listed company, it is
doubtful 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:

$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 Negro 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 colored people … The
company announces disbursements for the period of $101,327.17. (p. 6)

16 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.
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) would suggest that they probably had, at the least, precise information on a transaction basis as well. In addition, the company was incorporated under Delaware law, which in those days had relatively loose filing obligations and a lenient tax structure, which made that many companies deliberately wanted to be incorporated under the state’s ruling system even though they had no connections to Delaware whatsoever. This strengthens our view that Black Swan’s reporting procedures were not very refined – and intentionally so. They were not deemed to be of the utmost importance to the company’s survival and were thus simply not given top priority by Black Swan’s staff (with the likely exception of Daniel F. Haynes).

Given that the company had presumably been started on $110,000 of borrowed capital, Black Swan’s reported 1921 surplus of $3,302 (approximately $3,600 annualized) 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 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 probable 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 find a return on equity of 11%. If the difference of approximately $38,400 is for interest alone, this implies an interest rate of 40% on borrowed capital. However, if the $38,400

---

17 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. As Black Swan was bought up by Paramount in May 1924, and an overview of its financial affairs may have been included in the deal, it may be that all information Paramount had on the Black Swan company was done away with in 1954 as well. Alternatively, after Black Swan’s bankruptcy was declared in December 1923, there was no direct need to keep its financial records intact, so they may have been destroyed right there and then too.

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

19 Professor Robert Parker stressed this fact in a personal exchange with one of the authors.

20 See footnote 5.
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 serviced, let alone the total investment of $110,000 (which must have been a heavy burden for Pace’s company anyway). Cash had also been spent on the unsuccessful ‘Swanola’ phonograph, the economic recession was becoming worse, and Black Swan was 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), 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. 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

---

21 Some may claim that the reported profit figure of $3,300 is relatively low, given the success of the ‘Down Home Blues’/’Oh Daddy’ record (among others), and that parts of the company’s money must therefore have ended up in Pace’s pockets. We feel however that the profit figure must be accurate. It costs money to make records, particularly on someone else’s plant, and Black Swan’s overheads would have been quite high with all the double handling that was involved in its distribution process. Rather than wondering where the profits may have gone, we tend to believe that Harry Pace probably took very little, if anything, out of the company as there was not very much to take out.

22 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 political economists such as Fisher (1907) and his contemporaries made developments in capital theory, net present value or other discounted cash flow methods were not in common use prior to the 1960s.

23 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.
one. This view is reinforced by the fact that, as mentioned previously, many record companies were relatively small subsidiaries of furniture companies and were not considered essential to their survival, so that the record companies’ decision-making processes did not need to be sophisticated.

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 as Thygesen, Berresford and Shor, 1996 could find little financial information on Black Swan, even after 15 years of research).

6 What else killed Black Swan?

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 blacks to record in their own style, which the larger record companies simply refused to do until they saw Pace’s success. 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.

24 With Black Swan being a notable exception of course.

25 See also footnotes 17 and 21.
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 OKe) 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 more 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 broadcasting began in late 1920, it was still in an experimental stage and the role of blacks 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 a musician like 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 hard economic times already. 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 American 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. Most radio broadcasting stations, certainly in the early stages of their existence during the beginning of the 1920s, were completely white-owned. They did not play a lot of black music anyway. Records that were aimed at the niche Pace had exploited first thus must have remained important for black audiences who could afford to buy them, and to white audiences who liked that kind of music, even as radio broadcasting was coming to the fore. It is therefore 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.
There are many reasons why businesses may fail. General economic conditions may be harsh, they 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 heyday of 1921-1922 the most successful Afro-American business of its time, we have identified several key factors for its demise. These can be divided into structural factors, which also affected many other record companies of the day, and situational factors that were typical only of the Pace Phonograph Corporation.

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 of 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 Pace 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. This therefore is a distinctive situational factor in explaining the demise of Pace’s company.

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. We find this a structural factor in the company’s fall.

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. However, given that Black Swan was incorporated under Delaware law with its loose filing obligations, it is doubtful whether the management accounting techniques

26 Nearly eighty years later, sophisticated businesses were making the same mistakes. Air New Zealand purchased the remaining 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 fiancés only became know 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 United States, 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 strategies, ultimately driving him out of his own niche market — an occurrence not unknown in today's market place. Therefore, this is also a structural factor. The same holds true for the virtual absence of label restrictions in the 1920s, which meant that Ethel Waters and Fletcher Henderson, two of Black Swan's most popular artists, did not record exclusively for the label anymore after mid-1922.

3. Finally, the structural 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 Harry Pace. It became known that he had issued recordings by white musicians implying that blacks had recorded them, a move unworthy of Pace. 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 recordings by black artists. The start of the decline in the company's fortunes that occurred by the end of 1922 can be identified with the change in recording

---

27 Sutton (2001) terms Fletcher the man whose “involvement with Black Swan almost certainly contributed to that label's demise”. However, Fletcher must have had Pace's approval to go ahead and falsify record dates, label information, etc.

28 In fact, Paramount, which originally pressed all of Black Swan’s records, decided to become a label specializing in black (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).

29 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,
quicky. 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. This is the final factor we identified in explaining the company’s fall, which is purely situational in character.

Yet, whatever may have happened, we should never forget that Harry Pace had a dream, a dream to build the first totally black 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.

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.

As an afterthought, it is interesting to note that only in the last twenty years we see specialist jazz recording companies becoming viable again, which serves to illustrate that Harry Pace was really ahead of his time. See also footnote 11.
References


*New York Age Newspaper* (Microfilms from January 1921 until January 1924).


