

VIRGINIA BUSINESS

Virginia controversy casts cloud over economic development

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The scandals engulfing Virginia's top three elected officials could prevent Virginia from landing major new business deals, industry observers say.

"The optics matter here," says John Boyd of The Boyd Co., a national site selection firm based in New Jersey. "In recent years, the political calculus has become very important for companies."

Virginia Business spoke with two out-of-state site selectors, a New York brand consultant and the publisher of an Alabama-based business magazine about the potential impact of the state's political crisis on the state's economy. They agree that, at best, the situation isn't helping attract investment to the state. Some argue that as long as Gov. Ralph Northam remains in office, companies that put a high value on being inclusive will be less likely to choose Virginia.

Virginia's reputation has become a subject of national attention as revelations of racist activities and a sexual assault allegation have rocked Richmond in the past week.

Last Friday, a photo surfaced from Northam's medical school yearbook showing one man dressed in blackface alongside another in a KKK outfit. With calls for his resignation pouring in, Northam apologized for appearing in the photo. At a press conference the following day, however, Northam changed his story. He denied he was in the photo but admitted to using shoe polish on his face in imitating singer Michael Jackson at an event later the same year.

Lt. Gov. Justin E. Fairfax is next in line to be governor should Northam leave office. But things are more complicated now that Vanessa Tyson, a professor at Scripps College in California, has stepped forward accusing Fairfax of sexually assaulting her in 2004. Fairfax has denied the allegation. Adding to chaos was the revelation this week that Attorney General Mark Herring, who had called for Northam to resign, admitted that he once appeared in blackface as a college student in 1980.

"This complicates matters in his ability to effectively advocate," Boyd says of Northam. "Companies don't like uncertainty."

Boyd compared the potential ramifications for Virginia's economy to what happened to North Carolina after lawmakers passed a "bathroom bill." The law required transgender people to use the bathroom that matches their birth certificates. Uproar over the law prompted PayPal to back off from plans to create 400 jobs in North Carolina, while CoStar walked away from talks to bring about 700 jobs to the state and instead brought them to Richmond.

Boyd says it's likely that members of the business community will begin to speak out about Northam's situation. But so far few have weighed in on the crisis. Barry DuVal, the CEO of Virginia's Chamber of Commerce, did not respond to requests for comment.

Mark Williams, founder and president of the South Carolina-based site selection firm Strategic Development Group, says that in the South the participation of governors is critical in making economic development deals. If a governor is in political turmoil or unable to react to the demands of dealmaking, his absence can become an issue in significant deals, Williams says.

Steve Cody, CEO of the New York-based public relations agency Peppercom, says it would be counterintuitive for companies to strike partnerships with the Northam administration.

"I would be shocked if any business did any business with the state of Virginia until the current administration steps down," Cody says. "You're judged by the company you keep."

Cody says promoting an inclusive culture is a high priority for most Fortune 500 companies. Millennials, for example, want to work at places that align with their values. For that reason, striking a deal with the Northam administration would not be a good look, Cody says.

"I think there would be a high degree of scrutiny," Cody says. "There would be press coverage, and the impact on a company's image and reputation could be short term or long-lasting."

Michael D. Farren, a research fellow at the Mercatus Center at George Mason University, says research on the use of economic incentives typically shows that subsidies don't influence economic development decisions. Therefore it could be argued that the politicians behind the subsidies don't factor as much in a company's decision on where it should invest.

"They can still come to a state without having to be associated with a politician in a scandal," Farren says. Michael C. Randle, the owner, publisher and editor of the publication Southern Business & Development, says that while Northam's problems don't help in landing economic development deals, companies are more likely to work with Stephen Moret, the president and CEO of the Virginia Economic Development Partnership.

"That's your main contact, not Northam," Randle says.

Neither Moret nor Northam responded to requests for comment.