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THE VALUE OF SOCIAL EXCHANGES IN BUILDING LINKS BETWEEN FAIRNESS AND TRUST IN MULTINATIONAL MINING ORGANIZATIONS

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Abstract

Trust between employees and managers are built through words and deeds over time. The same is true for multinational corporations and governments as they focus on jointly working toward their mutual interests in a socially responsible manner. This paper discusses trust between multinational mining corporations and indigenous local government officials of the host nation, and the challenges they face when dealing with local residents. The relationship between these mining workers and the multinational mining corporation has become somewhat frayed as the speed of globalization and demand for consumer items have accelerated. This places pressure on multinational corporations to deliver their goods more efficiently than they are sometimes prepared to do. In that process, conflict between these mining corporations and the local miners, have become increasingly routine. In this paper, the authors present a discussion of social exchange theories as they relate to trust, fairness and overall perception of justice among employees and local residents. Recommendations are offered for enhancing their relationships and mutual interests.

Key words: Trust, fairness, social exchange theory, trustworthiness, perceived organizational support.

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Introduction

Where did all these mobile phones and laptops come from? The raw materials needed to produce these sorts of devices were most likely mined and refined in a nation other than the home nation of the multinational mining corporation. The demand for metals remains insatiable, and global prices for such commodities continue to rise (Slack, 2012). This has led multinational organizations in the mining and extractive industries to form lucrative but ever precarious relationships with interested governments and communities around the world whose cultures may not necessarily be aligned with the strategic interests of the mining corporations. The net effect of this relationship has been an increase in violent and sometimes embarrassing confrontations between multinational mining corporations and mining workers in the host nations. For example, an Australian employee of Rio Tinto, a multinational mining corporation, Stern Hu, was sentenced to almost 14 years in jail for bribery and alleged espionage in China (Kurtenbach, 2010). Another example would include Alcoa, Inc., an aluminum mining giant, which was mired in a $1 billion lawsuit associated with its affiliate companies, related to over payments and bribes to Bahrain officials (Mandak, 2011).

Anxious to open their borders to huge foreign direct investments that serves both governments and the mining corporations, the relationship between these corporations and the indigenes of the host nation, often falls victim to the primary goal of multinational corporations, which is to profitably establish a mining presence in that nation, while generating much needed revenue for the host government of that nation. These multinational corporations and indigenous local government officials of the host nation, often agree to commence new mining operations, sometimes in relatively populated areas with little input from local residents (Newmont, 2012).

Workers, who live near mining zones, generally provide a ready pool of mining workforce. The relationship between these mining workers and the multinational mining corporation has become somewhat frayed as the speed of globalization and demand for consumer items associated with the mined products, by the growing middle class in BRIC (Brazil, Russia, India, China) nations, has accelerated. This places pressure on multinational corporations to deliver their goods more efficiently than they are sometimes prepared to do. In that process, conflict between these mining corporations and the local miners, have become increasingly routine. Recent headlines illustrate the sort of violent conflicts mentioned: “Peru Mining Conflicts Explode Again,” (Slack, 2012); “Gun Battle at Platinum Mine Leaves Several Dead,” (Maylie, 2012); “Zambian Miners Kill Chinese Supervisors over Slave Wage Dispute,” (“Zambian,” 2012). These unresolved conflicts sometimes spark protests, which can be violent and deadly.

In Peru, Chinese iron ore mining corporations experienced protests over labor and safety issues (Schipani, 2012). Over one hundred Peruvians became sick from exposure to high copper concentrations, which occurred after a toxic spill (Schipani, 2012). As a result, an active protest movement against mining operations emerged. Although government officials use the label “anti-mining” to describe such movements, protesters still welcome the economic opportunities of mining, but insist on “respect for human rights, democratic principles, and citizen participation (Farje, 2011). For example, the U.S.-based silver mining operation, Newmont, had to halt construction in 2011 when protesters blocked highways leading to a Peruvian site (Slack, 2012). Newmont has promised to construct water reservoirs for surrounding communities in order to build better relationships with rural residents before proceeding with mine development (Newmont, 2012). This promise reflects a growing acknowledgement of the value of the relationship between these corporations and miners in the host nation, as part of the organization’s strategic outlook.

In another example, workers at Collum coal mines in Zambia voiced their grievances about low pay and unsafe working conditions. During pay disputes in 2010, Chinese supervisors shot and wounded 13 miners. Human Rights Watch (HRW) reported the abuse in labor, safety, and health by Chinese mining companies and the corresponding indifference by the Zambian government in a 2011 report (“You’ll be fired,” 2011). In a 2012 protest, a Chinese supervisor at that same mine was shot and killed (“Zambian Miners,” 2012).

In South Africa, miners armed with machetes and guns, gathered on a hilltop near a platinum mine, while refusing to return to work until they received their deserved pay increases which they were promised. Security forces arrived at the scene, using Tear gas and automatic weapons to disperse the gathering crowd. Twelve protesting miners were killed, and many others were severely wounded (Maylie, 2012). These miners earned an average salary of $400 per month but were demanding salaries as high as $1,500 a month. Repeated tensions between mine workers and their Chinese supervisors have resulted in fatalities at the mines for the past few years (“Rising tensions,” 2012).

The participants in these recent mining incidents, in no particular order, include Chinese mining companies such as, Shougang in Peru, Lonmin in South Africa, Collum in Zambia, and Newmont of Colorado, a U.S.-based corporation in South America. Production at some of these facilities were temporarily halted due to the uncertainties associated with such unforeseen conflicts. These incidences clearly suggest that the relationship between the multinational mining corporations and the workers in their host nations maybe devoid of trust, thus the violent and sometimes dramatic events that ensue. In one of the instances noted elsewhere in this paper, pay and wages has been an issue, suggesting that fairness in wages offered to miners, relative to the fortunes and size of operations of the affected multinational corporations, may be an issue. These incidences appear to be growing as a trend, and thus, suggests that research in this area is becoming a necessity.

These incidences also raise and beg the question, how are multinational corporations expected to prepare for unforeseen conflicts that may arise, for the foreseeable future as they penetrate new markets and opportunities outside their home nations? In their international operations, how should multinational corporations create long-lasting relationships with communities in the host nation? Can multinational corporations afford to keep ignoring these frayed relationships with workers of host nations while delivering their products to their respective markets? We propose, among other alternatives of study, that an understanding of social exchange theory and how it could bridge the gap between trust and fairness in the exchange relationship between multinational mining corporations and their mining workers in their host nations of operation,should be a necessary and vital aspect of the strategic orientation of multinational corporations. This relationship should go beyond simply adopting a corporate social responsibility framework.

The Value of Social Exchange Theory

An organization can experience the benefits of positive work behaviors if its leaders initiate a fair and trusting exchange relationship with their employees. Similar positive benefits can come between employees of a department when people trust and respect each other (Cavico, Samuel, and Mujtaba, 2012). These personal and professional exchanges in a relationship include negotiated and reciprocal expectations (Blau, 1964). Reciprocity implies "a mutually gratifying pattern of exchanging goods and services" (Gouldner, 1960, p. 170). Negotiated exchanges are binding agreements between two parties that yield the stated benefits at a specific time (Cook & Emerson, 1978). In contrast, reciprocal exchanges are initiated as acts that benefit another individual (assistance, favors, advice) without knowing when, or if, the other will reciprocate (Molm et al., 1999). When favors are returned, the act indicates an investment in an exchange relationship (Aryee, 2002). Using social exchange theory, the authors aim to establish the relationship between fairness and trust in the context of supervisors and employees.

Perceptions of fairness and trust are both parts of social exchanges in employment and all other types of relationships. An organization initiates such exchanges by the extent to which it treats employees fairly. Trust is critical in these exchanges since the initiator of benefits has no assurance of reciprocation, but would invariably expect that some sort of reciprocation would occur. In workplace exchanges, Mayer et al. (1995) have defined trust as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (p. 712). The choice of whether or not to trust can be based on an employee's perception of fair treatment and the trustworthiness of the organization (Mayer et al., 1995).

In social exchanges, relationships between two parties is developed when one party offers a benefit and another party is obliged to reciprocate by offering a benefit in return (Whitener et al., 1998). Blau (1964) wrote, "Since social exchange requires trusting others to reciprocate, the initial problem is to prove oneself trustworthy" (p.98). The employer initiates the relationship by offering material rewards to an employee in return for the performance of work and commitment to the organization (Aryee et al., 2002).

Employees are generally engaged in two social exchange relationships at work, one with their supervisors and one with the organization (Masterson, Lewis, Goldman & Taylor, 2000). An employee's trust in his or her organization is based on the behaviors and actions of supervisors since this is the most direct and frequent contact the employee has with superiors in the organization (Blau, 1964). When supervisors express their concern for employees' career development while valuing their work performance, subordinates may perceive that the supervisor desires a close social exchange experience, and the employee may then feel an obligation to reciprocate (Stinglhamber & Vandenberghe, 2003). This reciprocal arrangement between superiors and subordinates should build trust. As trust between exchange partners increases, members of the organization are able to invest emotionally in the relationship (Lewis & Weigert, 1985).

Supervisors represent a link between employees and the organization (Strutton, Toma, & Pelton, 1993), and thus employee experiences with supervisors are generalized to the organization (Wayne, Shore, and Liden, 1997). It has been shown that employee trust in supervisors is associated with their trust in the organization (Wong, Ngo, & Wong, 2003). As trust in supervisors increases, positive perceptions of the organization increase as well (Pearce, 1993). Employee trust in their organization is also positively related to perceptions of supervisor support (Whitener, 1997). Thus, multinational mining corporations may be well served by taking serious account of the nature of the social exchange relation they have with their host nation workers, as theory suggests that it could potentially affect the quality of trust and perceptions of fairness between both parties.

Trust

Mayer, Davis and Schoorman (1995) proposed a model of trust to be used in studying individuals in organizational settings. The model tested the risk-taking behavior between a "trustor" ("a trusting party") and a "trustee" ("a party to be trusted") (Mayer, Davis & Schoorman, 1995, p. 711); Driscoll, 1978; Scott, 1980). Mayer et al., argued that in studying organizations, researchers must specify the referents (trustor/trustee) in order to clarify the relationship between individuals and their motivations for trusting each other.

One of the considerations taken into account when studying an individual's trust in another individual is personality. An earlier definition of trust as "a personality trait of people interacting with peripheral environment of an organization" (Farris et al., 1973, p. 145) was modified and renamed by Mayer as the "propensity to trust" (Mayer et al., 1995, p. 715). The amount of trust an individual is willing to extend to another, before knowing much about the other, can depend on the individual's own personality, learning experiences, and culture (Hofstede, 1980).

In addition to considering personality traits of the trustor, the trustworthiness of the trustee must also be considered. Conditions leading to trust, or antecedents of trust, have been studied at the organizational level aimed at defining constructs that affect trust. Mayer et al., (1995) reviewed a number of factors reported by researchers and proposed three main characteristics that a trustee must display in order to gain trust: ability, benevolence, and integrity.

In studies on perceived organizational support (POS), researchers have shown the impact of POS and trustworthiness on trust (Armstrong-Stassen et al., 2001; Ristig, 2009). Perceived organizational support is based on the theory of reciprocity in social exchange relationships (Allen & Brady, 1997; Eisenberger et al., 2001). Fair treatment by the organization creates in employees the obligation to repay the organization by supporting the organization's goals through their work-related behavior (Eisenberger et al., 1990). When trustors (employees) view the trustee (employer) as having genuine interest in their welfare, trust can emerge (Doney et al., 1998). However, and more telling, little has been done in the way of establishing a concrete relationship between trust and fairness, and much less in a challenging global environment.

In organizational behavioral studies, trust is a complicated concept that scholars have struggled to clearly define. A widely-accepted definition is that trust is a person's "confident expectations" and "willingness to be vulnerable" to another (Rousseau et al., 1998). Trust also involves the belief that others will not exploit those vulnerabilities, "irrespective of the ability to monitor or control that other party" (Mayer, Davis, & Schoorman, 1995, p. 712). Being dependent on another is also involved in trusting relationships, since the actions of one person affects the outcomes of another person (Whitener, Brodt, Orsgaard, & Werner, 1998). In this case, the actions of the multinational mining organizations, in terms of their fairness, can affect the trust built with indigenous workers. The attitude of the trustor (employee) toward the trustee (employer) develops as observations and evaluations are made about the behavior of the trustee and the trustworthiness of the organization (Robinson, 1996). The trustor's beliefs and perceptions about the trustee are based on observations of the behavior of the organization and an evaluation of its trustworthiness (Zhang et al., 2008). The extent of this trustworthiness may be manifest in the extent to which the trustee expresses fairness (justice) in the distribution of resources and in the implementation of fair procedures in their relationships with trustors, their exchange partners.

The fundamental dimensions of trust used in this paper center on cognitive, affective, and behavioral aspects of the trust relationship (Rosenberg & Hovland, 1960). The cognitive dimension is based on a trustor's rational decisions, knowledge, and experience with the trustee (Summings & Broiley, 1995; 1996). The affective dimension involves the feelings, instincts, and emotions that bind partners in trusting relationships (McAllister, 1995). Transforming rational decisions and instinctive feelings into action gives rise to the behavioral dimension of trust. Realizing that trustees are reliable and experiencing positive feelings toward them does not constitute a sufficient level of trust unless the trustor is willing to act (Moorman, Zaltman & Deshpande, 1992). The cycle of exchange is not complete as long as one party in that relationship is unwilling to reciprocate.

Another typology of trust centers on the level of the relationship between parties. In organizational studies, the layers of trusting relationships include trust between peers (McAllister, 1995; Dirks, 2000; Langfred, 2004), trust for a supervisor (Deluga, 1994, 1995; Aryee et al., 2002), and trust in management (McCauley & Kuhnert, 1992). While trust is based on what an employee does, trustworthiness is what an employer has (Dietz & den Hartog, 2006).

Trustworthiness is comprised of the characteristics of ability, benevolence, and integrity (Mayer et al., 1995). Ability is a supervisor's competence and skill in a certain "domain" in the workplace which allow a trustee to have influence (Schoorman, 1996). Benevolence refers to the perception on the part of the employee that the supervisor is motivated by subordinates' best interests (Gabarro, 1978). As time passes and subordinates experience such benevolence, trust grows (Mayer et al., 1995). Integrity is a supervisor's standards and principles, acceptable to subordinates that are maintained despite the circumstances (McFall, 1987). Ability, benevolence, and integrity together constitute trustworthiness, and if the employee feels certainty that the supervisor has the ability and willingness to fulfill their promises and obligations, then trust is likely to emerge and strengthen over time (Ristig, 2009). These three aspects of trustworthiness have been shown to be positively correlated with trust in supervisor (Cook & Wall, 1980; Tan & Tan, 2000). Research suggests that, ultimately, trust is fundamentally a cognitive and affective process.

Fairness

In order to establish trust and begin a positive exchange relationship with workers, an organization must be perceived as dealing fairly with employees. Fairness, or as it is technically described, organizational justice, is a concept that has been studied in four distinct areas: the distribution of a company's resources (distributive justice); its policies and procedures (procedural justice); its respectful treatment of employees (interpersonal justice); and its sharing of information (informational justice).

The fair distribution of salary, benefits, and incentive rewards given by an organization to its employees is termed distributive justice (Adams, 1965). The degree to which employees perceive fair distribution of resources has been linked to pay satisfaction (Folger & Konovsky, 1989), work motivation, and performance on the job (Greenberg, 2003). A worker experiences fair treatment when rewarded in accordance to his / her input in skills, effort, time, and performance (Cropanzano et al., 2007)

Procedural justice is the perceived fairness of the decision-making process (Leventhal, 1976; Thibaut & Walker, 1975). The fairness of decisions made by superiors is often more important to employees than the compensation an employee may receive (Teprstra & Honoree, 2003). Studies have shown that fair procedures strongly affect employees' commitment to the organization (Colquitt, et al., 2001). Lind and Tyler (1988) concluded that procedural justice is more related to long-term commitment to organizations than to short-term satisfaction with outcomes like pay. Folger and Konovsky (1989) stated that procedural justice was strongly related to perceptions about supervisors and the organization as a whole.

When employees are paid according to their competences, education, experience, capacity, workload and time, regardless of gender or employee's affiliation, they will feel equitably and fairly treated, which leads to loyalty and commitment to the organization (Cropanzano et al., 2002). It may also lead to a trusting exchange relationship between the trustee and trustors. Folger and Martin (1986) found that distributive and procedural justice are correlated to the degree that if either form is perceived as unfair by employees, the behavior of workers is likely to be negative. According to Cropanzano (2002), procedural justice and distributive justice are used as predictors of organizational outcomes. These two components of justice can be used to predict overall justice perceptions, job satisfaction, employee theft, turnover intentions, and organization citizenship behaviors (Cropanzano & Greenberg, 1997).

The degree to which superiors deal with subordinates in a polite, dignified and truthful manner is referred to as interpersonal justice (Colquitt et al., 2001; Greenberg, 1993). Having a chance to express opinions and contribute to decision making increases employees' perceptions of fair treatment (Bies & Moag, 1986).

Informational justice refers to open communication and distribution of information on company policies and procedures (Colquitt, 1993), and includes the quality of explanations of regulations, rules, decisions and informative messages (Bies, 2001). It reflects the degree of justification given about company procedures (Colquitt, 2001; Greenberg, 1993. Informational justice deals with management's ability or decision makers' skills at providing information regarding the allocation of outcomes employees are entitled to by following certain rules (Greenberg, 1993).

When employment practices are perceived as fair by employees, the level of trust for the organization could also increase. Trust is a predictor of positive outcomes including organizational commitment (Aryee, Budhwar & Chen, 2002; Hopkins & Weathington, 2006; Powell et al., 2006), employee loyalty (Costigan, Ilter & Berman, 1998), organizational citizenship behavior (Van Dyne et al., 2000), and cooperative behavior (Shockley- Zalabak, Ellis, & Winograd, 2000). Ganesan (1994) indicated that opportunistic behavior is reduced as employee trust increases. Trust has been found to have a negative correlation with turnover intentions (Konovsky & Cropanzano, 1991; Tan & Tan, 2000). A lack of trust, on the other hand, has been shown to create secrecy between employees (Ladebo, 2006).

Inter-Organizational Social Exchange

Recently in many studies, inter-organizational collaboration between local institutions as well as regional or international corporations has become one of the interests of organizational scholars viewed under the specter of the principles of social exchange theory. According to Singh (1998), this orientation is developed in terms of bilateral or multilateral cooperative relationships between organizations on one hand and as well as competitions between them on the other hand. Social exchange theory in this case looks at the formation of political-economic settings that preserve and secure wealth creation based on social justice and fair and solid functioning of global markets with welfare of communities (Di Domenico, et al., 2009).

In other words, the application of social exchange theory in terms of international relationship bonds implies the relational exchange of dependence and interdependence through interactions between partners (Lawler et al., 1993). According to Murninghan (1994), the cooperation between partners stipulates structural determinants of cooperation including economic and functional contents of exchanges that involve business benefits and psychological determinants including social bonding, friendship, and personal confidence. In the mining sector as an illustrative example, there are always conflicts between local entities, government authorities and mining corporations due to the lack of implementing socially responsible policies and practices, based on the principles of social exchange theory. These conflicts might be related to ownership of land, water access, environmental degradation which local communities disapprove, in addition to the mistreatment of indigenous workers employed by foreign miners (Guinea, China, " 2011). In Peru, as another example, local people went to the streets recently protesting against Newmont Company claiming that mining operations are detrimental to their water suppliers. As a result, many people were killed because of irrational mining practices and unfair structures and procedures of accomplishing mining operations which led to a failed relationship between all the stakeholders (Slack, 2012).

Management Implications

Research in organizational behavior has revealed several practical implications for multinational mining employers. First of all, leaders of an organization must prove themselves to be trustworthy by being competent in their fields, by engaging in non-opportunistic and benevolent behavior toward employees, and by exemplifying integrity in following through on their commitments. Secondly, leaders must initiate an exchange relationship with their subordinates by establishing equitable and fair employment practices and policies. Third, multinational mining organizational leaders must instill in their human resource personnel the need to deal respectfully with employees and to develop open communication channels for the exchange of ideas and information. Fourth, human resource managers of multinational mining corporations must recruit and train competent supervisors who reflect company policies in their daily contact with employees throughout the organization. Fifth, it is likely that an integrity-based code of ethics for multinational organizations, where the right principles rather than rules, as is the case with compliance based codes of ethics, may be helpful in encouraging and building sustainable and long-lasting relationships with workers in the host nation.

As employees experience fair treatment from their employers, they may feel obliged to reciprocate in kind by improving their productivity at work. As employees increase their loyalty and commitment to their employers, the positive outcomes that are experienced by the organization will show leaders the importance of engaging in fair and trusting exchange relationships with all members of their organization.

Summary

This paper clearly shows that in spite of the business pressures to deliver mined products used in the manufacture of numerous consumer items, multinational mining corporations, as part of their strategic outlook, must consider the possibility of violent conflicts with mining workers of host nations. The examples provided clearly suggest that these conflicts are increasingly becoming the norm, with more violence. The 2012 example where several South African miners were killed, exemplifies this amplification of violence in the mining industry. Ignoring these realities, while focusing exclusively on profits and the relationship with government officials in these host nations, is a mistake that may come at future costs to image of multinational mining corporations. Social exchange theory, where partners in an exchange relationship evaluate the costs and benefits of engaging in such a relationship, is important in this effort to bridge the trust-fairness gap that might exist between the multinational mining corporations and the indigenous workers in the host nation. Thus, future research should focus on the nature of trust in these exchange relationships and how it reflects on fairness among mining workers, in international settings, especially where differences in culture can make building trust a challenge.

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