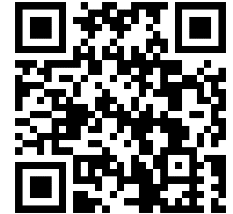


Social Audits: A Remedy to a Happy Workplace and an Assurance to Better Performance of SMEs in Uganda.



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ABSTRACT: This research paper explores the role of social audits in promoting a happy workplace and enhancing the performance of Small and Medium Enterprises (SMEs) in Uganda. Despite the growing recognition of the importance of social responsibility in business operations, many SMEs in Uganda face challenges in implementing and maintaining ethical practices. This paper examines how social audits can serve as a remedy to address these challenges by fostering a positive work environment, improving employee well-being, enhancing productivity, and ensuring compliance with ethical standards. Through a comprehensive review of existing literature, case studies, and interviews with SME owners and stakeholders in Uganda, this paper aims to provide insights into the potential benefits of social audits for SMEs in Uganda and offer recommendations for their effective implementation.

KEYWORDS: Social audits, Small and Medium Enterprises (SMEs), Workplace, happiness, Performance, assurance, Ethical practices, Social responsibility.

1.0 INTRODUCTION

Small and Medium Enterprises (SMEs) are vital to Uganda's economy, contributing significantly to employment and the Gross Domestic Product (GDP). However, these enterprises face numerous challenges, such as limited access to finance, inadequate managerial skills, and a volatile business environment¹. Additionally, "employee dissatisfaction, ethical issues, and lack of transparency further complicate the operational landscape for SMEs, often leading to poor performance and high turnover rates"². In response to these challenges, social audits have emerged as a promising solution. "Social audits involve the systematic evaluation of a company's adherence to social responsibility and ethical practices, covering aspects such as labor practices, environmental impact, and community relations"³. By fostering transparency and accountability, social audits can help SMEs build trust with employees and stakeholders, which is crucial for long-term success.

The role of human resources in enhancing organizational performance is increasingly recognized. "Managers can no longer overlook the importance of people as a valuable resource. Human resources are not just costing to be minimized but assets to be developed, motivated, valued, and assessed"⁴. Implementing social audits can lead to a happier and more productive workforce by promoting ethical business practices and a supportive work environment.

¹ Nangoli, S., Turinawe, D. D., Kituyi, G. M., Kusemererwa, C., & Jaaza, M. (2013). Towards enhancing business survival and growth rates in Idcs: an exploratory study of the drivers of business failure among SMES in Kampala-Uganda. *International Journal of Humanities and Social Science*, 3(8), 284-291.

² Kamukama, N., & Sulait, T. (2017). Intellectual capital and competitive advantage in Uganda's microfinance industry. *African Journal of Economic and Management Studies*, 8(4), 498-514.

³ Aras, G., & Crowther, D. (2008). Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability. *Management Decision*, 46(3), 433-448.

⁴ Armstrong, M., & Taylor, S. (2020). *Armstrong's handbook of human resource management practice*. Kogan Page Publishers.

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Mugenda and Mugenda (2003) emphasize the importance of a systematic and structured approach to research. "This study adopts their methodological framework to investigate the impact of social audits on SMEs in Uganda"⁵. By employing a mixed-method approach that combines quantitative surveys and qualitative interviews, this research aims to provide comprehensive insights into the practical implications of social audits.

Today, most SMEs find themselves in an environment characterized by economic globalization, increasingly fierce competition for new productive capabilities and distinctive skills, and the growing complexity of the knowledge and technologies to be mastered. In this new SMEs space, a new way of thinking is driving the repositioning of ways and techniques of doing business; they generally appeal to cost rationalization, the reconfiguration of keys to success, and suggest that human resources functions place themselves at the heart of the SMEs' strategic and operational bets. Managers have turned their attention to improving the efficiency of their SMEs, a task that can only be achieved through the effective presence of people, hence the major role of Human Resources Management (HRM).

In recent years, human resources management has become a strategic activity, creating competitive advantages for the SMEs, hence the importance of the human factor in achieving set objectives. However, the employee is considered an intangible asset that needs to be attracted, trained, motivated, oriented, developed and, above all, retained within a happy work place.

Today's SMEs are faced with a dangerous phenomenon in the achievement of their objectives and performance due to hostile work environments. "A hostile work environment can be defined as one where employees do not feel at ease, where there is a culture that lacks communication, and transparency, thus making it difficult to do one's job"⁶. Hostile work environments are likely to feature some level of bullying, discrimination, low pay and intimidation. This could lead to absenteeism and other "hidden employee costs"⁷ as employees search for better options.

Absenteeism in the workplace is a complex behavior which generates high costs for the company. To reduce these costs, it is necessary to master personnel management or, in other words, social auditing as a remedy to a happy work place.

Raymond VATIER defines social auditing as "a management tool, an observational approach which aims to assess a company's ability to master the human or social problems posed by its environment, and to manage those which it itself creates by employing the personnel necessary for its activity"⁸

It can be said that the social audit is a genuine indicator of a company's social situation. The practice of social auditing through improved social management can have a positive impact on social, economic and environmental performance of SMEs in Uganda. However, it can also play a decisive role in SMEs' success in a context of their sustainability and increasing competition, where the effectiveness of social management can make the difference within the SMEs.

Therefore, Managers should no longer take for granted the role of people as a resource to be taken into consideration within the SMEs. Human resources should no longer be considered as mere costs to be minimized, but as assets to be mobilized, developed, motivated, valued and assessed.

This makes it all the more essential to enrich corporate social management with the contributions of social auditing since it is considered to be an indispensable tool within the company, to detect any anomalies relating to human resources management (HRM), the social climate and employees' relations with their work and their managers.

1.1 Problem Statement

Managers can no longer overlook the role of people as a resource to be taken into consideration within the company. Human resources are no longer seen as mere costs to be minimized, but as assets to be mobilized, developed, motivated, valued and assessed.

This makes it all the more essential to enrich corporate social management with the contributions of social auditing.

Social auditing is considered to be an indispensable tool in the company, to detect any anomalies relating to human resources management (HRM), the social climate and employees' relations with their work and their managers. "Social audits involve

⁵ Mugenda, O. M., & Mugenda, A. G. (2003). *Research methods: Quantitative & qualitative approaches* (Vol. 2, No. 2). Nairobi: Acts press.

⁶ Abbas, A. A., Abd Hussein, A. A., & Khali, H. H. (2017). The effect of hostile work environment on organizational alienation: the mediation role of the relationship between the leader and followers. *Asian Social Science*, 13(2), 140.

⁷ TUKESIGA, G., BAKAKI, I., KINIAGI, C. H., & WAGIMA, C. The Control and Analysis of Hidden Performance Costs as a Result of Traffic Jam in Kampala Capital City.

⁸Vatier, R. (1980). L'audit social, un instrument utile au pilotage des entreprises et des organisations. *Enseignement et gestion*, 16.

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evaluating various aspects of a company's operations, including labor practices, environmental impact, and community relations"⁹. "Studies have shown that companies with robust social audit mechanisms tend to have higher employee satisfaction and better financial performance"¹⁰. In the context of SMEs in Uganda, where resources are limited, and the business environment is often volatile, social audits can provide a framework for ethical governance and sustainable development.

Despite the potential benefits of social audits in fostering a happy workplace and improving the performance of Small and Medium Enterprises (SMEs) in Uganda, there remains a lack of comprehensive understanding regarding the practical implementation, challenges, and effectiveness of social audits within the context of Ugandan SMEs. Therefore, the research problem is: What are the key challenges and opportunities associated with implementing social audits in Ugandan SMEs, and how do they impact workplace happiness and organizational performance?

1.2 Purpose of the Study

- To investigate the potential role of social audits in addressing workplace issues and enhancing organizational performance within the context of Ugandan SMEs.
- To identify the specific challenges and barriers faced by Ugandan SMEs in implementing social audits.
- To Provide recommendations and guidelines for the effective implementation of social audits as a remedy for creating a happy workplace and improving the performance of SMEs in Uganda.

Overall, the study aims to contribute to the understanding of how social audits can be utilized as a tool for enhancing workplace well-being and driving better organizational outcomes in the specific context of SMEs in Uganda.

2.0 THEORETICAL FRAMEWORK

In general, an audit is a form of evaluation and submission of an opinion on a situation in the form of strengths and weaknesses represented by various dysfunctions.

In fact, social auditing is concerned with the evaluation and effectiveness of human resources management and social risks, while providing analysis and corrective action to improve the company's social performance.

It is therefore important to explain the origins of the social audit, its approach and the tools used to remedy the anomalies detected.

Originally, the term "audit" was associated solely with the accounting and financial fields, where it was used to designate the operations involved in checking and verifying numerical data. This idea was gradually transposed to the social field.

Social auditing was born in the wake of the boom of the 1950s, so this discipline is recent, but it has not ceased to evolve remarkably in recent years. Social auditing is considered to be a special form of operational auditing, and is very similar to other branches of auditing, such as IT, logistics and purchasing.

Social auditing is not confined to authenticating figures and checking that practices comply with the law, but aims to assess the effectiveness of all or part of the personnel function, by examining the adequacy of controls adopted which may give rise to problems and risks, which need to be identified and assessed.

According to Raymond Vatie, "social auditing is auditing applied to the management and functioning of people in organizations, and to the interplay of their internal and external relationships"¹¹.

Social auditing is also considered to be an essential steering tool for strategic and operational human resources management. At present, it is difficult to give a precise definition of social steering, so we will try to clarify the concept a little by referring to the contributions of certain authors in this field.

According to CITEAU J.P (1997)¹³, a social management system consists of:

- Designing, supplying and maintaining an information system for monitoring the activity and performance of human resources, as well as informing the company's social and economic partners;
- Analyze factors that may affect the mobilization of human resources over a given period, in order to plan short- and medium-term corrective measures. Its aim is to contribute to the management of resources in assessing their performance.

⁹ Aras, G., & Crowther, D. (2008). Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability. *Management Decision*, 46(3), 433-448.

¹⁰ Jenkins, H. (2006). Small business champions for corporate social responsibility. *Journal of business ethics*, 67, 241-256.

¹¹ Vatie, R. (1988). *Audit de la gestion sociale*, les éditions d'organisation.

¹² Martory, B. (1999). Vingt ans de contrôle de gestion sociale. *Comptabilité-Contrôle-Audit*, 5(3), 165-177.

¹³ Miculeac, M. E. (2012). EXTENSIVE USAGE ANALYSIS OF THE HUMAN RESOURCES EXISTING AT COMPANY LEVEL. *Studia Universitatis Vasile Goldiș, Arad-Seria Științe Economice*, 22(3), 110-115.

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Various authors have highlighted the benefits of social auditing in steering the HR function. In this respect, we refer to the contribution of Peretti J. M. (1994), “who identifies the benefits of social auditing in the following areas”¹⁴:

- Safety: Social auditing aims to identify and reduce the risks associated with non-compliance with internal and external regulations;
- Quality of information: Social auditing ensures that decisions are taken on the basis of relevant and timely information;
- Efficiency: social auditing identifies the risks of failure to achieve objectives within the framework of established policy;
- Cost control: at this level, the auditor seeks to identify sources of wasted resources, and to counteract hidden costs;
- Improving strategic choices.

2.2 Benefits of Social Audits for SMEs

“Social audits offer several benefits for Small and Medium-sized Enterprises (SMEs), helping them enhance their social responsibility practices and overall business performance”¹⁵. Here are some key benefits of social audits specifically tailored to SMEs;

- Enhanced Reputation and Brand Image: Social audits enable SMEs to demonstrate their commitment to social responsibility, ethical business practices, and stakeholder engagement. “By showcasing their positive social impacts and transparent operations, SMEs can enhance their reputation and build a strong brand image, which can attract customers, investors, and business partners”¹⁶.
- Improved Stakeholder Relationships: Conducting social audits allows SMEs to engage with their stakeholders, including employees, customers, suppliers, and the local community. “By soliciting feedback, addressing concerns, and involving stakeholders in decision-making processes, SMEs can build trust, loyalty, and long-term relationships, leading to increased support and collaboration”¹⁸.
- Risk Management and Compliance: Social audits help SMEs identify and mitigate various social, environmental, and regulatory risks associated with their operations. “By assessing compliance with relevant laws, industry standards, and ethical guidelines, SMEs can avoid potential legal sanctions, reputational damage, and operational disruptions, thus safeguarding their business interests”¹⁹.
- Operational Efficiency and Cost Savings: Social audits enable SMEs to identify opportunities for improving operational efficiency, resource management, and cost-effectiveness. “By optimizing processes, reducing waste, and adopting sustainable practices, SMEs can minimize environmental impacts, conserve resources, and lower production costs, leading to enhanced competitiveness and profitability”²⁰.
- Employee Engagement and Productivity: Social audits provide SMEs with insights into their human resource practices, workplace culture, and employee satisfaction levels. By addressing issues related to diversity, inclusion, health, and safety, SMEs can create a positive work environment, boost employee morale, and increase productivity, resulting in higher job satisfaction and retention rates²¹.
- Access to Finance and Markets: Socially responsible SMEs may find it easier to access financing, attract investment, and secure contracts with socially conscious customers and suppliers. By demonstrating their commitment to sustainable business practices, SMEs can differentiate themselves in the marketplace, mitigate investment risks, and tap into new funding opportunities, thus facilitating business growth and expansion²².

¹⁴ Peretti, J. M., & Peretti, J. M. (1998). *Ressources humaines et gestion des personnes*. Vuibert.

¹⁵ Aastha, B., & Shazi, S. J. (2019). Corporate social responsibility practices in small and medium enterprises. *Polish Journal of Management Studies*, 19.

¹⁶ Kaptein, M., & Schwartz, M. S. (2008). The effectiveness of business codes: A critical examination of existing studies and the development of an integrated research model. *Journal of Business Ethics*, 77, 111-127.

¹⁷ Crane, A., Henriques, I., Husted, B. W., & Matten, D. (2016). Publishing country studies in Business & Society: Or, do we care about CSR in Mongolia? *Business & Society*, 55(1), 3-10.

¹⁸ Greenwood, M. (2007). Stakeholder engagement: Beyond the myth of corporate responsibility. *Journal of Business ethics*, 74, 315-327.

¹⁹ Schwartz, M. S., & Carroll, A. B. (2003). Corporate social responsibility: A three-domain approach. *Business ethics quarterly*, 13(4), 503-530.

²⁰ Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate social responsibility and access to finance. *Strategic management journal*, 35(1), 1-23.

²¹ Crane, A., Henriques, I., Husted, B. W., & Matten, D. (2016). What constitutes a theoretical contribution in the business and society field?. *Business & Society*, 55(6), 783-791.

²² Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate social responsibility and access to finance. *Strategic management journal*, 35(1), 1-23.

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- Community Development and Social Impact: Social audits enable SMEs to assess their contributions to local communities, economic development, and social well-being. By investing in community development projects, supporting local suppliers, and promoting social initiatives, SMEs can create positive social impacts, address social challenges, and contribute to sustainable development goals, thereby enhancing their social license to operate and long-term viability²³.

Overall, “social audits offer SMEs a valuable opportunity to assess, improve, and communicate their social responsibility efforts, leading to enhanced competitiveness, sustainability, and stakeholder value creation”²⁴. By integrating social responsibility into their business strategies and operations, SMEs can not only achieve financial success but also contribute to positive social and environmental outcomes.

2.3 Challenges in implementing Social Audits

“Implementing social audits, while beneficial, can be challenging for Small and Medium-sized Enterprises (SMEs) due to various factors. Here are some common challenges:

- Resource Constraints: SMEs often face limited financial, human, and technological resources, which can make it challenging to conduct comprehensive social audits. They may lack the funds to hire external consultants, invest in data management systems, or allocate staff time for audit activities²⁵.
- Lack of Expertise and Awareness: SMEs may lack the expertise and awareness needed to effectively plan, implement, and manage social audits. They may not have personnel with specialized knowledge in social responsibility, audit methodologies, or stakeholder engagement, making it difficult to navigate the audit process.
- Complexity and Scale: Social audits can be complex and time-consuming, especially for SMEs operating in multiple locations or sectors. The diversity of social issues, stakeholders, and operational contexts may complicate the audit process and require tailored approaches to address specific challenges.
- Data Collection and Verification: SMEs may encounter difficulties in collecting, verifying, and analyzing relevant data for social audits. They may lack standardized data collection tools, access to reliable information sources, or the capacity to ensure data accuracy and integrity, leading to incomplete or unreliable audit results.
- Stakeholder Engagement: Engaging stakeholders effectively in the audit process can be challenging for SMEs, particularly if they have limited communication channels, relationships, or trust with key stakeholders. Inadequate stakeholder participation may undermine the credibility and effectiveness of social audits.
- Resistance to Change: Implementing social audits may face resistance from internal stakeholders, including senior management, employees, and shareholders, who may perceive them as additional burdens or disruptions to business operations. Overcoming resistance and fostering a culture of social responsibility within the organization requires strong leadership and communication.
- Integration with Business Strategy: Aligning social audits with the broader business strategy and objectives of SMEs can be challenging. Without clear alignment, social audits may be perceived as isolated initiatives rather than integral components of business planning and decision-making processes.
- Regulatory Compliance: SMEs may struggle to keep pace with evolving regulatory requirements related to social responsibility reporting, disclosure, and compliance. Meeting regulatory expectations and fulfilling reporting obligations may require dedicated resources and expertise, which SMEs may lack”²⁶.

Addressing these challenges requires proactive management, capacity-building, stakeholder engagement, and a commitment to continuous improvement. Despite the obstacles, implementing social audits can ultimately benefit SMEs by enhancing their social responsibility practices, reputation, and long-term sustainability.

3 METHODOLOGY

This study examines the role of social audits in promoting a happy workplace and enhancing the performance of Small and Medium Enterprises (SMEs) in Uganda, the study employs econometric method in formulating a regression model which would be analyzed through the use ordinary least square regression (OLS). “The model to be used for this study will be

²³ McWilliams, A., & Siegel, D. (2001). Profit maximizing corporate social responsibility. *Academy of Management Review*, 26(4), 504-505.

²⁴ Rahim, M. M., & Vicario, V. (2015). Social audit: A mess or means in CSR assessment? In *Social audit regulation: Development, challenges and opportunities* (pp. 1-13). Cham: Springer International Publishing.

²⁵ Sweeney, L. B., & Sterman, J. D. (2007). Thinking about systems: Student and teacher conceptions of natural and social systems. *System Dynamics Review: The Journal of the System Dynamics Society*, 23(2-3), 285-311.

²⁶ Rahim, M. M., & Idowu, S. O. (Eds.). (2015). *Social audit regulation: Development, challenges and opportunities*. Springer.

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adopted from the previous work of Windell (2006)²⁷. The methodology employed in the study was that the researcher examines the annual report and accounts of randomly selected companies and compared their turnover with their investment in Social Audits stated as:

$$TUV = \beta_0 + \beta_1SA$$

He makes use of correlation, regression, and analysis of variance (ANOVA) to analyze the relationship between the two variables. The above model would be adopted and modified for this study. Therefore, this study presents the below model;

$$Y = f(X_1) \dots\dots\dots (1)$$

$$Y = b_0 + b_1X_1 \dots\dots\dots (2)$$

$$PAT = b_0 + b_1SA + u \dots\dots\dots (3)$$

Where:

PAT = Profit after Tax to proxy SMEs' profitability as dependent variable;

SA = Social Audits of the selected SMEs; b_0 - b_1 , =Parameter of the Estimate;

U = Error term

This study depends mainly on secondary data, which was obtained from the ten (10) randomly selected profitable SMEs registered with the Ugandan Investment Authority. There annual reports and financial summary between "2012-2022" i.e. ten (10) years period. The selected SMEs are Pinnacle Security Ltd, Solar Today Uganda Ltd, Atlas Cargo Systems Ltd, Asa Microfinance (Uganda), Explorer Dubai Ltd, Eco Group Ltd, SSG Granites Ltd, Kigezi Highland Tea Ltd, Capital One Group and Nina Interiors Ltd and forthe purpose of this study ordinary least square method is employed. This is because the parameter estimate obtainedby the OLS is adopted because it computational procedure is fairly simple and the data requirement are not too concessive.

4.0 MODEL ESTIMATION AND DISCUSSION OF FINDINGS

This chapter deals with estimation results, analysis and interpretation of results.

4.1 Model Estimations

Table 1. Model Estimations

Dependent Variable: PAT Method: Least Squares

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SA	-0.177424	0.792544	-0.223866	0.8285
C	15135117	4946862.	3.059539	0.0156

R-squared = 0.622016 (62%); Adjusted R-squared = 0.591254 Durbin-Watson stat = 0.642927;

F-statistic = 24.103260

Source: E-View Output Analysis

4.2 Discussion of Results

The analysis above explains the relationship between Social Audits and SME's profitability/performance in Uganda. The table revealed that the amount committed to social responsibility vary from one company to the other. The data further revealed that all the sample firms invested less than ten percent of their annual profit to social responsibility.

However, the E-view analysis above depicts that negative relationship (-0.177424) exists between SME's performance measure with profit after tax and investment in social audits. This implies that the slope of the estimate is in accordance with the a priori expectations, which shows that there is inverse relationship between the two variables (PAT and SA). This implies that the more the profit recorded by SMEs in Uganda the less they invest in Social Audits. This suggests that these SMEs survival and ability to make profit in the long run could be threatened as various stakeholder particularly their employees could threaten their existence. This result conforms to "evidence from Lopez, Garcia, and Rodriguez, (2007) who carried out their study based on the Dow Jones Sustainability Index"²⁸. The study uses a total sample

²⁷ Windell, K. (2006). *Corporate social responsibility under construction: Ideas, translations, and institutional change* (Doctoral dissertation, Företagsekonomiska institutionen).

²⁸ López, M. V., Garcia, A., & Rodriguez, L. (2007). Sustainable development and corporate performance: A study based on the Dow Jones sustainability index. *Journal of business ethics*, 75, 285-300.

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of 110 firms from the period of 1998 to 2004 and analyzes the relevant accounting indicators. Accounting information published by sample firms was compiled. They found that the link between the performance indicator and Social Audits/corporate social responsibility is negative.

The co-efficient of determination of the result obtained gives 0.622016 (62%), this depicts that the explanatory variable account for about 62% changes or variations in selected SMEs performance (PAT) are caused by failure to carry out Social Audits(SA) in SMEs in Uganda. The test of autocorrelation shows that there is no serial autocorrelation for the regressed model under study because the value obtained gives 0.642927 which falls below the range of autocorrelation.

Findings from analysis shows that the amount committed to social audits vary from one SME to the other. The data further revealed that all the sample firms invested less than ten percent of their annual profit to social audits and social responsibility. However, the Empirical analysis above depicts that negative relationship exists between SME's performance measure with profit after tax and investment in social audit and social responsibility which shows that there is inverse relationship between the two variables (PAT and SA). The co-efficient of determination of the result obtained gives 0.622016 (62%), this depicts that the explanatory variable account for about 62% changes or variations in selected SMEs performance (PAT) are caused by failure to conduct social audits in SMEs in Uganda. The test of autocorrelation shows that there is no serial autocorrelation for the regressed model under study because the value obtained gives 0.642927 which falls below the range of autocorrelation.

4.3 Role of Social Audits in Promoting Workplace Happiness

“Social audits can play a significant role in promoting workplace happiness by fostering a positive organizational culture, enhancing employee engagement, and addressing social and environmental concerns. Here are several ways in which social audits contribute to workplace happiness;

➤ Transparency and Trust

Social audits promote transparency by providing employees with insights into the organization's social and environmental performance, policies, and practices. When employees have access to information about the company's values, goals, and impact, they are more likely to trust their employers and feel a sense of ownership and pride in their work.

➤ Employee Engagement and Empowerment

Social audits often involve employee participation and feedback mechanisms, such as surveys, focus groups, or interviews. Engaging employees in the audit process empowers them to voice their opinions, concerns, and ideas for improvement, fostering a sense of inclusion, ownership, and accountability in decision-making processes.

➤ Alignment with Values and Purpose

Social audits help align organizational actions with values such as social responsibility, sustainability, and ethical conduct. When employees perceive that their company is committed to making a positive impact on society and the environment, they are more likely to feel a sense of purpose and fulfillment in their work, leading to greater job satisfaction and happiness.

➤ Recognition and Reward

Social audits can highlight the contributions of employees to achieving social responsibility goals and outcomes. Recognizing and rewarding employees for their efforts to support social and environmental initiatives reinforces a culture of appreciation, collaboration, and shared success, which in turn enhances morale and workplace happiness.

➤ Well-being and Work-Life Balance

Social audits may include assessments of workplace practices related to employee well-being, health, and work-life balance. Identifying areas for improvement, such as stress management programs, flexible work arrangements, or wellness initiatives, can contribute to a healthier, more supportive work environment that prioritizes employee happiness and satisfaction.

➤ Sense of Impact and Meaningful Work

Social audits help employees understand the broader impact of their work beyond financial performance metrics. When employees see the tangible results of their efforts in terms of positive social and environmental outcomes, they derive a greater sense of meaning, purpose, and fulfillment from their work, which enhances overall job satisfaction and happiness.

➤ Continuous Improvement and Learning

Social audits encourage organizations to continuously assess and improve their social responsibility practices. By identifying areas for enhancement and implementing corrective actions, organizations demonstrate a commitment to learning, innovation, and progress, which fosters a culture of continuous improvement and adaptability that contributes to workplace happiness²⁹.

²⁹ Gurm, B. K. (2004). *Understanding the environmental factors that have an impact on employee well-being: A social audit of a university college* (Doctoral dissertation, University of British Columbia).

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4.4 Impact of Social Audits on SME Performance

“The impact of social audits on Small and Medium-sized Enterprises (SMEs) performance can be multifaceted, influencing various aspects of their operations, reputation, and long-term sustainability. Here are several ways in which social audits can affect SME performance:

➤ Enhanced Reputation and Trust

Social audits demonstrate SMEs' commitment to transparency, accountability, and responsible business practices. By publicly disclosing their social and environmental performance, SMEs can build trust with stakeholders, including customers, investors, suppliers, and the community, enhancing their reputation and brand image.

➤ Competitive Advantage

Social audits can differentiate SMEs from competitors by showcasing their ethical and sustainable business practices. SMEs that prioritize social responsibility may attract socially conscious consumers who prefer to support businesses that align with their values, thereby gaining a competitive advantage in the market.

➤ Access to Capital and Investment

Investors and financial institutions increasingly consider environmental, social, and governance (ESG) factors when making investment decisions. SMEs that undergo social audits and demonstrate strong social responsibility performance may be more attractive to investors seeking to align their investments with ESG criteria, thereby improving access to capital and investment opportunities.

➤ Risk Management and Cost Reduction

Social audits help SMEs identify and mitigate various social, environmental, and ethical risks associated with their operations. By proactively addressing these risks, SMEs can minimize potential financial losses, regulatory fines, reputational damage, and operational disruptions, leading to cost savings and improved financial performance.

➤ Employee Recruitment and Retention

Socially responsible SMEs are often perceived as more attractive employers by job seekers, particularly younger generations who prioritize purpose-driven work and corporate social responsibility. By demonstrating a commitment to social responsibility through social audits, SMEs can attract top talent, improve employee morale, and reduce turnover rates, ultimately enhancing organizational performance.

➤ Supplier and Customer Relationships

Social audits can strengthen SMEs' relationships with suppliers and customers by ensuring ethical sourcing practices, responsible supply chain management, and transparent communication. SMEs that prioritize social responsibility may be preferred partners for suppliers and trusted brands for customers, leading to enhanced collaboration, loyalty, and long-term business relationships.

➤ Operational Efficiency and Innovation

Social audits encourage SMEs to adopt more efficient, sustainable, and innovative business practices. By evaluating their social and environmental impacts and identifying areas for improvement, SMEs can optimize resource use, reduce waste, and innovate new products or processes that meet evolving market demands, thereby increasing operational efficiency and competitiveness.

➤ Regulatory Compliance and Market Access

Social audits help SMEs ensure compliance with relevant laws, regulations, and industry standards related to social responsibility. Meeting regulatory requirements and demonstrating ethical business practices can mitigate legal risks and regulatory scrutiny, while also facilitating market access and international trade opportunities for SMEs operating in increasingly regulated markets³⁰.

5.0 CONCLUSION AND RECOMMENDATION

SMEs have developed a variety of strategies for dealing with this intersection of employee needs, the workenvironment, and corresponding business imperatives.

SMEs can also be considered on a developmental continuum with respect to how deeply and how well they are integrating social audits approaches into both strategy and daily operations. At one end of the continuum are SMEs that do not acknowledge any responsibility to the employees and the work environment. “And on the other end of the continuum are those SMEs that view their operations as having a significant impact as well as reliance on their employees at the economic, social, and ecological levels, thus resulting in a sense of responsibility beyond the traditional boundaries of the organization”³¹.

³⁰ Fatoki, O. O. (2011). The impact of human, social and financial capital on the performance of small and medium-sized enterprises (SMEs) in South Africa. *Journal of social sciences*, 29(3), 193-204.

³¹ Guénon, R. (2001). *The Reign of Quantity and the Signs of the Times*. Sophia perennis.

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SMEs face challenges and limitations as they implement social audits. These usually relate either to financial issues or to investors' concerns and are often embedded in culture. The complexity of operating in a global society places new demands on SMEs and their leadership. This study concludes that profitable SMEs in Uganda do not invest much in social audits and this has tendency to threaten their long run existence.

Though, in Uganda social Audits are encouraged in achieving greater SME's performance, but SMEs in the country have not really engaged in social audits which have implications for the survival of these SMEs. This paper therefore offers the following policy suggestions on how SMEs can improve on their work environment to ensure greater and better performance.

Policy framework should be designed for social audits in Uganda by the government and ensure compliance by setting mechanisms and institutions for the implementation of social audits. SMEs in Uganda particularly the profitable ones should give greater priority to their employees. This has the tendency to assist them to survive and maintain their profitability. Attention should be given to social accounting and social costs by SMEs in Uganda.

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