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Impact and significance of HR audits on small businesses

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Abstract- **This study examines the consequences of inadequate Human Resource Audits in small businesses, particularly in the small grocery retail sector. Resource limitations often prevent small businesses from performing regular HR audits, leading to reduced organizational performance. Absence of an Human Resource Audits negatively impacts employee satisfaction and retention. Moreover, small businesses often use an autocratic model as an Human management philosophy, which can also harm employee loyalty and motivation. This study uses nonprobability purposive sampling to select 30 small grocery retail businesses. Semi-structured interviews with business owners, managers, and employees were conducted using thematic analysis. The findings highlight the importance of conducting an HR audits to improve business operations, employee satisfaction, and long-term success.**
Keywords**: Autocratic Management Style, Employee Motivation, Employee Retention, Employee Satisfaction, HR Audits, HR Practices, Human Resource Management (HRM), Resource-Based View (RBV), Small Businesses, Grocery Retail Sector.**

I. INTRODUCTION

Small businesses play pivotal role in economic growth of local economies. Despite of their significance small businesses often encounter challenges related to Human Resource Management (HRM), especially in the absence of dedicated HR staff. Due to constraint resources it is difficult to implement HR audits, which can negatively impact operational performance, employee satisfaction, and retention. Internal Audit is known as an important element to identify how HR helps to make 'tone at the top' a reality [1]. HR audits are important in assessing compliance, and fulfilling organizational goals [2]. Furthermore, many small businesses operate under autocratic management styles, which can increase employee dissatisfaction, resulting in a higher turnover rate. This study examines the difficulties small businesses face in the grocery retail sector, and explore the influence on employee satisfaction due to the absence of proper HR audit. The sample size is relatively small (30 businesses) which may not fully represent the broader small business sector. Additionally, the research focuses specifically on the grocery retail sector, limiting its generalizability to other industries.

Objective of the Study
The fundamental objective of this study is to investigate the difficulties small businesses face in conducting HR audits, the related consequences, and the challenges arising from the lack of dedicated HR staff and resources for conducting these audits.
Scope of the study
There are many sectors associated with small businesses. However, the purpose of this paper is to investigate the challenges faced by the retail grocery sector of small businesses due to the inefficiency of HR audits.

II. LITERATURE REVIEW

The Resource-Based View (RBV) of the Firm, proposed by [3] suggests that the internal resources of a business are catalyst of success and competitive advantage. According to the perspective of small businesses, where resources are scarce, human capital (i.e., employees) becomes an important asset. However, many small businesses use an autocratic management style due to resource constraints, which hampers employee satisfaction, turnover, and retention. The RBV framework values employee satisfaction that contribute to better organizational performance.
Similarly, Human Capital Theory [4] also prioritizes employees as strategic assets. When audits are ignored small businesses underperform to maximize their human capital. This results in decrease in productivity and higher turnover. Moreover, this can also be explained through Psychological Contract Theory [5], this is a theory where employees hold expectations towards their employer for treating them with fairness and mutual respect, enhancing growth opportunities. Combining an autocratic management style with psychological contract principles can result in discontent, demotivation, and diminished loyalty.
HR audits play a pivotal role in enhancing HR practices by aligning them with organizational goals. Employee satisfaction upholds HR audit practices, helps to improve retention, morale, and overall organizational success. Key factors such as training and development programs, competitive compensation, employee involvement in decision-making, job security, and effective communication of HR policies are seen as sub-factors of HR audit effectiveness that contribute directly to employee satisfaction. Improved recruitment and selection, career development, fair compensation, and employee involvement are the

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mechanisms through which HR audits influence employee satisfaction.

Due to [5] the absence of regular HR audits, businesses often face resource misallocation and disorganization. This can result in lower employee satisfaction, increased turnover, and inefficiency, all of which can be detrimental to the business. [6] also highlights that HR audits enhance employee satisfaction, reduce turnover, and strengthen overall organizational efficiency.

The literature further promotes the RBV, emphasizes that regular HR audits enable organizations to better implement their internal resources. [7] highlights the significance of periodic audits to keep HR functions in line with the constant business needs. [8] added that small businesses, often fail to implement formal HR practices, due to scarce resources, a gap that can be fulfilled through HR audits. [9] connects HR audits to reduce turnover rates, illustrates that audits lead to improving employee satisfaction, while [10] reveals that HR audits help in planning, recruitment, and selection, ultimately improving employee performance, though not in all areas.

Secondary data recognizes several factors that affect employee satisfaction. [11] added that the autocratic management model is used in small businesses, which can negatively impact employee loyalty and motivation. Studies by [12] and [13] explore how HR audits can improve employee satisfaction, reduce turnover, and enhance organizational efficiency.

The thematic analysis of this paper emphasizes on themes from the literature, including resource constraints, HR audit effectiveness, employee satisfaction, and management philosophies like the autocratic model. This ensures the analysis is related to its existing research.

Despite these benefits, small businesses often avoid HR audits due to the high costs associated with professional auditors and the complexity of current audit frameworks, which are primarily designed for larger organizations. [14] identifies that small businesses often neglect HR audits due to limited financial and time resources. However, when effectively implemented, HR audits improve compliance, operational efficiency, and employee retention. The need for tailored, simplified audit frameworks for small businesses is an important gap in current HR audit practices.

To summarize, while HR audits are critical for enhancing HR practices and employee satisfaction, small businesses face challenges in implementing them due to limited resources. Addressing these challenges and simplifying HR audit frameworks for small businesses can lead to continuous improvement, operational efficiency, and better employee satisfaction.

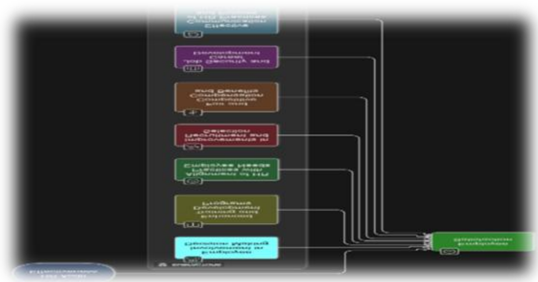

Fig. 1. HR Audit Effectiveness and its Impact on Employee Satisfaction.

III. METHODOLOGY

Section I: Overview of the Sample for the Qualitative Study

This study adopts a qualitative approach to explore the challenges faced by small grocery retail businesses in conducting HR audits. According to the secondary data, it has been concluded that small businesses face resource constraints [11] and follow an autocratic model of HR management [3]. In this research, a nonprobability purposive sampling has been used to select 30 small grocery retail businesses. Data were collected through semi-structured interviews with business owners, managers, and employees, conducted in person or via video conferencing, lasting between 30–60 minutes, depending on the depth of responses. The interviews focus on themes that are related to HR audit effectiveness and its influence on employee satisfaction. Primary data was collected using thematic analysis to identify challenges and insights regarding HR audit practices and their effects on retail business operations. Ethical standards are followed throughout the research process, and participants are informed about the purpose of the study. Their responses are kept confidential, and they have the ability to withdraw from the study at any time without consequence.

Strategy

A qualitative approach is suitable for this research because it allows the participants to share their opinions on how HR audits influence employee satisfaction. The study employs nonprobability purposive sampling, and it was easy to select participants based on a specific theme relevant to the research topic. The sample included 30 different small grocery retail businesses. Participants were selected from each business, including grocery business owners, managers, and employees. Employees who have worked for at least six months in the business and have experience with HR practices, for example-training, performance reviews, or other HR functions. They were particularly selected for their ability to provide opinions on how HR audits affect their work satisfaction, retention, and overall engagement.

Data Collection

Data has been collected through semi-structured interviews. Each interview has lasted between 30 to 60 minutes,

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depending on the depth of responses. The interviews will be conducted in-person, via phone, and via video conferencing, depending on the participant's availability. All interviews were recorded with their consent and transcribed for analysis.

IV. RESULTS

Results from the thematic analysis are organized in the following key themes-

1. Frequency and Scope of HR Audits-

According to the employees, audits are done only once a year or when specific issues arise such as employee turnover or complaints.

2. Challenges in Conducting HR Audits-

Resource Constraints: The most significant challenge pointed out by one of the employees is, the lack of dedicated HR staff to carry out comprehensive HR audits. Many business owners and managers reported that HR tasks were often handled by employees who were already overburdened with other job responsibilities.

Lack of Expertise: Employees who were dealing with HR duties, despite not being trained as a HR management, lacked the skills and knowledge which resulted in inefficient HR audits and ultimately a disruption in the system.

Operational Disruptions: Conducting HR audits was seen as disruptive to daily operations, especially in small grocery businesses where every employee plays a crucial role in maintaining workflow.

3. Impact of HR Audits on Employee Satisfaction-

Positive Impact: Some employees reported that when HR audits were conducted, employees were satisfied as it resulted in better communication, transparent expectations, increased employee engagement, and better work-life balance. These improvements led to clearer expectations for employees, enhancing their satisfaction.

Negative Effects on Employee Loyalty: One of the retail stores followed an autocratic HR management style, characterized by top-down decision-making. This approach involved limited decision-making for employees, meaning they were not motivated enough to fulfill business goals or objectives. One employee from that particular business stated that employees were very demotivated due to the leadership style and had no opportunity to voice their opinions. This model is particularly common in businesses facing resource constraints. The autocratic style negatively affected employee loyalty and morale, especially when employees felt their voices were not heard. This was closely linked to higher turnover rates in businesses that employed this management style.

4. Resource Constraints affecting HR Audit Effectiveness-

Financial Constraints- One of the retail sectors reported that financial limitations were the primary reason for not conducting comprehensive HR audits. Small grocery retail businesses typically work with narrow profit margins, and HR functions are often considered less of a priority compared to core operational needs. Moreover, HR audits are quite expensive for them to conduct.

Summary of Findings:

The study discloses that small grocery retail businesses face considerable challenges in implementing effective HR audits, mainly due to limited capital and human resources. Some businesses reported positive outcomes of HR audits, such as improved employee satisfaction and retention. While some of the employees struggled to integrate these audits meaningfully into their operations due to their lack of expertise, the use of an autocratic management style further worsens employee dissatisfaction. These findings emphasize the need for small grocery retail businesses to invest in HR audit practices that are both resource-efficient and employee-centered. The results suggest that when HR audits are executed effectively, they can enhance employee satisfaction and reduce turnover, but only if the retail business can overcome the struggles and make optimal use of its resources.

V. CONCLUSION

This study describes the significance of HR audits in small retail businesses to accomplish organizational goals and enhancing employee satisfaction in small grocery retail businesses. Effective HR audits can enhance HR practices, leading to better employee morale and retention. Retail businesses must adopt cost-effective HR audit approaches to resolve these challenges. To talk about the theories, Human Capital Theory explains why ignoring audits wastes employee potential. Psychological Contract Theory explains why employees feel dissatisfied when expectations are not met.

The results recommend that HR audits can drive long-term success if the mentioned obstacles are addressed. This is how business performance and employee satisfaction can be optimized.

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