

The Impact of HR Development and Organizational Roles on Employee Performance via Engagement in MSMEs Indonesia

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Abstract :This study aims to analyze the effects of human resource development (HRD) and organizational roles on employee performance, with employee engagement as a mediating variable in Micro, Small and Medium Enterprises (MSMEs) in Indonesia. HR development and organizational roles are crucial factors in increasing employee productivity and competitiveness. The research method used is a quantitative approach with regression analysis techniques and mediation tests to understand the relationship between variables. Data were collected through a survey of 125 MSME employees in various industrial sectors in Indonesia. The results showed that HR development and organizational roles have a positive and significant effect on employee performance. In addition, employee engagement is shown to play a mediating role that strengthens the relationship between HR development and organizational roles with employee performance. The implications of this study highlight the importance of HR development strategies and improved organizational roles in creating a work environment that supports employee engagement to improve their performance.

Keywords: HR Development, Organizational Role, Employee Engagement, Employee Performance

INTRODUCTION

Human resource development is critical given the strategic role of MSMEs in the national economy. MSMEs contribute significantly to gross domestic product (GDP) and employment, so effective HR development is key to improving their competitiveness and performance. (Tresnasari and Zulganef, 2023) According to Otoo and Mishra, investment in HR development practices can stimulate positive individual behavior and improve the knowledge, skills, and attitudes needed to improve productivity and performance (Otoo and Mishra, 2018) . This suggests that HR development focuses not only on improving technical skills, but also on developing attitudes and behaviors that support better performance. (Anh, Linh and Thach,

2022) The importance of HR development is also evident from research conducted by, which shows that improving the quality of HR contributes to labor productivity and creates wider employment opportunities (Atiyatna, Bashir and Hamidi, 2021), (Martineau *et al.*, 2023). Thus, HR development not only impacts on individual performance, but also on broader economic growth. On the other hand, good HR competencies are also closely related to the performance of MSMEs. (Much, 2022), Research by Febrianti and Abdulah shows a positive and significant influence between HR competencies and MSME performance, which indicates that increasing competence through training and development can improve business performance directly (Febrianti and Abdulah, 2021). Therefore, a planned and sustainable HR development strategy is necessary to ensure that MSMEs can compete in an increasingly competitive market.

The role of the organization towards umkm

Organizations that serve as support for MSMEs can provide various forms of assistance, ranging from training, mentoring, to access to resources and market information. shows that proactive resilience strategies implemented by organizations can improve the performance of MSMEs by enabling them to adapt and respond quickly to change (Pertheban *et al.*, 2023). This suggests that organizations that are able to create a supportive and flexible environment can help MSMEs to optimize resources and increase innovation. Furthermore, organizational support in the form of forming associations or cooperatives can improve the competitiveness of MSMEs. (Gupta and Singh, 2022) ,Research by shows that communities formed to provide support to MSMEs can assist them in accessing resources and market information needed to survive and thrive (Muizu, 2023). By forming a strong network, MSMEs can share knowledge, experience, and resources, which are crucial in facing challenges in the market.

Employee performance for Umkm

One important aspect in improving employee performance is through training and competency development. Research by shows that proper training can improve employee competence, which has a positive effect on their performance (Sari, 2022). By providing appropriate training, MSMEs can ensure that employees have the necessary skills to perform their duties effectively. In addition, digital literacy is also an important factor in improving employee performance, especially in today's digital era. emphasizes that employees' employability and digital literacy contribute to improved performance in MSMEs (Dahman *et al.*, 2023)

MSME employee engagement

The importance of employee engagement is also evident from its impact on creativity and innovation. Research by shows that employees who are actively engaged in their work tend to exhibit higher creative behavior, which is crucial for the development of new products and services in MSMEs (Kahpi *et al.*, 2022) High engagement encourages employees to think outside the box and contribute with innovative ideas, which can be a competitive advantage for MSMEs. Furthermore, employee engagement can be influenced by various factors, including leadership, organizational climate, and career development opportunities. Research by Pranitasari and Rozaq shows that teamwork and career development have a positive effect on employee engagement ((Pranitasari and Rozaq, 2020) . Therefore, MSMEs need to create an environment that supports employee engagement through policies that encourage collaboration, training, and professional development.

This study aims to examine and analyze the effect of human resource development (HRD) and organizational roles on employee performance through employee engagement in micro, small and medium enterprises (MSMEs) in Indonesia. Specifically, this study aims to determine the impact of HR development programs, organizational roles in improving employee engagement and employee performance and examine the role of employee engagement as a mediating variable in the relationship between HR development and organizational roles on employee performance, to improve the performance of MSME employees. In

Literature Review

2.1. HR development has a positive effect on MSME performance

This research highlights the importance of HRD in developing knowledge management practices that enhance innovation and, consequently, organizational performance. (Meldona et al., 2023), Community Empowerment and HR Issues, discusses the internal constraints faced by MSMEs, specifically related to HR issues. The study emphasizes the need for HRD initiatives to address knowledge gaps and improve market responsiveness, which are critical to the success of MSMEs. (Sukma, Rusmiati and Sardin, 2024), investigates the relationship between entrepreneurial networks, leadership, and innovation capabilities in MSMEs. The study found that fostering an innovative culture through HRD initiatives positively affects MSME performance, reinforcing the idea that effective HRD can drive business success. (Murtini, Safii and Anom, 2024). Human Resource Development (HRD) is an important component of Human Resource Management (HRM) that focuses on systematically improving employee capabilities and organizational performance. HRD encompasses a wide range of activities designed to improve individual and collective skills, knowledge, and competencies within the organization. The basic concepts of HRD include training, career development, performance management, and organizational development, all of which aim to foster a culture of continuous learning and improvement. In addition, HRD is increasingly recognized as an important element in sustainable Human Resource Management (SHRM). Sustainable HRD incorporates multiple perspectives, including organizational culture and management support, which are critical to fostering an environment conducive to employee growth and satisfaction (Piwowar-Sulej, 2021). In addition, the role of HR professionals in facilitating effective HRD is critical, highlighting the need for HR managers to be aware of the perceptions of various organizational actors regarding HR practices, which can significantly impact the effectiveness of HRD initiatives (Ribeiro et al., 2019). This awareness enables HR professionals to tailor development programs that align with employee needs and organizational goals, thereby maximizing the impact of HRD efforts. Research highlights how the HR function can influence strategic decisions in organizations, which is important for improving performance (Hermans and Ulrich, 2021). By having a "seat at the table" in decision-making, HR can ensure that investments in human capital are aligned with the organization's strategic goals.

H1: HR development has a positive effect on MSME performance

2.2. The role of organization on employee performance

The role of organizations in supporting the performance and development of Human Resources (HR) is critical to achieving strategic goals and improving operational effectiveness. The organization not only serves as a place for individuals to work, but also as an entity that can create an environment that supports employee development and improves overall performance. In this context, several key aspects need to be considered. organization plays an important role in shaping employee behavior and attitudes. According to, organizational culture is a system of assumptions, values, and norms shared by employees and managers, which influences their every action and decision (Janićijević and Kontić, 2023) . A culture that supports HR development will create a conducive environment for employees to learn and develop, which in turn can improve overall organizational performance. The role of the organization in supporting employee performance is very important, especially in the context of Micro, Small and Medium Enterprises (MSMEs). Employee performance is not only influenced by individual capabilities, but also by the structure, culture, and managerial practices within the organization. In this case, several key factors can be identified to understand how the role of the organization affects employee performance and, in turn, employee performance will improve. Organizational commitment also plays an important role in employee performance.

Yuesti and Adnyana found that organizational commitment can mediate the relationship between career development and employee performance (Yuesti and Adnyana, 2022). When employees feel attached to the values and goals of the organization, they are more likely to work hard and contribute to the success of the organization.

H2: Organizational roles have a positive effect on employee performance

2.3. HR development on employee engagement.

Human Resource Development (HRD) has a significant influence on employee engagement, which in turn has a positive impact on organizational performance. Research shows that effective HR development programs, including training and education, can increase employee engagement by providing them with the necessary skills and knowledge to perform their duties more efficiently (Marlena and Bustami, 2021). In addition, planned career development also contributes to increased employee motivation and commitment to the organization, leading to higher engagement (Salmawati and Kurniawan, 2022). Employee engagement itself is defined as the degree to which employees feel emotionally and psychologically attached to their work (Pranitasari and Rozag, 2020). When employees feel that they have the opportunity to develop and contribute significantly, they tend to show higher levels of engagement. Research by shows that work engagement, which is influenced by HR development, is closely related to employee performance, especially among the millennial generation (Wahyuni et al., 2022). Overall, HR development that is integrated and focused on the well-being of employees can significantly improve their engagement. This is not only beneficial for employees but also for the organization as a whole, as high employee engagement is directly related to organizational performance and success (Sharhana et al., 2023) (Kahpi et al., 2022). Therefore, investment in people development should be a priority for organizations looking to improve employee engagement and, ultimately, their performance.

H3: People development has a positive effect on employee engagement

2.4. The role of organization on employee engagement

The organization's role in improving employee engagement is crucial and can be seen from various aspects, including organizational culture, motivation, and work environment. A strong and positive organizational culture serves as the foundation that drives employee engagement. Research by shows that a good organizational culture can create an environment that supports employee engagement, thus improving their performance (Abduraimi, Mustafi and Islami, 2023). In addition, it emphasizes that an organizational culture that motivates employees to give their best will contribute to better performance (Dunggio, 2020). Thus, organizational culture affects not only engagement, but also overall employee outcomes. organizations need to create systems that encourage employees to actively participate in their work. Research by shows that employee engagement serves as a mediator between talent management and employee performance, which suggests that organizations that pay attention to employee development can increase their engagement (Atika Anggi Hafsara, 2024). Thus, organizations that focus on employee motivation and development will be better able to create a work environment that supports engagement. The role of organizations in improving employee engagement is complex and involves a variety of factors but organizations can create a work atmosphere that not only improves engagement but also overall performance.

H4: Organizational roles have a positive effect on employee engagement

2.5. Employee engagement on employee performance

Employee engagement plays a very important role in improving the performance of Micro, Small and Medium Enterprises (MSMEs). This engagement not only includes employees' active participation in daily tasks, but also includes their emotional and intellectual commitment to the organization. Research shows that employee engagement contributes significantly to improved performance, both individually and collectively in the context of MSMEs (Sueb, Mukhlis and Murwani, 2024). Employee engagement is also closely related to job satisfaction. Research by shows that Organizational Citizenship Behavior (OCB) has a positive influence on job satisfaction and employee performance (Anwar, 2021). When employees feel satisfied with their jobs, they are more likely to be actively involved in their tasks, which ultimately improves employee performance. In addition, research by shows that work engagement and emotional intelligence contribute to employee performance through job satisfaction (Jeffry and Handayani, 2024). This suggests that the psychological aspects of employee engagement are crucial to consider in management strategies. By creating a positive work atmosphere, MSMEs can increase employee engagement, which in turn will have a positive impact on the overall performance of the organization. Overall, employee engagement is a key factor affecting employee performance. Through supportive management policies, training and development, and creating a positive work environment, MSMEs can improve employee engagement and, ultimately, their performance.

H5: Employee engagement has a positive effect on employee performance.

2.6. Employee engagement mediates the relationship between HR development and employee performance.

Employee engagement, which reflects their level of commitment and active participation in the organization, plays an important role in optimizing the results of such HR development. Research results (Kahpi et al., 2022) show that employee engagement has a positive effect on employee performance in MSMEs, and employee creativity serves as a mediator in this relationship. This suggests that when employees are emotionally and intellectually engaged, they are more likely to apply the knowledge and skills gained from HR development programs, which in turn improves their performance. In other words, employee engagement not only amplifies the positive impact of HR development, but also encourages the innovation and creativity needed to compete in an increasingly competitive market. According to Badawi and Nugroho emphasized the importance of innovation resulting from HR development in the context of MSMEs (Badawi and Nugroho, 2022). Engaged employees tend to be more open to new ideas and more capable of implementing innovations in the products and services they offer. Thus, employee engagement serves as a bridge that connects HR development with improved employee performance through the resulting innovations. Employee engagement mediates the relationship between HR development and employee performance by increasing employee motivation, creativity, and innovation. Therefore, an effective HR development strategy should include efforts to improve employee engagement in order to maximize employee performance.

H6: Employee engagement mediates the relationship between HR development and employee performance.

2.7. Employee engagement mediates the relationship between organizational roles and employee performance

Employee engagement acts as a crucial mediator in the relationship between organizational role and performance of Micro, Small and Medium Enterprises (MSMEs). In this context, organizational role includes various factors such as organizational culture, managerial support, and work environment that can influence employee motivation and engagement. Research shows that when organizations create a supportive environment, employees will be more engaged, which in turn has a positive impact on their performance. (Jesi & Sentoso, 2023). Research by emphasizes the importance of good HR management strategies in improving performance (Sono and Limpo, 2024), In this case these strategies include training, development, and effective communication between management and employees. When organizations invest in employee development and create open communication channels, employee engagement will increase, which will have a positive impact on their performance. This suggests that the organization's role in supporting employee development is crucial in facilitating employee engagement. Employee engagement also serves as a bridge that connects the role of the organization with employee performance. Research by shows that a healthy work environment and managerial support can improve employee performance ((Hafeez et al., 2019)When employees feel engaged and valued, they are more likely to exhibit proactive and innovative behavior, which is critical to the success of MSMEs in a competitive market. Overall, employee engagement plays a significant mediating role in the relationship between organizational roles and MSME performance. By creating a supportive work environment and investing in employee development, organizations can increase employee engagement, which in turn will improve overall employee performance. H7: Employee engagement mediates the relationship between organizational roles and

employee performance.

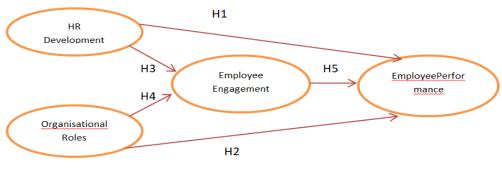


Figure 1. Conseptual Framework

3. Research Hypothesis

H1: HR development has a positive effect on employee performance.

H2: Organizational roles have a positive effect on employee performance.

H3: HR development has a positive effect on employee engagement.

H4: Organizational role has a positive effect on employee engagement.

H5: Employee engagement has a positive effect on employee performance.

H6: Employee engagement mediates the relationship between HR development and employee performance.

H7: Employee engagement mediates the relationship between organizational roles and employee performance.

METHOD

This study uses a quantitative approach with a survey method. This study aims to analyse the effect of Human Resource Development and Organisational Role on Employee Performance through Employee Engagement in MSMEs in Indonesia. The population in this study were employees working in MSMEs in Indonesia. The sample used in this study consisted of 125 employees who were randomly selected (random sampling) from various MSME sectors. Data was collected through the distribution of questionnaires consisting of statements related to research variables, namely: Human Resource Development, Organisational Role, Employee Involvement, Employee Performance. Respondents provided answers using a 5-point Likert scale, ranging from 1 = Strongly Disagree to 5 = Strongly Agree. The collected data were analysed using Structural Equation Modelling (SEM) with Smart PLS to determine the measurement model (Outer model) in describing the relationship between the indicator block and the latent variable and the structural model (Inner model) or structural model to predict the causality relationship between latent variables.

RESULTS AND DISCUSSION

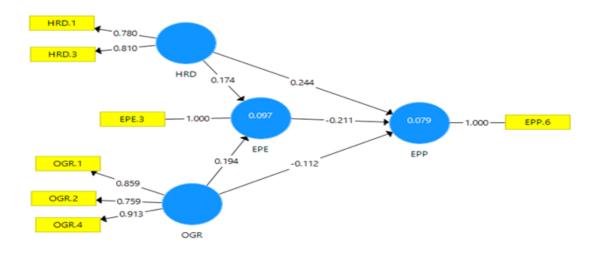


Figure 2. Outer Loding

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Direct Effect					
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Employee Engagement (EPE) -> Employee performance (EPP)	-0,211	-0,206	0,093	2,263	0,012
HR Development (HRD) -> Employee performance (EPP)	0,208	0,206	0,118	1,767	0,039
HR Development (HRD) -> Employee Engagement (EPE)	0,174	0,177	0,091	1,907	0,029
Organizational Roles (OGR) -> Employee performance (EPP)	-0,153	-0,158	0,088	1,744	0,041
Organizational Roles (OGR) -> Employee Engagement (EPE)	0,194	0,201	0,073	2,667	0,004

Table 1Direct Effect

- 1. Employee Engagement (EPE) -> Employee Performance (EPP): this shows a negative relationship, meaning higher employee engagement is associated with lower performance, which is unusual.
- 2. HR Development (HRD) -> Employee Performance (EPP): this shows a positive relationship, indicating that better HR development leads to improved employee performance.
- 3. HR Development (HRD) -> Employee Engagement (EPE): This shows a positive relationship, indicating that better HR development increases employee engagement.
- 4. Organizational Role (OGR) -> Employee Performance (EPP): this shows a negative relationship, suggesting that certain organizational roles may negatively impact performance.
- 5. Organizational Role (OGR) -> Employee Engagement (EPE): This shows a positive relationship, suggesting that clear organizational roles can improve employee engagement.

The negative values in the original sample for Employee Engagement and Organizational Role affecting Employee Performance suggest that there may be complexity in how these factors interact.

Positive values for HR Development and Organizational Roles affecting Employee Engagement indicate that these factors are beneficial for engaging employees.

The P values for all relationships were below 0.05, indicating that the findings were statistically significant.

This table provides valuable insights into how different aspects of the workplace, such as employee engagement and HR development, affect employee performance.

Understanding this relationship can help organizations make informed decisions to improve employee satisfaction and productivity.

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
HR Development (HRD) -> Employee Engagement (EPE) -> Employee performance (EPP)	-0,037	-0,036	0,027	1,369	0,086
Organizational Roles (OGR) -> Employee Engagement (EPE) -> Employee performance (EPP)	-0,041	-0,041	0,024	1,683	0,046

Table 2 Indirect Effect

6. Employee Engagement to Employee Performance is -0.037, and for Organizational Role for Employee Engagement to Employee Performance, is -0.041. These values can indicate a negative relationship, meaning that when one factor increases, the other tends to decrease. For HR Development, the mean is -0.036, and for Organizational Role, is -0.041. For HR Development, the standard deviation is 0.027, and for Organizational Role, it is 0.024. This indicates that the values for Organizational Roles are slightly more consistent than for HR Development. HR Development, the T statistic is 1.369, and for Organizational Roles, it is 1.083. Higher T statistics generally indicate a stronger relationship between the factors being studied. P-value: This column indicates the probability that the observed results could have occurred by chance. Lower P values (usually less than 0.05) indicate that the results are statistically significant. HR Development, the P value is 0.086, which is higher than 0.05,

indicating that the results may not be statistically significant. Organizational Role, the P value is 0.046, which is below 0.05, indicating that this relationship is statistically significant.

7. Employee Engagement to Employee Performance: The negative original sample value indicates that as HR Development increases, employee engagement may decrease, which may negatively impact employee performance. Organizational Role for Employee Engagement to Employee Performance: Similarly, the negative value here indicates a decrease in employee engagement with increasing organizational role, which may also lead to lower performance. The P values indicate that this relationship is statistically significant, suggesting that there is a reliable relationship between these factors.

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Employee performance (EPP)	1,000	1,000	1,000	1,000
Employee Engagement (EPE)	1,000	1,000	1,000	1,000
HR Development (HRD)	0,419	0,420	0,775	0,632
Organizational Roles (OGR)	0,811	0,914	0,883	0,716

Table 3 Construct Reliability and Validity

Employee Performance (EPP):

All values (Cronbach's Alpha, Rho_A, Composite Reliability, and AVE) are 1.000. This means that the employee performance measure is highly reliable and valid. It consistently measures employee performance without error.

Employee Engagement (EPE):

All values are also 1.000, indicating that the employee engagement measures are also highly reliable and valid.

HR Development (HRD):

Cronbach's alpha is 0.419, which is low, indicating poor reliability. Rho_a is 0.420, also low, indicating that the item does not consistently measure HR development. The Composite Reliability is 0.775, which is acceptable but not excellent. It shows some reliability but is not strong. The AVE is 0.632, which is decent, indicating that the construct explains quite a lot of variance in the items.

Organizational Role (OGR):

Cronbach's alpha is 0.811, indicating good reliability. Rho_a is 0.914, which is very high, indicating strong reliability. The Composite Reliability is 0.883, indicating good overall reliability. The AVE is 0.716, which is good, indicating that the construct explains a large amount of variance in the items.

These all show Constructs like Employee Performance and Employee Engagement show perfect reliability and validity, while HR Development shows some weaknesses.

Т	able.4	
R	Square	

	R Square	R Square Adjusted
Employee performance (EPP)	0,079	0,056
Employee Engagement (EPE)	0,097	0,082

Employee Performance (EPP):

Column R: 0.079, This means that only 7.9% of the variability in employee performance can be explained by the model. This is relatively low, indicating that there are many other factors affecting employee performance that are not included in the model.

Adjusted R Column: 0.056, the adjusted R Square takes into account the number of predictors in the model. This is slightly lower than the R Square, at 5.6%. This indicates that when adjusting for the number of variables, the model explains less variability in employee performance.

Employee Engagement (EPE):

R Column: 0.097, Here, 9.7% of the variability of employee engagement is explained by the model. This is still low, but higher than the R Square for employee performance. Adjusted R Column: 0.082, The Adjusted R Square for employee engagement is 8.2%, which again shows a decrease from the R Square value, indicating that the model is not very effective in explaining employee engagement when counting the number of predictors.

This shows that both R Square values are relatively low, which suggests that the model used to predict employee performance and engagement is not very effective. This could mean that there are other important factors that were not considered in the analysis, and researchers may need to look for additional variables to improve their models.

		1		
	Employee performance (EPP)	Employee Engagement (EPE)	HR Development (HRD)	Organizational Roles (OGR)
Employee				
performance				
(EPP)				
Employee				
Engagement	0,044			
(EPE)				
HR Development	0,051	0,027		
(HRD)	-,	•,•		
Organizational Roles (OGR)	0,011	0,034		

Table 5
F Square

The table presented is a way to show the relationship between the various factors that affect employees in the workplace. It includes four main categories: Employee Performance (EPP), Employee Engagement (EPE), HR Development (HRD), and Organizational Role (OGR). Each of these categories is important for understanding how employees perform and feel in their jobs.

Employee Performance (EPP):

This refers to how well employees do their jobs. This can include things like meeting deadlines, producing quality work, and achieving goals. Employee Engagement (EPE): This measures how engaged and enthusiastic employees are about their work. Engaged employees are usually more productive and committed to their organization.

HR Development (HRD):

This involves training and development programs provided by the Human Resources department to help employees improve their skills and grow in their careers.

Organizational Role (OGR):

This refers to the specific positions and responsibilities that employees have within the organization. Clear roles can help employees understand what is expected of them. The value of 0.044 between Employee Engagement (EPE) and Employee Performance (EPP) shows a positive but weak relationship. This means that as employee engagement increases, employee performance may also increase, but the effect is not very strong.

EPE and EPP (0.044):

This suggests that there is a slight positive relationship between how engaged employees are and how well they perform.

HRD and EPP (0.051):

This indicates a slightly stronger positive relationship, suggesting that better HR development programs can lead to improved employee performance.

HRD and EPE (0.027):

This shows a weak positive relationship, meaning that while HR development can help employee engagement, the effect is not very strong.

OGR and EPE (0.034):

This shows a weak positive relationship between organizational roles and employee engagement, suggesting that clear roles can help employees feel more engaged.

CONCLUSIONS

Employee Engagement (EPE): A score of 1,000 for EPE.3 indicates a very high level of engagement in a given category. Employee Performance (EPP): A score of 1,000 for EPP.6 indicates very high performance. HR Development (HRD): Values range from 0.780 to 0.859, indicating varying effectiveness in improving employee skills. Organizational Role (OGR): A value of 0.913 indicates significant effectiveness in supporting the organization.

Higher scores reflect better performance and engagement, while lower scores indicate areas that need improvement. By understanding this relationship, organizations can make strategic decisions to improve employee productivity and satisfaction.

Employee Engagement and Employee Performance: A negative relationship was found, meaning an increase in employee engagement was associated with a decrease in performance.

HR Development and Employee Performance: A positive relationship indicates that better HR development improves employee performance.

HR Development and Employee Engagement: A positive relationship suggests that better HR development increases employee engagement.

Organizational Roles and Employee Performance: A negative relationship suggests that certain organizational roles may adversely affect employee performance.

The P values for HR Development (0.086) are higher than 0.05, indicating that the relationship is not statistically significant. The P values for Organizational Roles (0.046) are lower than 0.05, indicating this relationship is statistically significant. Organizational Role has a more consistent value compared to HR Development.

Implications:

Increased HR Development can decrease employee engagement, potentially negatively impacting performance. Increased organizational roles can also decrease employee engagement, which ultimately results in decreased performance.

This conclusion suggests that although HR development has a positive impact on performance, other factors such as employee engagement and organizational roles need to be further considered to ensure optimal performance improvement.

These all show Constructs like Employee Performance and Employee Engagement show perfect reliability and validity, while HR Development shows some weaknesses.

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