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The role of Public Entrepreneurship Orientation orientation and organizational learning capability on organizational performance mediated by innovation in service (study on top management of government institutions)

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ABSTRACT

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Organizational Performance is a very important aspect for the success of an organization. Good organizational performance is not only necessary for business enterprises, but it is also essential in running public service organizations such as government institutions. An organization with good performance will be able to produce quality products or services, increase customer satisfaction, and achieve the organization's strategic goals. Therefore, organizational performance in government institutions is very important to ensure the effectiveness and efficiency of quality governance. This study aims to identify the factors that drive the improvement of organizational performance in the public sector. This research will analyze the role of intrapreneurship and organizational learning capabilities in driving the improvement of organizational performance in the public sector. Additionally, this study aims to analyze and explain the mediating effect of service innovation on the relationship between organizational learning capabilities and organizational performance. This research is innovative in measuring organizational performance in public sector organizations. Generally, research on organizational performance measurement is conducted in business enterprises. This study is expected to reveal the factors that shape organizational performance in public sector organizations, so that public sector organizations can be more creative, innovative, transparent, and responsive in providing public services. This study employs a quantitative research method using surveys or questionnaires, which involve collecting information by compiling a list of questions to be asked of respondents. The findings of this study fully support the findings of previous research. This study found that entrepreneurial interest is one of the factors that can

optimize the role of the family environment and entrepreneurship education in strengthening the self-efficacy of prospective young entrepreneurs in Indonesia.

INTRODUCTION

Organizational performance is a critical factor for the success of an organization. Good organizational performance is necessary not only for business enterprises but also for running public service organizations such as government institutions. An organization with good performance can produce quality products or services, increase customer satisfaction, and achieve the organization's strategic goals. Therefore, organizational performance in government institutions is crucial to ensure the effectiveness and efficiency of quality governance.

Good organizational performance strengthens integrity, transparency, and accountability in governance. The performance achievements of government institutions are a key focus in bureaucratic reform. This is because bureaucratic reform aims to create good governance and excellent public services. Improving organizational performance in government institutions through bureaucratic reform can provide significant benefits to society, such as increased government transparency and accountability, improved public service effectiveness and efficiency, and enhanced public trust in the government.

In performance management, performance measurement and rewards are used to encourage service quality improvement. Organizations that previously focused on input-based systems have shifted to a measurable output-based approach. Organizational performance is established in a performance contract with quantitative measures to describe the achievement level of predetermined goals or objectives.

Performance management, used as a tool for public sector organizational reform, is adopted from private sector organizations. Performance measurement and rewards are used to encourage service quality improvement. The focus of organizations, which previously used input-based systems, has shifted to a measurable output-based approach. Organizational performance is established in a performance contract with

quantitative measures to describe the achievement level of predetermined goals or objectives.

Performance is the result of work that has a strong relationship with the organization's strategic goals and customer satisfaction. Bastian (in Hesel, 2005) defines organizational performance as a depiction of the level of achievement in carrying out tasks within an organization in realizing its goals, objectives, vision, and mission. Organizational performance measurement is a process of assessing work progress towards achieving predetermined goals and objectives, including information on resource use efficiency in producing goods and services, quality of goods and services, comparison of activity outcomes with targets, and effectiveness of actions in achieving goals (Robertson in Mahmudi, 2006).

The achievement of public organizational performance can be linked to entrepreneurial behavior among employees. Entrepreneurship can be defined as an attitude or behavior demonstrated by individuals or organizations in developing innovation and creating added value. In the public sector context, intrapreneurship can be an important factor driving public organizational performance. Intrapreneurship in public organizational performance can provide significant benefits to society, such as increased public service effectiveness and efficiency, enhanced innovation and creativity in governance, and improved government transparency and accountability.

Intrapreneurship involves the willingness to innovate, take risks, act independently, and be more proactive and aggressive than competitors toward new market opportunities (Lumpkin and Dess, 1996). The importance of intrapreneurship for company survival and performance has been recognized in entrepreneurship studies (Miller, 1983). Al-Dhaafri and Alosani (2020), Masa'deh et al. (2018), Fadda (2018), and Al-Dhaafri et al. (2016) concluded that intrapreneurship affects organizational performance. However, research by Dimitratos et al. (2004) and Messersmith and Wales (2011) concluded that intrapreneurship does not significantly affect job performance. The inconsistency in research findings on intrapreneurship's role in driving organizational performance opens the door for further research development.

In addition to intrapreneurship, previous research has found that organizational learning capabilities impact improving public sector organizational performance. Organizational learning capabilities refer to an organization's ability to maintain and enhance performance through continuous learning. In the public sector context, organizational learning capabilities can be a critical factor in driving public organizational performance. Organizational learning capabilities in public organizational performance can provide significant benefits to society, such as increased public service effectiveness and efficiency, enhanced innovation and creativity in governance, and improved government transparency and accountability.

Organizational learning capabilities are defined as all organizational and managerial practices that facilitate the learning process (Chiva et al., 2007). A continuously learning organization encourages its employees to acquire new knowledge, try new approaches to problem-solving, receive feedback, and learn new behaviors as a result of experimentation (Goh, 2003). Empirical data shows a misalignment in research results examining the influence of organizational learning capabilities on organizational performance. Lai and Kwang (2012), Bhatnagar (2006), and Goh et al. (2012) concluded that organizational learning capabilities affect organizational performance. However, Migdadi's (2019) research concluded that organizational learning capabilities do not significantly affect job performance.

Efforts to improve public sector organizational performance cannot be separated from the ability of public sector organizations to innovate services. Public service innovation can be defined as efforts to create new products or services or improve existing products or services to enhance public service effectiveness, efficiency, and quality. In the public sector context, public service innovation can be a crucial factor mediating the relationship between public organizational performance and intrapreneurship. Public service innovation in public organizational performance and intrapreneurship can provide significant benefits to society, such as increased public service effectiveness and efficiency, enhanced innovation and creativity in governance, and improved government transparency and accountability.

Based on the research and supported by contextual phenomena, research gaps, and novelty, this study aims to analyze the influence of intrapreneurship and



organizational learning capabilities on organizational performance. Moreover, this research will examine the indirect relationship between the variables above with service innovation as a mediating variable.

This study aims to identify the factors driving the improvement of organizational performance in the public sector. It will analyze the role of intrapreneurship and organizational learning capabilities in driving the improvement of public sector organizational performance. This research can support previous research findings and develop theoretical studies related to inconsistencies in prior research results. Additionally, this study aims to analyze and explain the mediating effect of service innovation on the relationship between organizational learning capabilities and organizational performance.

This research is innovative in measuring organizational performance in public sector organizations. Generally, research on organizational performance measurement is conducted in business enterprises. This study is expected to reveal the factors that shape organizational performance in public sector organizations, making public sector organizations more creative, innovative, transparent, and responsive in providing public services. This research also aims to strengthen previous studies on the factors driving organizational performance. Previously, there were inconsistencies regarding the role of intrapreneurship and learning capabilities in driving organizational performance improvement.

LITERATURE REVIEW

Public Entrepreneurship Orientation

Research on entrepreneurial orientation originates from the work of Mintzberg (1973). Mintzberg depicted the entrepreneurial strategy-making mode as a managerial disposition characterized by an active search for new opportunities, enabling dramatic growth even in uncertain environments. Lumpkin and Dess (2001) examined entrepreneurial orientation as a phenomenon related to critical decisions made on behalf of the entire organization, thus refining their previous definition of EO as a set of processes, practices, and decision-making activities aimed at achieving organizational goals.



The role of public entrepreneurs in driving innovation within public organizations is highlighted by the relationship between individual actions and the formation of new initiatives, as evidenced in a case study on the establishment of a local medical center in Norway (Magnussen, 2016). This underscores the importance of enthusiasm and proactive behavior in fostering collaborative innovation, illustrating the crucial role of proactive individuals in initiating change within the public sector.

Public entrepreneurs are responsible for driving transformation within public institutions. This emphasizes the proactive and forward-thinking nature of public entrepreneurs in addressing challenges and promoting organizational evolution (İnci, 2016). A key aspect of public entrepreneurship focuses on the role of trust and respect in decision-making processes (Orrensalo & Nikou, 2020). This highlights the significance of social capital theory in shaping the behavior and strategic decisions of entrepreneurs, emphasizing the interaction between interpersonal dynamics and entrepreneurial decision-making processes.

Bureaucratic entrepreneurship and its role in institutional change refer to the application of entrepreneurial principles within the context of bureaucracy to drive transformation and innovation in public sector organizations. The role of public entrepreneurs in fostering innovation within public organizations is highlighted by the relationship between individual actions and the formation of new initiatives, as demonstrated in a case study on the establishment of a local medical center in Norway (Magnussen, 2016). This underscores the importance of enthusiasm and proactive behavior in fostering collaborative innovation, illustrating the crucial role of proactive individuals in initiating change within the public sector.

In the realm of public entrepreneurship, the literature emphasizes the importance of preparing public organizations for change, especially when resources are limited (İnci, 2016). Bureaucratic entrepreneurship's role in institutional change involves applying entrepreneurial principles within bureaucratic contexts to drive transformation and innovation in public sector organizations. This approach advocates for a deep understanding of bureaucratic operations and structures and how entrepreneurial behavior can be utilized to bring about significant and meaningful change in public institutions.



Organizational learning capability

Organizational learning capability is a fundamental aspect of organizational development and performance enhancement. It involves the organization's capacity to acquire, access, and revise its knowledge base, enabling informed decision-making and adaptive responses to internal and external stimuli (Lin, 2008). This capability is essential for facilitating the organizational learning process, fostering innovation, and driving continuous improvement within the organizational (Morales et al., 2006). The acquisition and utilization of knowledge through organizational learning processes have been associated with improved operational efficiency, strategic agility, and sustainable competitive advantage (Jiao et al., 2010). By promoting a learning culture, intellectual capital, encouraging innovation, and adapting to dynamic market conditions, organizations can position themselves for long-term success and growth.

The interconnection between organizational learning capability and strategic factors such as entrepreneurship, innovation, and dynamic capabilities is evident. Organizational learning acts as a catalyst for entrepreneurial behavior, enabling individuals and teams to explore new opportunities, experiment with novel ideas, and drive organizational innovation (Karnsomdee, 2021). This synergy between learning and entrepreneurship fosters a culture of creativity, risk-taking, and adaptability, which are essential for organizational resilience and sustained performance in competitive environments.

In the public sector, organizational learning capability plays a crucial role in driving institutional change and performance improvement. Research has shown that public entrepreneurship, combined with a strong learning culture, can enhance the effectiveness of public sector initiatives and programs (Marchalina & Parmin, 2019). By creating a learning-oriented environment and encouraging knowledge sharing, public organizations can adapt to evolving challenges, improve service delivery, and achieve higher levels of organizational effectiveness and efficiency.

The importance of learning capability lies in its foundation for long-term organizational development and success in facing dynamic and complex business environments. This capability enhances operational efficiency and competitiveness by ensuring that organizations can learn from past experiences, avoid repeating mistakes,



and seize new opportunities more effectively. In the long run, learning capability enables organizations to maintain their competitive edge by continuously adapting and evolving according to market needs and industry challenges.

Organizational performance

Organizational performance is a crucial element of organizational success and sustainability, influenced by various factors such as knowledge management practices, organizational learning capabilities, and dynamic capabilities. The literature underscores the interconnections between these factors and their impact on enhancing organizational effectiveness and competitiveness. Research has demonstrated that effective knowledge management practices significantly impact both entrepreneurial and organizational performance. The efficient utilization of knowledge resources and the development of dynamic capabilities enable entrepreneurs to address challenges, explore opportunities, and enhance organizational performance

(Li et al., 2020; Qader et al., 2022). By fostering a culture of continuous learning, organizations can boost their adaptive capacity, strategic agility, and overall performance, allowing them to respond effectively to both internal and external challenges while promoting innovation and growth. Effective corporate governance practices, tailored to various institutional contexts, influence investment decisions, organizational strategies, and performance outcomes, emphasizing the importance of governance mechanisms in driving organizational success ("Ownership and Corporate Governance across Institutional Contexts," 2020). By aligning ownership structures with governance practices, organizations can enhance transparency, accountability, and performance, thereby fostering sustainable growth and competitiveness. Organizational culture plays a pivotal role in shaping organizational performance. The values, beliefs, and norms that define an organization's culture have a profound influence on employee behavior, decision-making, and overall performance outcomes (Aderemi et al., 2020). A strong organizational culture that promotes collaboration, transparency, and a focus on performance can drive success and create a competitive advantage for the organization.

Management innovation is another significant factor affecting organizational performance. The introduction of new management practices aimed at enhancing organizational effectiveness and efficiency can lead to improved performance



outcomes (Nieves, 2016). By fostering a culture of innovation and continuous improvement, organizations can adapt to changing market dynamics and achieve sustainable growth and success. Responsible leadership is essential for driving organizational performance, particularly in the context of promoting proenvironmental behavior and sustainability initiatives. Leaders who demonstrate a commitment to environmental stewardship and foster a green shared vision can positively influence organizational performance and create a culture of environmental responsibility (Afsar et al., 2019). By aligning organizational values with sustainable practices, leaders can enhance performance outcomes and contribute to long-term success. In conclusion, organizational performance is a multifaceted concept influenced by factors such as leadership capacity, organizational culture, management innovation, responsible leadership, innovation, and intellectual capital. By focusing on these key areas and implementing strategies to enhance performance outcomes, organizations can achieve sustainable growth, adaptability, and success in today's dynamic and challenging business environment.

Innovation in service

Service innovation serves as a crucial catalyst for organizational success and competitiveness in the contemporary business landscape. It encompasses the development and implementation of novel ideas, processes, or technologies aimed at enhancing the quality, efficiency, and value of the services offered to customers. The extant literature provides valuable insights into various dimensions of service innovation, including the challenges and opportunities it presents, as well as strategies for organizations to leverage innovation for sustainable growth and performance improvement.

The dynamic nature of service innovation necessitates that organizations adopt innovative management practices and foster a culture of continuous improvement and creativity. Research indicates that successful service innovation management practices, such as formal new service development systems, leveraging unique competencies, and ensuring service differentiation, are principal drivers of innovation success and organizational performance (Brentani, 2001). By implementing robust innovation management processes and cultivating an innovation-driven culture, organizations can enhance their service offerings, attract and retain customers, and



achieve long-term sustainable growth. Service innovation is closely intertwined with customer co-creation, value co-creation activities, and network effects, wherein customers actively participate in shaping service offerings and co-creating value with service providers Engaging customers in the innovation process enables organizations to gain valuable insights, improve service quality, and build strong customer relationships, which in turn leads to increased customer satisfaction and loyalty.

Integrating customer feedback and preferences into service innovation initiatives is essential for fostering customer-centric innovation and achieving competitive advantage in the market. Moreover, service innovation extends beyond mere product or process improvements to encompass the development of new service concepts, client interfaces, and service delivery systems (Hertog, 2000). This integrated perspective allows organizations to design innovative service solutions that meet evolving customer needs, enhance operational efficiency, and create sustainable value for all stakeholders involved. Service innovation emerges as a strategic imperative for organizations aiming to differentiate themselves in the market, drive customer engagement, and attain sustainable growth. By embracing an innovation-oriented culture, implementing effective management practices, involving customers in the innovation process, and adopting a dominant service logic approach, organizations can unlock new opportunities, elevate service quality, and establish themselves as industry leaders in the competitive business environment of today.

METHODS

The type of research used in this study is explanatory research with a quantitative approach. According to Sugiyono (2017), explanatory research is a research method aimed at explaining the position of the variables studied and the influence between one variable and another. The explanatory research method is used to test the proposed hypothesis, so it is expected that this study can explain the relationships and effects between the independent and dependent variables within the hypothesis.

Data collection was conducted using a probability sampling approach with a random sampling technique. This study successfully gathered 225 respondents out of 410 people who had an equal opportunity to be chosen as respondents. Data collection



was carried out over two months. The research population consists of all employees with a maximum rank of echelon three working at the Ministry of Finance.

This study requires data analysis and interpretation to answer research questions and uncover certain social phenomena. Therefore, the data analysis used in this study includes descriptive statistical analysis and inferential data analysis using Structural Equation Modeling-Partial Least Squares (SEM-PLS).

RESULTS

Based on the information obtained from the respondents, most of the research respondents are male, with a total of 101 respondents, while the remaining 124 respondents are female. The respondents' ages are predominantly young, with the largest group aged between 29 and 35 years. All the respondents have worked for more than 5 years and have experienced at least two changes in leadership. The duration of employment is noted by the researchers to delve deeper into the role of innovation and entrepreneurial spirit in driving public organizational performance.

Model Evaluation Measurement

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Innovation	0,947	0,947	0,960	0,826
Organizational Learning Capabilities	0,947	0,950	0,956	0,706
Organizational Performance	0,954	0,954	0,960	0,687
Public Entrepreneurship	0,956	0,959	0,961	0,639

Convergent Validity, Content Validity, and Discriminant Validity were used to test the validity of this research (Hair et al., 2019). All items in the questionnaire underwent validity and reliability testing during the pilot study. The measurement results of the items during the pilot test were declared valid and reliable. The model used in this study also showed valid and reliable results. Based on the model measurement indicators, the values of outer loading, Average Variance Extracted (AVE), and Cronbach's alpha were above the determined cut-off values (Hair et al., 2019).

Model

This study constructs a structural equation model (PLS-SEM) using partial least squares on the received questionnaire data, and hypothesis testing is conducted using SmartPLS 3 (Hair et al., 2019). Random sampling was performed using the bootstrapping method, and the sample size was set at 5000. The research model is illustrated as follows:

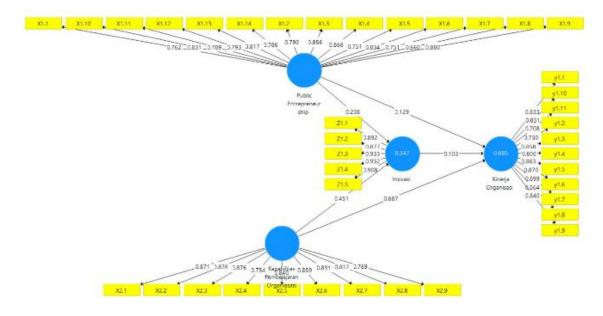


Figure 1.1 Research Model Source: Primary Data

This model includes various constructs such as intrapreneurship orientation, organizational learning capabilities, service innovation, and organizational performance, where service innovation acts as a mediating variable. The constructs are measured through their respective indicators, and the relationships between these constructs are tested to determine their significance and strength. The evaluation of the model involves checking the outer model for validity and reliability, as well as assessing the inner model for the relationships between constructs. This comprehensive approach ensures that the model accurately represents the data and provides meaningful insights into the factors influencing organizational performance in public sector institutions.

Hypothesis Testing

	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Valu es
Innovation -> Organizational Performance	0,103	0,049	2,077	0,038
Organizational Learning Capabilities -> Innovation	0,451	0,072	6,267	0,000
Organizational Learning Capabilities -> Organizational Performance	0,687	0,067	10,234	0,000
Public Entrepreneurship -> Innovation	0,208	0,071	2,922	0,004
Public Entrepreneurship -> Organizational Performance	0,129	0,050	2,601	0,010

Based on the hypothesis testing, this study finds that the relationships between variables support previous research. All hypotheses are accepted because the significance values of all variables are below 0.05.

Intrapreneurship in the public sector is crucial for achieving optimal performance. Employees in public sector organizations who exhibit an intrapreneurial mindset approach their roles and responsibilities with an entrepreneurial spirit. The influence of intrapreneurship on public sector organizational performance is highly significant and encompasses various positive aspects. Employees with an intrapreneurial attitude provide the necessary flexibility for public sector organizations to adapt to external changes. They are better positioned to quickly adapt and take the necessary actions to address evolving situations. Intrapreneurial attitudes can help public sector organizations reduce resource wastage, optimize the use of limited budgets, and seek ways to conserve public funds. Thus, intrapreneurship directly impacts organizational performance improvement, aligning with previous research which indicates that organizational performance is enhanced when employees exhibit intrapreneurial attitudes or behaviors.

In addition to impacting performance, intrapreneurship also fosters innovation. In a government environment often dominated by established procedures and routines, intrapreneurship encourages employees to think creatively to find solutions to emerging challenges and develop new ideas to enhance public services. This innovation can improve the efficiency and effectiveness of government functions as



well as the quality of services provided to the public. Therefore, intrapreneurship contributes to better public service delivery. Employees with intrapreneurial roles are likely to offer more effective and relevant services. This study also finds that service innovation plays a mediating role between intrapreneurship and organizational learning in enhancing public sector organizational performance. It provides employees with opportunities to develop the skills, insights, and leadership necessary to achieve organizational goals, thereby increasing public sector employee motivation and retention.

Secondly, this study has found that organizational learning is a highly relevant and significant approach for enhancing public sector organizational performance. Organizational learning encourages public sector organizations to continuously collect, integrate, and develop the knowledge and experiences of employees. Organizational learning aids public sector organizations in adapting to external environmental changes, such as shifts in regulations, policies, or societal needs. Organizations that can respond swiftly to changes have a competitive advantage in maintaining the relevance and quality of public services. With continuously evolving knowledge and experience, public sector organizations are capable of providing higher quality and more responsive services to the public.

Organizational learning is essential for human resource development. Employees empowered to continuously learn and develop their skills contribute more significantly to achieving organizational objectives. This fosters employee motivation and enhances their competencies, ultimately supporting overall organizational performance. The study reveals that organizational learning is a component in enhancing service innovation within public sector organizations. In an era of rapid change, public sector organizations that engage in continuous learning foster the development of creative solutions to complex problems, particularly those related to improving employee performance. Improving employee performance is another positive outcome of organizational learning. Organizations that provide opportunities for employees to identify their weaknesses and receive appropriate training and development enable employees to grow and excel in their roles. This has a positive impact on individual and collective performance across the organization.



Finally, this study finds that service innovation is a crucial variable in mediating the relationship between intrapreneurship and organizational learning on public sector organizational performance. This is due to the close interconnection among these three factors, which mutually reinforce and complement each other. Intrapreneurship, characterized by a similar spirit to entrepreneurship among public sector employees, drives them to think creatively, identify problems, and seek innovative solutions. Intrapreneurship contributes to innovative ideas in public service provision, which naturally stimulates service innovation. Furthermore, organizational learning creates an environment that supports employee growth and development. When employees are empowered with access to knowledge, training, and continuous experiences, they become more competent and better equipped to design creative solutions. Service innovation can emerge from the interaction between intrapreneurship and organizational learning. The outcomes of organizational learning lead to innovative ideas that enable improvements or changes in existing services. These service innovations may involve process improvements, the adoption of new technologies, or the development of more effective service models responsive to public needs. Innovation plays a vital role in translating innovative ideas into concrete actions that affect public sector organizational performance. Successful service innovations can enhance operational efficiency, improve service effectiveness, and increase public satisfaction. Consequently, the result is an enhancement of organizational performance that reflects a commitment to better public service.

CONCLUSIONS AND SUGGESTIONS

Intrapreneurship and organizational learning are pivotal elements for enhancing the performance of public sector organizations. Intrapreneurship fosters an entrepreneurial spirit among public sector employees, which significantly influences the dynamics and productivity of the organization. Employees who exhibit intrapreneurial qualities approach their roles and responsibilities with enthusiasm, creativity, and innovation. Intrapreneurship enables public sector organizations to reduce resource wastage, optimize the use of limited budgets, and find ways to conserve public funds. Consequently, intrapreneurship has a substantial impact on

improving public sector organizational performance by providing the necessary flexibility to address external changes.

In a government environment often characterized by established procedures and routines, intrapreneurship encourages public sector employees to think creatively and propose solutions. This results in the generation of innovative ideas that can enhance the efficiency and effectiveness of governmental tasks. These innovations not only involve changes in processes and procedures but also create opportunities for the adoption of new technologies and the development of more effective service models that are relevant to the needs of the community. Thus, intrapreneurship contributes to better public service delivery and helps public sector organizations remain relevant and efficient in meeting evolving demands.

Furthermore, this study identifies the role of organizational learning in creating an environment that supports employee growth and development. The enhancement of employee competencies through access to knowledge, training, and continuous experiences encourages employees to become more skilled and creative in performing their duties. Additionally, organizational learning allows public sector organizations to continuously monitor trends and developments in public service. The study also reveals that service innovation is a crucial variable mediating the relationship between intrapreneurship and organizational learning in relation to public sector organizational performance. Service innovation can improve operational efficiency, enhance service effectiveness, and increase public satisfaction. In other words, service innovation serves as a bridge connecting intrapreneurship and organizational learning to public sector organizational performance.

Therefore, intrapreneurship, organizational learning, and service innovation work in concert to create an environment that supports optimal performance in the public sector. Through the spirit of intrapreneurship, employees are more likely to be innovative and adaptive to change, while organizational learning provides the tools and insights necessary for implementing these innovative ideas. Service innovation then transforms these ideas into concrete actions that lead to positive changes in public service provision. Thus, intrapreneurship, organizational learning, and service



innovation are essential components for achieving optimal performance in the public sector, ultimately resulting in improved public service for the community.

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