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Mediating Role of Strategic Supply Management On Performance

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Abstract

The environmental uncertainty of business plays an important role for the implementation of supply chain management. Sustainability of operation process is strongly influenced by the continuity supply of raw materials and parts, as well as the production process used. Indonesian pharmaceutical industry is one industry that is full of a lot of interest because it is directly related to the public health. Moreover, almost 90% of the raw materials of pharmaceutical industry in Indonesia are imported, which means the supply chain in this industry is also highly dependent on the stability of business environment. The study was conducted on 247 pharmaceutical companies in Indonesia to determine the effect of demand uncertainty, supply uncertainty, and technological uncertainty on strategic supply management and performance. The analysis showed that demand uncertainty is the only variable that does not affect the supply management strategic. Another finding is that there is influence of strategic supply management on the suppliers' performance and buyers' performance.

Keywords: business environmental uncertainty, pharmaceutical industry, performance, strategic supply management.

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1. Introduction

Indonesia is a developing country located in Southeast Asia with an area of 1,919,440 square kilometers. As an archipelago country, Indonesia has approximately 17,508 islands with a total population of over 238 million people. As a developing country with the geographical conditions of the islands, the distribution of goods and services are often become the main obstacle in the equitable distribution of goods and services, including medicines. Indonesia is a lower-middle income country, where a significant proportion of the population does not have access to affordable healthcare. Despite it having an above-regional average total pharmaceutical market size (US\$6.04 billion in 2011), per capita expenditure on pharmaceuticals (US\$25) is below the average for South East Asia. With 29 pharmaceutical multinationals operating in the country, with a total market share of 25%, there are significant revenue-earning opportunities for multinational drug makers. This is further substantiated by strong economic base, low production costs and increasing demands for drugs. Having said this, the prevalence of self-medication and generic drugs make for a challenging operating environment for innovative drug makers (BMI, 2013). Total sales of pharmaceutical products in Indonesia tend to increase starting at U.S. \$ 2.79bn in 2008 to U.S. \$ 6.25bn in 2012 and are estimated to continue to increase up to U.S. \$ 9.72 in 2017 as shown in Figure 1 (BMI, 2009-2013).

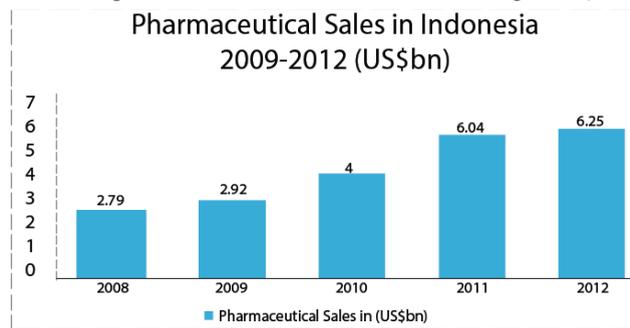


Figure 1. Pharmaceutical Sales in Indonesia 2008-2012.

The development of the pharmaceutical industry in Indonesia is not balanced by the ability of national companies producing raw materials in the country. Almost 90% of raw materials used in the Indonesian pharmaceutical industry are imported. This resulted in the instability of the supply chain of pharmaceutical products in Indonesia because import of raw materials is strongly affected by the world economic and political conditions. The role of supply chain management in this industry needs to be sought in order to make the distribution of medicines can be more effective. The role of government is also needed to improve the availability of cheap and quality medicines for the people.

From the manufacturer side, there are so many factors that affect the implementation of a good supply chain management. Environmental uncertainty, both internal and external is a challenge for companies to constantly improve the entire supply chain management practices. The impact of environmental uncertainty on supply chain is the focus of transaction on economic cost and resource dependence perspective (Paulraj and Chen, 2007). Environmental uncertainty, even in the simplest conditions, causing companies tend to perform vertical integration. On the other hand, resource dependence theory states if a company is experiencing environmental uncertainty, it will seek to balance his condition by strengthening inter-organizational ties. In the era of modern business, many companies are trying to focus only on their core competencies. Other competencies needed in the operation of the company can be obtained through outsourcing that makes vertical disintegration as a common practice (Paulraj and Chen, 2007). The environmental uncertainty is an interesting topic to be analyzed which can also be attributed to the ability of a company to make efforts in order to make improvements and prevention so it can still survive in the industry. Environmental uncertainty also affects the supply chain management, how management can anticipate rapid changes in the environment as well as to reduce costs. The successful implementation of supply chain management can also be measured by the performance of the parties involved in the supply chain, which includes suppliers and buyers.

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