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# Competitive Strategy Formulation among Small Manufacturing Firms: A Multiple Case Study from an Emerging Regional Economy in Indonesia

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**ABSTRACT:** Small manufacturing enterprises play a significant role in regional economic development but face increasing pressure from globalization, technological change, and evolving customer expectations. This study examines how competitive strategies are formulated by small manufacturing firms in Makassar, Indonesia, focusing on business vision, strategic decision-making, market segmentation, competitive positioning, and sustainable competitive advantage. A qualitative multiple case study approach was used, with data collected through semi-structured interviews with ten key informants—business owners, managers, representatives of the Makassar Industrial Estate (KIMA), and Department of Industry officials—supplemented by documentary analysis and observation. Data were analyzed thematically through open, axial, and selective coding, strengthened by triangulation and member checking. Findings show that competitive strategy formulation is driven mainly by the owner's business vision, product quality, managerial experience, and market segmentation. Rather than competing on price, firms pursued quality-based differentiation through superior materials, consistency, and customer trust. Segmenting retail and project customers supported targeted marketing, while digital branding expanded market reach. Competitive advantage emerged from alignment between strategic positioning, capabilities, and adaptive decisions. This study integrates Porter's Competitive Strategy, the Resource-Based View, and Dynamic Capability Theory, offering practical guidance for strengthening SME manufacturing competitiveness through quality, capability development, and digital transformation.

**Keywords:** Manufacturing SMES, Competitive Strategy, Product Differentiation, Resource-Based View, Dynamic Capabilities, Market Segmentation, Indonesia.



## INTRODUCTION

Small manufacturing firms (SMFs) play a pivotal role in economic development, particularly in emerging economies where they contribute substantially to employment creation, industrial diversification, innovation, and regional value addition. In Indonesia, manufacturing SMEs account for a significant proportion of industrial establishments and serve as important drivers of local economic resilience by transforming local resources into higher-value products and supporting inclusive economic growth. Their contribution extends beyond production activities, as they stimulate entrepreneurship, strengthen local supply chains, and improve community welfare. Nevertheless, rapid globalization, technological advancement, changing consumer preferences, and increasing market competition have significantly altered the competitive landscape in which these firms operate. Consequently, small manufacturing firms are under growing pressure to formulate effective competitive strategies that enable them to sustain performance while adapting to increasingly dynamic business environments.

The city of Makassar represents an appropriate context for examining competitive strategy formulation among manufacturing SMEs. As the largest economic center in Eastern Indonesia, Makassar functions as a strategic hub for manufacturing, logistics, trade, and distribution. The presence of the Makassar Industrial Estate (KIMA), together with a diverse manufacturing base consisting of food processing, furniture, garments, printing, metalworking, plastics, cosmetics, and shipbuilding industries, creates a highly competitive industrial environment. Furthermore, government initiatives supporting SME development through industrial coaching, product certification, digital transformation, business incubation, and export promotion have accelerated industrial modernization. Despite these opportunities, firms continue to experience substantial challenges arising from volatile raw material prices, competition from imported products, digital disruption, supply chain uncertainty, and increasing customer expectations, requiring continuous strategic adaptation to maintain competitiveness.

Competitive strategy has therefore become one of the most important determinants of long-term organizational success. According to Porter's generic strategy framework, firms generally pursue cost leadership, differentiation, or focus strategies to achieve competitive advantage. Empirical evidence demonstrates that manufacturing SMEs in emerging economies commonly adopt cost-oriented and differentiation strategies depending on their organizational capabilities and external market conditions (Anwar & Shah, 2020; Gamage et al., 2020; Kharub et al., 2022; Monnagaaratwe & Mathu, 2022; Nderitu & Ngala, 2023). While cost leadership enables firms to compete through operational efficiency, product differentiation provides opportunities to create superior customer value by emphasizing product quality, design, service, innovation, and unique market positioning. Increasingly, manufacturing SMEs combine these approaches with flexible specialization, collaboration networks, and digital technologies to respond to competitive pressures and changing customer demands.

Among these strategic alternatives, differentiation has received considerable attention because it enables firms to escape direct price competition while establishing sustainable competitive advantage. Previous studies indicate that differentiation based on superior product quality, innovation capability, sustainable product characteristics, responsive customer service, and strong branding contributes significantly to customer loyalty and long-term organizational performance (Ali, 2022; Ngo, 2023; Sivashanker, 2021; Srikalimah et al., 2020). However, the literature also emphasizes that differentiation alone is insufficient unless supported by complementary organizational capabilities such as technological competence, research and development, quality management, marketing capability, and effective strategic positioning (Oduro & Mensah-Williams, 2023). Accordingly, sustainable competitive advantage emerges from the alignment between strategic choices and internal organizational resources rather than from strategic positioning alone.

The Resource-Based View (RBV) further explains that sustainable competitive advantage originates from valuable, rare, inimitable, and non-substitutable organizational resources. Numerous empirical studies identify technological capability, human capital, managerial competence, innovation capability, knowledge management, manufacturing flexibility, marketing capability, and organizational learning as critical determinants of competitive strategy formulation among manufacturing SMEs (Al-Mamary et al., 2020; Bernal et al., 2023; William et al., 2023). Dynamic capability theory complements this perspective by emphasizing an organization's ability to sense environmental changes, seize emerging opportunities, and reconfigure internal resources to sustain competitiveness under rapidly changing market conditions. In manufacturing SMEs, these capabilities enable firms to integrate digital technologies, improve operational efficiency, strengthen innovation activities, and respond effectively to technological disruption and market uncertainty.

Another important component of competitive strategy concerns market segmentation and competitive positioning. Previous research consistently demonstrates that firms achieving superior performance clearly identify target customer groups and position their products according to customer needs while aligning marketing activities with organizational capabilities (Muazu et al., 2021; Mucheru et al., 2023). Effective market segmentation enables firms to allocate resources efficiently, develop products tailored to customer preferences, and establish stronger customer relationships. Likewise, competitive positioning supported by product differentiation, branding, service quality, and digital marketing allows manufacturing SMEs to expand market coverage and improve customer loyalty. Recent evidence also suggests that digital platforms and social media have become increasingly important mechanisms through which SMEs strengthen market visibility, enter new geographic markets, and sustain competitive advantage in emerging economies.

Although previous studies have substantially advanced understanding of competitive strategy in manufacturing SMEs, several important research gaps remain. First, much of the existing literature relies on quantitative approaches employing structural equation modeling or survey-based designs to examine causal relationships among strategic constructs. While these studies successfully identify statistical associations, they provide limited insight into the underlying processes through which owners and managers formulate competitive strategies in everyday business practice. Second, empirical evidence focusing specifically on manufacturing SMEs in Eastern Indonesia remains relatively scarce compared with studies conducted in larger industrial regions or other developing countries. Third, relatively few qualitative multiple case studies investigate how business vision, managerial experience, strategic decision-making, market segmentation, and competitive positioning interact to shape competitive strategy within the same analytical framework. Consequently, a richer contextual understanding of strategic behavior among manufacturing SMEs is still required.

This study addresses these gaps by employing a qualitative multiple case study approach to explore competitive strategy formulation among small manufacturing firms in Makassar, Indonesia.

Specifically, the study seeks to examine how firms formulate competitive strategies, how owners and managers make strategic decisions, how market segmentation and competitive positioning are developed, and how these strategic elements collectively contribute to competitive advantage. The study proposes that competitive strategy formulation in manufacturing SMEs is an integrated process in which business vision, differentiation strategy, owner-centered decision-making, market segmentation, and competitive positioning reinforce one another to create sustainable competitive advantage. By developing an empirically grounded conceptual framework based on multiple case evidence, this research contributes to the strategic management and SME literature while providing practical insights for entrepreneurs, policymakers, and industrial support institutions seeking to enhance the competitiveness of manufacturing SMEs in emerging regional economies.

## METHOD

This study employed a qualitative research approach using a multiple case study design to explore how small manufacturing firms formulate competitive strategies in Makassar, Indonesia. A qualitative case study was considered appropriate because the primary objective of this research was to understand the processes through which owners and managers develop competitive strategies, make strategic decisions, and respond to dynamic business environments. Unlike quantitative approaches that emphasize statistical relationships among variables, qualitative multiple case studies enable researchers to investigate complex organizational phenomena by addressing "how" and "why" questions within their real-life contexts. Previous studies have demonstrated that multiple case study designs are particularly suitable for strategic management research involving small and medium-sized enterprises (SMEs), as they provide rich contextual understanding of managerial practices, strategic adaptation, organizational learning, and innovation processes while allowing comparisons across multiple organizational settings l(Crowley-Henry et al., 2021; Jackson, 2021; Lamb et al., 2022; Saarenketo et al., 2022; Vesci et al., 2022). Moreover, the use of multiple cases enhances analytical generalization through cross-case comparison rather than statistical representativeness, making it especially valuable for examining heterogeneous manufacturing SMEs operating under similar environmental conditions.

The research was conducted in Makassar, South Sulawesi, Indonesia, the largest industrial and commercial center in Eastern Indonesia. Makassar was selected because it hosts the Makassar Industrial Estate (KIMA), accommodates a diverse range of manufacturing subsectors, and functions as an important logistics and distribution hub serving eastern regions of the country. The city also provides a dynamic business environment characterized by increasing market competition, technological transformation, government support programs, and expanding regional markets. These characteristics make Makassar an appropriate setting for examining competitive strategy formulation among manufacturing SMEs operating in an emerging regional economy.

Purposive sampling was employed to select information-rich cases capable of providing comprehensive insights into competitive strategy formulation. Purposeful sampling is widely recognized in qualitative multiple case study research because cases are selected based on theoretical relevance rather than statistical representativeness (Yunus et al., 2023). The unit of analysis in this study was the manufacturing firm, while individual participants represented different managerial roles within each case. Ten key informants participated in the study, including manufacturing business owners, marketing managers, operational managers, production supervisors, representatives from the Makassar Industrial Estate (KIMA), and officials from the Makassar Department of Industry. These participants were selected because they possessed extensive knowledge and direct experience regarding strategic planning, competitive decision-making, innovation, marketing, and business sustainability within their respective organizations.

Primary data were collected through semi-structured interviews, which represent the most widely used data collection technique in qualitative strategic management research. Semi-structured interviews provide a balance between consistency across participants and flexibility to explore emerging issues in greater depth (Franco & Haase, 2020; Mashingaidze et al., 2021). An interview guide was developed based on the research objectives and relevant strategic management literature. The interviews explored five principal areas: business vision, competitive strategy formulation, strategic decision-making, market segmentation and positioning, innovation and digitalization, and business adaptation for long-term sustainability. To strengthen contextual understanding and reduce reliance on a single source of evidence, interview data were complemented by direct observations of business operations and documentary evidence, including company profiles, promotional materials, government publications, and publicly available organizational documents. The triangulation of multiple data sources is recommended in qualitative case study research because it enhances the completeness and credibility of findings while reducing single-source bias (Saarenketo et al., 2022; Franco & Haase, 2020; Jackson, 2021).

Data analysis followed an iterative thematic analysis process. All interviews were audio-recorded with participant consent, transcribed verbatim, and reviewed repeatedly to ensure familiarity with the data. The analysis began with data reduction to identify information directly relevant to the research questions. Subsequently, open coding was conducted to generate initial codes representing important concepts emerging from participants' narratives. Similar codes were then grouped through axial coding into broader conceptual categories that reflected relationships among strategic practices, organizational capabilities, and competitive behaviors. Finally, selective coding was performed to integrate these categories into overarching themes that explained competitive strategy formulation across cases. This coding process combined deductive reasoning based on established strategic management theories, including Porter's Competitive Strategy, the Resource-Based View, and Dynamic Capability Theory, with inductive coding that allowed new concepts to emerge directly from the empirical evidence. Such integration of deductive and inductive coding is widely recommended in qualitative strategic management research because it facilitates theory-informed interpretation while remaining open to context-specific findings (Hossin et al., 2023; Tarihoran et al., 2023; Zamani et al., 2022). Cross-case synthesis was subsequently undertaken by comparing patterns across all cases to identify common strategic themes, contextual variations, and explanatory mechanisms. This analytical procedure follows established case study approaches emphasizing within-case analysis followed by cross-case comparison to strengthen analytical generalization and theory development (Saarenketo et al., 2022; Vesci et al., 2022).

The trustworthiness of the study was established by applying the criteria of credibility, dependability, confirmability, and transferability. Credibility was enhanced through methodological triangulation, incorporating multiple sources of evidence, including interviews, observations, and documentary analysis, as well as triangulation across participants occupying different organizational roles. Member checking was also conducted by providing interview summaries and preliminary interpretations to selected participants for validation, ensuring that the researchers' interpretations accurately reflected participants' intended meanings (Jackson, 2021; Saarenketo et al., 2022). Dependability was strengthened through the maintenance of a comprehensive audit trail documenting participant selection, interview procedures, coding decisions, thematic development, and analytical processes. The study also followed established qualitative case study procedures consistent with the methodological recommendations of Yin and Eisenhardt, thereby enhancing procedural transparency and research consistency (Vesci et al., 2022; Saarenketo et al., 2022; Lamb et al., 2022). Confirmability was achieved by maintaining detailed records of analytical decisions, preserving verbatim interview transcripts, and ensuring that findings were grounded directly in participants' statements rather than researcher assumptions. Finally, transferability was supported through the provision of rich contextual descriptions of the research setting, participant characteristics, organizational backgrounds, and business environments, allowing readers to determine the applicability of the findings to comparable manufacturing SME contexts. Collectively, these methodological procedures ensured that the study produced rigorous, credible, and analytically meaningful findings regarding competitive strategy formulation among small manufacturing firms in Makassar, Indonesia.

## RESULT AND DISCUSSION

The cross-case analysis identified four interconnected dimensions of competitive strategy formulation among small manufacturing firms in Makassar: business vision and strategic orientation, owner-centered strategic decision-making, market segmentation, and competitive positioning. These dimensions emerged from the systematic coding of interview transcripts and the comparison of evidence across the selected cases. Although each firm operated within a different manufacturing context, the findings revealed a shared tendency to avoid direct price competition and instead develop competitive advantage through product quality, accumulated managerial experience, targeted customer groups, and brand development. The results also showed that competitive strategy was not formulated through a highly formalized planning process. Rather, it developed through the interaction of the owner’s long-term vision, assessments of market conditions, production capabilities, customer requirements, and the gradual use of digital marketing channels.

### Business Vision and Strategic Orientation

Business vision emerged as the foundation of competitive strategy formulation. The findings indicate that the strategic orientation of the participating firms was strongly influenced by the owner’s understanding of the desired future position of the business. This vision provided direction for selecting the basis of competition, allocating limited organizational resources, and maintaining consistency in product and market decisions.

The owner of the food manufacturing firm described a clear strategic commitment to differentiation rather than price competition:

"Since the beginning, we have not wanted to compete on price because there are already many food products in Makassar. We choose to maintain the quality of taste, use better raw materials, and preserve the characteristics of local products. This strategy keeps customers coming back even though our prices are slightly higher than those of other products." I1, Food Industry Owner

This statement demonstrates that the firm's competitive strategy originated from an explicit business vision. The owner did not view low prices as the most appropriate route to market success. Instead, the firm sought to establish a distinct market position based on taste quality, superior materials, and local identity. The strategic vision therefore acted as an organizing principle that connected the firm's long-term aspirations with its everyday production and marketing decisions.

This finding is consistent with evidence suggesting that business vision shapes strategic choice, resource priorities, and the translation of entrepreneurial or market orientations into operational strategies. A clearly articulated vision can guide firms in selecting differentiation, market orientation, innovation, sustainability, or digitalization as their preferred strategic direction. Kim (2022), for example, found that vision and strategy mediate the relationship between corporate entrepreneurship and SME performance. Similarly, Martínez et al. (2020) demonstrated that shared vision, as a component of learning orientation, has a significant relationship with SME competitiveness.

In the present study, the business vision was closely associated with three strategic priorities: preserving product quality, maintaining local product characteristics, and cultivating customer loyalty. These priorities provided a coherent basis for competitive differentiation. Rather than responding reactively to competitors' prices, the firm attempted to influence customer choice by emphasizing value that could not be easily replicated through price reductions alone.

The strategic role of vision was also visible in resource allocation. The decision to purchase higher-quality raw materials implied a willingness to accept higher production costs in exchange for stronger product consistency and customer trust. This finding supports the argument that strategic vision shapes capability-building priorities and determines which competitive strategies are feasible under resource constraints (Chen et al., 2023; Teng et al., 2022). In SMEs, where financial and managerial resources are often limited, the owner's vision becomes especially important because it determines whether resources are directed toward cost reduction, innovation, quality improvement, digital transformation, or market expansion.

Nevertheless, the findings also indicate that vision alone does not create competitive advantage. The strategic intention to differentiate had to be supported by production discipline, material selection, and the ability to deliver a consistent customer experience. This observation is consistent with studies emphasizing that the positive effects of vision depend on resource orchestration, managerial competence, and implementation capacity (Fitriati et al., 2020). Accordingly, the case evidence suggests that business vision influences competitive strategy when it is translated into concrete operating practices.

### Product Quality as the Basis of Competitive Differentiation

Product quality represented the most visible mechanism through which the food manufacturing firm operationalized its business vision. The owner's statement identified taste consistency, better raw materials, and local distinctiveness as the central sources of competitive value. These elements enabled the firm to maintain prices above those of some competing products while retaining customer loyalty.

The coding process generated several related concepts: avoidance of price competition, superior raw materials, maintenance of taste quality, local product identity, and repeat purchasing. These codes were grouped into the category of quality-based differentiation. The relationship among these elements indicates that product quality was not treated merely as a technical production outcome. It was viewed as a strategic capability that influenced positioning, customer perceptions, and the firm's ability to resist price pressure.

This result is consistent with studies identifying product quality as a major basis of differentiation among manufacturing SMEs, particularly when firms lack the scale required to implement broad cost-leadership strategies (Kharub et al., 2022; Sivashanker, 2021). Quality enables smaller firms to escape direct price competition by offering customers superior reliability, design, taste, service, or product authenticity. Kharub et al. (2022) further demonstrated that manufacturing capabilities such as quality, delivery, and flexibility mediate the relationship between competitive strategies and organizational performance. Their findings suggest that neither cost leadership nor differentiation can improve performance without supporting operational capabilities.

The empirical evidence also showed that quality was closely connected to product identity. The food firm did not differentiate solely through generic claims of superiority but through the preservation of local characteristics. This combination of quality and local identity created a more specific value proposition. It enabled the product to appeal to customers who valued authenticity while simultaneously meeting expectations regarding material quality and taste consistency.

Customer loyalty was identified as an important outcome of this strategy. The owner reported that customers continued to purchase the product even though its price was slightly higher than alternatives. This suggests that customers perceived sufficient additional value to accept the price difference. Quality-based differentiation therefore reduced the firm's dependence on price competition and strengthened its capacity to maintain margins.

The findings support the view that quality may operate as both a market differentiator and a reputational resource. Previous qualitative research has shown that quality-related reputation influences cooperation, network formation, and access to niche positions within value chains (Vasilska, 2021). Although the present case primarily emphasized end customers rather than interorganizational relationships, the same mechanism was evident: sustained quality created trust, and trust supported continued commercial relationships.

However, the case also suggests that quality must remain aligned with market expectations and purchasing power. Superior quality does not automatically guarantee financial success. Its strategic value depends on whether customers recognize the difference, understand the product's value proposition, and are willing to pay for it. This observation corresponds with studies warning that quality improvements must be combined with effective segmentation, positioning, marketing communication, and distribution capabilities (Kharub et al., 2022; Oduro & Mensah-Williams, 2023; Franco & Haase, 2020).

### Owner-Centered Strategic Decision-Making

The second major dimension concerned the process through which strategic decisions were made. The furniture owner explained:

"Most decisions are still made by me. I look at market conditions, customer orders, and production capability, and then determine the step that I consider the safest. Years of experience make it easier for me to read changes in the market." I3, Furniture Industry Owner

This evidence indicates that strategy formulation was strongly centralized. The owner remained the principal decision-maker and relied on personal experience, direct market observation, customer orders, and assessments of production capacity. Formal strategic planning tools were less visible than experiential judgment.

The initial codes included centralized decision-making, environmental scanning, customer demand assessment, production-capacity consideration, risk avoidance, and experiential knowledge. Together, these codes formed the theme of owner-centered strategic decision-making.

The findings show that managerial experience functioned as an intangible strategic resource. Years of interaction with customers, suppliers, workers, and market fluctuations enabled the owner to interpret signals that might not be captured through formal information systems. Experience was particularly important when the firm had to choose between expansion, production adjustment, or more cautious action.

The owner's reference to the "safest" course of action also indicates a strong concern with risk management. Strategic decisions were not based solely on potential growth opportunities but on the firm's ability to execute them without creating excessive operational or financial exposure. Production capacity therefore served as a practical boundary for strategic ambition.

At the same time, centralized decision-making may create both advantages and limitations. It can accelerate decisions because the owner does not need to navigate complex managerial structures. It can also preserve strategic consistency when the owner possesses deep knowledge of the business. However, excessive dependence on one individual may limit organizational learning, reduce employee participation, and make the strategy vulnerable to the owner's biases or incomplete information.

### Market Segmentation and Competitive Positioning

The third and fourth dimensions were closely connected and concerned how firms identified target customers and communicated their value to the market. The marketing manager stated:

"We divide the market into retail customers and project customers. We are now more focused on building the brand through social media so that it becomes known outside Makassar and does not rely only on existing customers." I8, Marketing Manager

This statement shows that the firm distinguished between customer groups with different purchasing characteristics. Retail customers generally represented individual or smaller-volume transactions, whereas project customers were associated with larger, contract-based, or organizational orders. This segmentation allowed the firm to recognize that different customers required different offers, communication approaches, and service processes.

The segmentation process was linked directly to competitive positioning. The firm sought to reduce its dependence on established local customers by building brand recognition through social media. Digital marketing was therefore not used merely as a promotional tool but as part of a broader strategy to expand the geographic market and develop a more visible competitive identity.

The initial codes included retail market, project market, customer targeting, social-media branding, brand recognition, reduced dependence on existing customers, and geographic market expansion. These codes were organized into the themes of market segmentation and competitive positioning.

The evidence indicates that the firm's competitive strategy combined customer classification with digital brand development. Segmentation clarified who the firm intended to serve, whereas positioning defined how the firm wanted those customers to perceive its products. The use of social media enabled the firm to communicate its identity beyond existing relationship networks and access potential customers outside Makassar.

Across the cases, competitive strategy formulation can therefore be understood as an integrated process. Business vision established the desired basis of competition. Product quality translated that vision into customer value. Owner-centered decision-making connected market conditions with internal production realities. Market segmentation identified priority customer groups, while digital branding strengthened competitive positioning and geographic reach.

The resulting framework suggests the following sequence:

**Business vision → quality-based differentiation → strategic decision-making → market segmentation → competitive positioning → competitive advantage.**

This sequence should not be interpreted as strictly linear. Feedback from customers, changes in demand, production constraints, and digital market responses may cause firms to revise their vision, resource priorities, and positioning. Nevertheless, the findings demonstrate that competitive advantage among the examined firms was built primarily through strategic coherence rather than isolated actions. Quality, experience, segmentation, and branding became competitively meaningful because they were connected to a broader vision concerning how each firm intended to compete.

The findings demonstrate that competitive strategy formulation among small manufacturing firms in Makassar is primarily shaped by quality-based differentiation, owner-centered strategic decision-making, market segmentation, and digital competitive positioning. These elements do not operate independently but form an interconnected strategic process through which firms interpret market pressures, assess internal capabilities, and select feasible ways to compete. The empirical evidence therefore supports an integrated interpretation combining Porter's competitive positioning framework, the Resource-Based View, and dynamic capability theory.

The food manufacturing case illustrates Porter's differentiation logic particularly clearly. The firm deliberately avoided direct price competition and instead emphasized superior raw materials, consistent taste, and the preservation of local product characteristics. Porter's framework explains this choice as an effort to create customer-valued uniqueness that reduces the intensity of price-based rivalry and permits the firm to maintain a modest price premium. Previous studies indicate that manufacturing SMEs often favor differentiation or focused differentiation because their limited economies of scale make broad cost leadership difficult to sustain (Galli-Debicella, 2021; Knight et al., 2020). The Makassar case supports this argument because the firm did not possess the scale required to dominate the market through low costs. Instead, it concentrated on attributes that customers associated with higher value and authenticity.

The findings also demonstrate that differentiation is multidimensional. The observed strategy combined product quality, local identity, customer trust, and reputational value rather than relying on a single product feature. This pattern is consistent with research showing that SME differentiation can be built through quality, design, service, branding, sustainability credentials, or niche specialization (Hossain et al., 2022; Ngo, 2022). In this study, local identity added symbolic value to the physical quality of the product, allowing the firm to create a culturally grounded market position. Customer willingness to continue purchasing despite slightly higher prices suggests that the differentiation strategy generated perceived value and reduced price sensitivity.

Nevertheless, Porter's framework alone does not fully explain why some firms can implement differentiation more effectively than others. The Resource-Based View provides a complementary explanation by emphasizing the role of firm-specific resources and capabilities. The findings show that product quality depended on access to better raw materials, established production routines, accumulated knowledge, and the owner's commitment to consistency. These resources may generate competitive advantage when they are valuable, difficult to imitate, and embedded in the firm's routines and reputation (Farhikhteh et al., 2020; Rashidirad & Salimian, 2020). The furniture case similarly demonstrates the strategic value of intangible resources. The owner's accumulated experience enabled the interpretation of market changes, customer orders, and production limitations. Such experiential knowledge represented an organizational capability that influenced both strategic choice and risk assessment.

The evidence concerning owner-centered decision-making also highlights the microfoundations of competitive strategy. In the participating firms, strategic planning was not highly formalized. Instead, owners translated personal experience, market observation, and production knowledge into strategic action. This centralized pattern can provide speed, coherence, and flexibility, particularly when the owner maintains close relationships with customers and operations. However, it can also create vulnerability if strategic knowledge remains concentrated in one individual. Theoretical discussions of SME strategy therefore need to account not only for firm-level resources but also for the cognitive abilities, judgment, vision, and competencies of owner-managers. This interpretation is consistent with studies emphasizing owner vision, entrepreneurial competencies, and managerial skills as central microfoundations of SME competitiveness (Yansen et al., 2021).

The findings further show that strategic positioning was strengthened through market segmentation and digital branding. The division between retail and project customers represented an effort to recognize differences in purchasing volume, decision processes, service expectations, and communication requirements. Segmentation thus acted as the bridge between market analysis and strategic positioning. Once customer groups were identified, social media was used to communicate the firm's value proposition and expand brand awareness beyond Makassar. This process corresponds with an integrative strategic framework in which external market diagnosis is combined with internal capability assessment before a competitive position is selected. Porter's industry logic clarifies the pressures and opportunities within the market, while the Resource-Based View determines whether the firm possesses sufficient quality, branding, production, and marketing capabilities to serve the selected segment effectively.

Dynamic capability theory extends this framework by explaining how SMEs revise their resources and practices as market conditions change. The use of social media indicates that the firm was not relying solely on established customers or traditional channels. It recognized opportunities in broader geographic markets, adopted digital tools, and reconfigured its marketing activities to reach new customer groups. Such actions reflect the capabilities to sense market change, seize emerging opportunities, and reconfigure organizational resources. Previous studies similarly show that dynamic capabilities help SMEs convert existing resources into market value during digital transformation and environmental disruption (Chavez et al., 2021; Rashidirad & Salimian, 2020).

The combined findings support a unified competitive strategy framework. First, firms interpret competitive pressure and identify relevant customer segments. Second, they assess internal resources, including product quality, production capacity, experience, reputation, and marketing capability. Third, they select a coherent basis of competition, in this case differentiation rather than low-cost rivalry. Fourth, they orchestrate resources to deliver the selected value proposition through production routines, material choices, branding, and customer communication. Finally, they monitor market responses and adjust their strategies through experience and digital engagement. Competitive strategy is therefore better understood as a continuous cycle than as a one-time managerial decision.

Practically, the findings indicate that small manufacturing firms should align strategic ambition with available capabilities. Differentiation will produce limited benefits unless it is supported by reliable quality, delivery, branding, and market communication. Firms should also reduce excessive dependence on the owner by documenting strategic knowledge, involving employees in decision processes, and developing organizational learning routines. Market segmentation should be connected to differentiated offers, pricing, communication channels, and service standards. Digital platforms can extend market reach, but their effectiveness depends on the firm's ability to maintain consistent product value and operational reliability.

The study also has policy implications. Government agencies and industrial-support institutions should move beyond general entrepreneurship training and provide capability-specific assistance in quality systems, digital branding, production technology, market intelligence, and strategic planning. Cluster institutions such as KIMA may facilitate cooperation, shared learning, supplier access, and market networks that compensate for resource limitations. Theoretically, the study contributes by showing that Porterian positioning, resource heterogeneity, dynamic adaptation, and owner-level microfoundations must be examined together to explain competitive strategy formulation in manufacturing SMEs. Future studies should employ longitudinal and comparative designs to investigate how these strategy-capability configurations evolve across subsectors and changing competitive environments.

## CONCLUSION

This study examined how small manufacturing firms in Makassar formulate competitive strategies within a dynamic and resource-constrained business environment. The findings show that competitive strategy is developed through the interaction of business vision, product quality, owner-centered decision-making, market segmentation, and competitive positioning. Rather than relying primarily on formal strategic planning systems, the firms translated the owners' long-term aspirations, accumulated experience, market observations, customer requirements, and production capabilities into practical strategic choices.

Quality-based differentiation emerged as the dominant basis of competition. The firms sought to avoid direct price rivalry by emphasizing superior raw materials, consistent product quality, distinctive local characteristics, reliable delivery, and customer trust. This approach enabled them to create perceived value and maintain customer loyalty despite charging prices that were occasionally higher than those of competitors. The findings therefore indicate that differentiation is particularly relevant for small manufacturing firms that lack the scale required to sustain broad cost-leadership strategies.

The study also found that managerial experience is an important intangible resource in strategy formulation. Owners relied on direct knowledge of customers, production constraints, and market changes when selecting strategic actions. This centralized decision-making structure supported speed and strategic consistency, but it also created dependence on individual judgment. For long-term resilience, firms should gradually transform owner-based knowledge into organizational routines, shared decision processes, and documented strategic practices.

Market segmentation and digital positioning further strengthened the firms' competitive strategies. By distinguishing between retail and project customers, the firms could adjust their products, communication, and service approaches to different market needs. Social media and digital branding expanded market visibility beyond existing customer networks and created opportunities for geographic growth. However, digital promotion generated strategic value only when supported by consistent quality, production reliability, and a clear brand identity.

The study contributes to existing knowledge by integrating Porter's competitive positioning perspective, the Resource-Based View, and dynamic capability theory within a process-based explanation of SME strategy formulation. Porter's framework explains the firms' preference for differentiation, while the Resource-Based View clarifies how quality, reputation, managerial experience, and production capabilities support competitive advantage. Dynamic capability theory explains how the firms identify changes, adopt digital tools, and reconfigure marketing and operational practices in response to market developments. The findings further highlight the owner's vision and judgment as microfoundations connecting organizational resources with strategic positioning.

Practically, manufacturing SMEs should align their competitive positions with their actual resources and capabilities. Investments in quality management, employee skills, market intelligence, digital branding, and organizational learning are essential for sustaining differentiation. Policymakers and industrial-support institutions should therefore provide capability-specific assistance, including quality certification, technology adoption, strategic planning, product development, and access to wider market networks.

The findings are context-specific and based on a limited number of manufacturing firms in Makassar. Future research should examine a larger and more diverse group of firms across manufacturing subsectors and geographic regions. Longitudinal studies are also needed to investigate how competitive strategies evolve as firms grow, adopt new technologies, and respond to economic disruption. Comparative research could further explore whether the proposed strategy formulation framework applies to small manufacturing firms in other emerging regional economies.

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