

## A Conceptual Framework for Effective Homestay Governance Practices

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### Abstract

The homestay sector in Malaysia has historically been fundamental to rural tourism, providing visitors with genuine cultural experiences and aiding local people. Throughout the years, the business has expanded, bolstered by governmental efforts and a rising desire for community-oriented tourism experiences. Notwithstanding its expansion, the industry encounters obstacles, including uneven income distribution, operational inefficiencies, and disparate demand levels across regions. A report from the Department of Statistics Malaysia (2024) indicates considerable income inequalities, with certain states generating up to RM5 million, while others accrued as low as RM200,000, underscoring a pronounced revenue difference. This study analyses governance practices in the Malaysian homestay business using institutional theory, emphasizing the impact of formal and informal structures, rules, and norms on the efficacy and sustainability of homestay operations. The results demonstrate the essential function of institutional frameworks in influencing stakeholder behaviour, mitigating regional inequities, and fostering sustainable tourist practices. This study aims to improve governance frameworks, adhere to institutional norms, and ensure fair and sustainable development for the homestay sector.

**Keywords:** Homestay Management, Corporate Governance, Sustainable Tourism, Community-Based Tourism And Institutional Theory

### Introduction

The homestay program in Malaysia has undergone considerable expansion in recent years and has emerged as a prominent facet of rural tourism. Currently, tourism destinations function within highly competitive markets, compelling destination managers to pursue creative methods and durable competitive advantages, including the development of tourist loyalty. Homestay, as a facet of rural tourism, might attract travellers due to the significant rise in international tourism demand. The homestay program enriches tourist understanding

by allowing them to explore, experience, and assimilate the lifestyle of local inhabitants in the destinations (Kontogianni & Alepis, 2020; Supian et al., 2021; Wang et al., 2023).

The homestay program, initiated by the Ministry of Tourism and Culture in 1998, is recognized as an alternate kind of accommodation for tourists visiting the country. Lynch et al., (2009) defined homestay as the exchange of more than merely "a bed," with hosts viewing hosting as a lifestyle choice. Homestay provide guests with a sense of belonging, marked by security, comfort, and a welcome ambiance, facilitated by home-like services throughout their stay (Baumber et al., 2021; Li et al., 2022a, 2022b; Wei et al., 2022). Homestay programs, as a crucial component of community-based tourism, aim to empower local people by sustainably exploiting local resources while preserving their cultural heritage and natural environment (Bhuiyan, 2019).

The homestay program was established in 1995 as a community-based tourism initiative in Kampung Desa Murni, Pahang, serving as a successful pioneer of the homestay concept. Since then, the government has concentrated on securing funding to enhance, promote, and expand homestay programs across Malaysia. Homestay initiatives benefit local communities by directly distributing visitor earnings to homestay operators, thereby improving livelihoods, diversifying income sources, and generating new employment opportunities. These programs have the potential to reduce poverty and enhance female empowerment, as the Social Development Goals aim for equal gender distribution of economic resources in communities, cultural revitalisation, and community development. (Salleh et al, 2013; Sood, 2016; Müller et al., 2020; Pasanchay and Schott, 2021; Milanés et al., 2024)

#### *The Growth and Expansion of Homestays*

As of May 2024, MOTAC reported the registration of 217 houses in the homestay program, encompassing 3,312 participants. This collaborative endeavour has produced a total revenue of RM 40,457,321.51, underscoring its economic importance and commitment to community-oriented tourist development. Table 1 demonstrates a steady increase in homestay revenue from RM 29.66 million in 2019 to RM 40.45 million in 2023, indicating heightened consumer interest in experience travel and specialized lodging. Despite a significant decline in 2020 (RM 9.12 million) due to the COVID-19 pandemic, the market demonstrated remarkable resilience in the subsequent years as travel restrictions eased and domestic tourism thrived. Factors driving this expansion include a heightened inclination toward culturally immersed experiences and the purposeful promotion of homestays as economical and distinctive lodging alternatives.

Table 1

*Homestay Revenue 2019-2023*

No.	State	2019 (RM)	2020 (RM)	2021 (RM)	2022 (RM)	2023 (RM)
1	Perlis	183199	45008.76	19445	90010.29	198437
2	Kedah	555843	317165.6	259935	1168050.03	1238517.43
3	Penang	455113	89340	206177	1001261	1387489
4	Perak	683386.3	173389	148969	648290	684081
5	Selangor	924459	252255	98618	1408517	1843242
6	Malacca	1303604.52	209190	575891	1897314	1352141.04
7	Negeri Sembilan	638156	180981	364477.89	1490691.55	1288969.55
8	Johor	744678	539986	772031	2562257	4811683
9	Kelantan	60825	47364	218809.5	190173.5	222945
10	Terengganu	1078952.5	400420	72900	428140	727238
11	Pahang	10107348	3538251.56	120730	6007350.05	11354393.2
12	Sarawak	4547507.91	1263052.06	160246.51	1876495.1	3288653.62
13	Sabah	7950954.46	1940289.68	1400965.25	8113591.87	9692832.72
14	Federal Territory of Labuan	427710	127430	307107	1674361.75	319799
<b>Total</b>	All States	29661736.7	9124122.66	4726302.15	28556503.1	38410421.5

States like Pahang, Sabah, and Sarawak continually excelled in revenue, with Pahang making RM 11.35 million in 2023, owing to its unique attractions and the strategic positioning of homestays. Furthermore, places such as Johor had remarkable growth, escalating from RM 744,678 in 2019 to RM 4.81 million in 2023, while smaller states like Perlis, Kelantan, and Labuan also demonstrated consistent gains, signifying an expanding attraction for homestay tourism throughout Malaysia. The substantial revenue rise in numerous states, along with a vigorous post-pandemic recovery, indicates a favourable and rising demand for homestay lodgings in Malaysia. This trend underscores the potential for increased investment and advancement in the homestay sector.

In light of the substantial revenue produced by the homestay program, the Ministry of Tourism and Culture has implemented a comprehensive strategy outlined in the Homestay Strategic Business Plan for the period 2017 to 2026. The strategic business plan emphasizes four primary issues: capacity building, the homestay business model, homestay marketing, and governance, along with 14 activities to be implemented over the designated period. The business plan is to enhance the current homestay experience, offer distinctive products and services, and ultimately attain sustainable development for the homestay program. By 2026, the objective is to establish Malaysia's homestay program as a preeminent force in community-based tourism worldwide.

*Challenges and Statistics in Homestay Development*

The evolution of Malaysia's Homestay Experience Program has demonstrated remarkable expansion, as indicated by its significant impact on the tourism industry. Table 2 demonstrates that, as of May 31, 2024, the program has produced over RM 20 million in revenue, with a significant participation of 318,691 domestic tourists, in contrast to 49,572 foreign tourists. This result emphasizes the program's capacity to stimulate economic growth and underscores its significance in the tourism sector.

Table 2

*Cumulative Income and Tourist Arrivals for Malaysian Homestays (May 2024)*

No.	State	Total Income (RM)	Domestic Tourists	Foreign Tourists	Total Tourists
1	Perlis	139,144.00	1,992	7	1,999
2	Kedah	532,946.90	10,178	69	10,247
3	Penang	783,576.00	18,029	5,254	23,283
4	Perak	377,821.50	7,564	105	7,669
5	Selangor	843,779.00	9,818	810	10,628
6	Melaka	577,814.04	5,943	293	6,236
7	Negeri Sembilan	626,070.00	3,691	276	3,967
8	Johor	3,825,003.00	132,504	18,028	150,532
9	Kelantan	108,068.00	1,750	3	1,753
10	Terengganu	489,750.00	1,612	5	1,617
11	Pahang	4,112,565.10	48,642	18	48,660
12	Sarawak	2,315,628.73	22,466	770	23,236
13	Sabah	5,438,459.43	53,182	23,934	77,116
14	Federal Territory of Labuan	162,835.00	1,320	0	1,320
<b>Total</b>		<b>20,333,460.70</b>	<b>318,691</b>	<b>49,572</b>	<b>368,263</b>

Note: Data collected as of May 31, 2024. Source: Ministry of Tourism and Culture Malaysia.

Nonetheless, an investigation of the data reveals intrinsic geographical inequalities that point to potential governance and management concerns. States like Sabah (RM 5.43 million) and Johor (RM 3.83 million) surpass others like Kelantan (RM 108,068) and Perlis (RM 139,144) in revenue generation. This prompts inquiries on governance characteristics, promotional techniques, and the availability of infrastructure that may account for these disparities. Furthermore, Sabah and Johor excel in foreign tourist engagement, with 23,934 and 18,028 visitors, respectively, highlighting the need for focused initiatives to draw additional international tourists.

These disparities prompt essential inquiries about governing frameworks, promotional tactics, and infrastructure advancement, which are vital for achieving fair and sustainable progress throughout all locations. The data underscores the necessity for research on homestay governance to rectify regional discrepancies, enhance management techniques, and guarantee sustainable and equitable development across states. By recognizing and rectifying deficiencies, the program can persist as a fundamental element of Malaysia's tourism sector.

**Literature Review***Corporate Governance*

Corporate governance denotes the framework of regulations, policies, and procedures through which an organization is managed and overseen. It delineates the structure for attaining an organization's goals while reconciling the interests of stakeholders, such as shareholders, management, consumers, suppliers, and the community. Effective governance is essential for promoting openness, accountability, and ethical decision-making, which together improve operational efficiency and long-term sustainability (Guluma, 2021; Almashhadani and Almashhadani, 2022). Prior research has demonstrated that organizations with strong governance tend to have more consistent and sustained capital returns (Alaali et al., 2021; Wasdani et al., 2021). Many countries and organizations have also identified governance as an important factor for the success of the tourism industry and have encouraged tourism destinations to improve governance (Castro-Arce and Vanclay, 2020). Conversely, lack of transparency and poor governance structures can impede a company's growth potential and success (Li and Singal, 2022; Saebah et al., 2023).

In the context of homestay programs, governance plays a pivotal role in determining the success and performance of these community-based tourism initiatives. Homestay governance encompasses principles such as transparency, ensuring that decisions and processes are clear and accessible to stakeholders; accountability, holding operators and managers responsible for their actions; community involvement, fostering collaboration and participation; sustainability, focusing on long-term environmental and social impact; and regulatory compliance, adhering to government policies and guidelines. Sawatsuk et al., (2018) conducted a study that attributed the Mae Kam Pong Homestay's success to the effective execution of corporate governance. Good governance plays an essential role in homestay performance, since it significantly impacts operational efficiency, guest satisfaction, and income generation (Othman and Buang, 2021). These principles serve as the foundation for effective governance that aligns with both institutional requirements and community values.

*Institutional Theory*

Institutional theory (DiMaggio & Powell, 1983) has generated popularity in the broader business sector but remains unused in corporate governance research within the tourism and hospitality context. Institutional theory examines how organizations are influenced by the formal and informal rules, norms, and cultural beliefs within their environments. It posits that organizational structures and practices are shaped by the need to gain legitimacy and acceptance from external institutions, leading to conformity with societal expectations. This perspective is essential for comprehending corporate governance, as it underscores the dual influence of external institutional pressures and internal dynamics on governance practices. In the realm of corporate governance, institutional theory has been employed to analyze how organizations adopt governance structures that align with prevailing institutional norms. For instance, Haxhi (2023) discusses how corporate governance reflects both formal institutional rules and informal practices, emphasizing the role of national institutions and their actors in shaping governance models. Despite the lack of specific studies applying institutional theory to homestay governance, we can nonetheless extrapolate the theory's ideas to this setting. Regulatory frameworks, community standards, and cultural expectations impact homestay

operations. Comprehending these institutional variables is crucial for successful governance, as they influence the legitimacy and acceptance of residential practices within a community. Recent research has applied institutional theory to various aspects of governance. For example, Vadasi et al., (2020) explored internal audit effectiveness through its contribution to corporate governance, investigating the impact of internal audit professionalization within the framework of institutional theory. These studies underscore the relevance of institutional theory in analyzing governance practices across different organizational contexts, including homestay management. By considering the institutional environment, organizations can develop governance structures that are not only effective but also legitimate and culturally congruent.

### **Key Component of Effective Governance**

Effective governance plays a crucial role in the success and sustainability of homestay programs, serving as a crucial link between community-based tourism and cultural preservation. Incorporating the following components into homestay governance frameworks can lead to improved performance, benefiting both operators and the communities they serve.

#### *Regulatory Framework*

The regulatory framework includes the impact of government policies, legal structures, and compliance requirements on the effectiveness and sustainability of homestay programs. It elucidates the regulatory dimension of institutional theory, emphasizing formal regulations and enforcement mechanisms. A recent academic study underscores the significance of a robust regulatory framework in enhancing the performance and progress of homestay programs. A study by Cakmakoglu Arici and Koc (2024) emphasizes the imperative for clear regulations to guarantee quality standards and safety in homestay operations, hence enhancing tourist satisfaction and trust. Luekveerawattana (2024) asserts that clearly articulated regulatory rules aid homestay operators in preserving cultural authenticity and service quality and therefore fostering sustainable tourism development. These studies collectively confirm that a robust regulatory framework is essential for the success and sustainability of homestay projects (Ramele Ramli et al., 2020).

#### *Community-Based Governance*

Community-based governance, the impact of participatory governance structures, community collaboration, and shared decision-making on homestay performance. It aligns with the normative dimension of institutional theory, highlighting the importance of community norms and collective action. Therefore, it is essential to consider this independent variable, as Auksondee and Darawong (2024) emphasized that community involvement, coupled with effective governance practices, plays a critical role in ensuring the success of homestay programs within the tourism sector. Previous research by Abukhalifeh and Wondirad (2019) and Suardana et al., (2024) highlights that community engagement is vital for sustaining stakeholder support in local tourism programs and policies. Involving local communities in decision-making allows them to contribute valuable skills and indigenous knowledge, serving as key inputs for success.

### *Capacity Building and Training*

This capacity building and training focus on enhancing the skills, knowledge, and capabilities of homestay operators and managers. Institutional theory supports the notion that capacity-building initiatives align with both normative expectations and cultural-cognitive frameworks by fostering legitimacy and operational excellence. Previous studies have demonstrated that training and mentorship programs have successfully equipped homestay operators with comprehensive knowledge and practical instructions, enhancing their skills in integrated service management, systematic organization, and human resource management (Junaid, 2021; Nurfadilah et al., 2024; Singh et al., 2024).

### *Monitoring and Evaluation Mechanisms*

The monitoring and evaluation mechanism help stakeholder in homestay program to examines the role of systematic performance tracking and feedback loops in ensuring accountability and continuous improvement in homestay operations. Implementing systems to regularly assess homestay operations against established benchmarks helps identify areas for improvement and ensures alignment with sustainability goals. Integrating guest feedback and community engagement enhances adaptive management and elevates the quality of homestay services over time. Tran and Le (2020) emphasize the necessity of understanding the determinants of customer satisfaction for homestay operators to improve service quality and uphold a positive business reputation. Satisfied clients are more likely to provide positive feedback and promote repeat visits, therefore improving the success and sustainability of homestay programs (Othman & Buang, 2021).

### *Developing New Conceptual Framework*

The following Figure 1 presents the proposed Institutional Theory and Homestay Performance (ITHP) model, which highlights the relationships between the independent variables, mediating variable and the dependent variable. The proposed conceptual model investigates the factors influencing homestay performance, incorporating quality governance as a mediating variable to strengthen the connections between institutional dimensions and organizational outcomes. The model is grounded in institutional theory, highlighting how external regulatory, normative, and cognitive dimensions influence and shape governance structures and operational effectiveness.

The independent variables include regulatory frameworks, community-based governance, capacity building and training, monitoring and evaluation mechanisms, and the mediating variable, quality governance, reflects the effectiveness of governance structures in fostering transparency, operational success, and sustainability. It plays a central role in translating the influence of independent variables into tangible outcomes. Metrics such as revenue generation, guest satisfaction, occupancy rates, and contributions to community well-being assess the dependent variable, homestay performance. This conceptual model provides a comprehensive framework to explore how institutional and governance factors collectively drive the performance and sustainability of homestay programs.

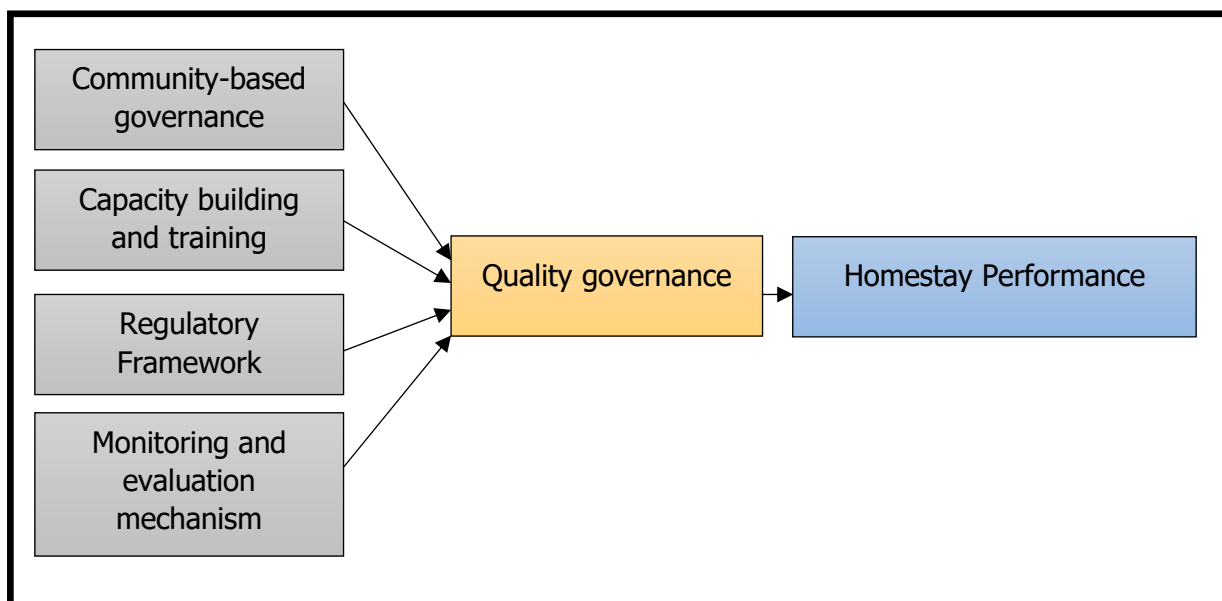


Figure 1: Institutional Theory and Homestay Performance (ITHP) model

The proposed conceptual model aligns with the objectives outlined in the Business Strategies for Upscaling the Malaysian Homestay Experience, 2017-2026. This strategic plan emphasizes enhancing the homestay sector through structured governance, community involvement, capacity building, and effective monitoring mechanisms. This alignment suggests that the model is consistent with the strategic directions set forth in the national plan, aiming to elevate the homestay experience in Malaysia.

### Conclusion

This study aims to develop a novel conceptual model by engaging with institutional theory. The conceptual model offers a systematic framework to comprehend the intricate relationship between institutional elements and homestay performance. It underscores that strong governance frameworks, bolstered by clear legislation, community engagement, skill enhancement, and accountability systems, are essential for the longevity and effectiveness of homestay programs. As this paper represents a research project proposal, the next step involves conducting Exploratory Factor Analysis (EFA) using pilot data, followed by Confirmatory Factor Analysis (CFA) and PLSE- SEM with data collected during fieldwork. These analyses are essential for validating the relationships among the constructs.

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