

Disruptive Innovations: Shifting Away Revenues from Traditional Homestay Businesses

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Abstract:

This study sought to understand the homestay business through the eyes of selected stakeholders in which consumers' needs, wants and demands are tied. Understanding "what do customers want" plays a vital role for homestay business success as customers are the key for business growth and profitability, while technological change is causing all the changes in customers' behavior, experiences and thinking that require homestay operators to change to meet changing customer needs. The question of how much disruptive innovation shifting away revenue from traditional homestay business is a big concern. Methodological approach stakeholder inquiry was conducted in this study comprises of two groups (1) Registered homestay operators and (2) Unregistered homestay operators to elicit stakeholders' views on the homestay revenue. Thus, the subjective views of these groups formed an integral part of the analysis and recommend the importance of a collaborative economy homestay business model among tourism stakeholders to serve the customer better from competition to network collaboration.

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I. INTRODUCTION

The trend of declining Ministry of Tourism, Arts and Culture (MOTAC's) homestays in Selangor can be seen through not only in terms of the number of tourist arrivals which declined to 21,976 in 2019 from 40,292 in 2018 but also the income generated from homestay business in 2019 leading to a decrease in income generated at RM954,091. The number of MOTAC homestays in Selangor further dropped from 16 homestays in 2008 to 15 homestays in 2009, due to homestay operators withdrawing from being registered homestays like *Homestay Setangkas* followed by *Homestay Seri Kayangan* in the year 2018. Moreover, the trend of declining number of MOTAC's homestay in Selangor keeps increasing when *Homestay Sepintas*, *Homestay Kg. Endah*, *Homestay Kg. Sg. Lang Tengah*, *Homestay Kampung Kundang*, *Homestay Kg. Batu Laut*, *Homestay Kanchong Darat* and *Homestay Sg. Tenggi* became inactive homestay business in the year 2019. Increasingly, registered homestay operators choosing to be idle homestay business, leading to the all-out number of active MOTAC homestays reducing from

16 homestays to 11 homestays in 2019 when the other two new homestays *Homestay Sg. Semilang* and *Homestay Felda Bukit Cherakah* being registered as MOTAC's homestay in 2018 (MOTAC, 2020).

The homestay business performance of the MOTAC homestays in Selangor was found when the researchers compared registered homestay operators with unregistered homestay operators. We have all seen the rise of sharing economy, and many of us have made use of it to earn or save extra money. Home-sharing owner uses online platforms to advertise and provide a booking channel to tourists. One of the well-known platforms is Airbnb. Airbnb is a trusted web-based business that connects people to varieties of accommodation and travel experiences at any price, in more than 65,000 cities and 191 countries [1]. But as we move toward a skill-and-asset-swapping culture, there are challenges ahead.

Based on industry evidence, according to Malaysia Healthcare Travel Council (MHTC) innovative improvements and the development of digitization

are the main thrust behind the rise and fast development of sharing economy. Thus, the accomplishment of the sharing economy has negatively affected the traditional MOTAC homestay business model especially for operators who don't take into account these evolving patterns [2]. In the tourism and hospitality sector, the rise of the sharing economy is highly visible and many companies are actively participating in the sharing economy to survive from endogenous and exogenous challenges in tourism risks and uncertainty of transformed tourism business practice in which significant factors shape the severity of tourism crisis [1].

In Malaysia, those who advertised their homes or budget hotels on short-term rent on Airbnb or other business websites are classified as unregistered homestay operators if they did not register their homestay business with MOTAC. These unregistered homestay operators operate their homestay business without following the guidelines and procedures stipulated by MOTAC. Furthermore, according to MOTAC, unregistered homestay operators used the brand of 'homestay', projecting a false image of a true Malaysian homestay experience to tourists. In addition, according to MOTAC many complaints had been lodged against unregistered homestay service apartment providers as tourists have complained of having been cheated in homestay programs. Unregistered homestay operators only provide normal accommodation without giving the tourists an opportunity to experience other cultures and "Kampong" lifestyles with homestay operator's families (MOTAC, 2014). This study sought to understand the registered homestay operator's business through the eyes of selected stakeholders in which consumers' needs, wants and demands are tied. Understanding "what do customers want" plays a vital role for MOTAC's homestay business success as customers are the key for business growth and profitability, while technological change is causing all the change in customers behavior, experiences and thinking that require homestay operators to change in order to

meet changing customer needs. The question of how much disruptive innovation shifting away revenues from MOTAC's homestay traditional business model is a big concern. Therefore, the main objective of this study is to measure and compare the homestay cost of operations and revenue/income earned between registered homestay operators and unregistered homestay operators from the homestay business in Selangor, Malaysia.

1.1 The Theory of Disruptive Innovation

The theory of disruptive innovation (in the future "interruption theory") was articulated by Christensen to depict new advancements that rethink a whole market and can improve products or services in unforeseen ways [3]. Christensen and Raynor [3] utilize the term 'disruptive innovation' as an advancement of Christensen's previous work on 'disruptive technology' [4], in this manner extending interruption to incorporate the service sector. In this structure, they propose two sorts of disruption: 'new advertise disruptions,' which include making another market that satisfies a formerly neglected need, and 'low-end disruptions,' which include new innovations to surpass the exhibition of now established business models [3]. Christensen [4] recognizes the term 'disruptive' is regularly overused, yet in addition argues that it has a particular significance, alluding to 'a procedure by which a product or service flourishes at first in straightforward applications at the base of a market and after that tenaciously moves up market, in the long run dislodging set up competitors'. As indicated by this definition, disruptive innovation along these lines rethinks rivalry inside a market, frequently rendering built up business models inefficient or uncompetitive. Disruption hypothesis has been the subject of much discourse, critique and debate, including its prescient capacity [5], the clearness of its criteria [6], and exact inclinations in the particular testing of 'successful' cases [7].

Studies portray the stages and characteristics of disruptive innovation that apply to the two products and the service segment and have recognized three

characteristics of disruptive innovations based on Christensen's work: performance, benefits and market [5].

1.2. Traditional Homestay Business

Traditional homestay business or so called "homestay brick and mortar" is the way of doing homestay business physically; the homestay business can also be marketed offline where people come, see or browse through the homestay products or services and buy homestay package as their wish at the physical homestay place. Traditional homestay business carries out homestay marketing strategies through offline media channels to create public awareness of a homestay's products and services like radio, television ads and print advertising such as billboards, signs and pamphlets. Offline homestay marketing strategies tend to be more expensive because they require the traditional homestay business to develop all-encompassing plans before implementing campaigns in which the homestay business must first decide who is their target market and determine what media channels it can use to reach the customers. They have a limitation because offline homestay marketing on average only runs for a period that the homestay pays the broadcaster, which only caters to short-term exposure. In terms of measurability, offline homestay marketing strategies offer only limited ability to target a specific audience and is not an effective way to measure the conversion of an ad because it is impossible to tell everybody about the homestay sales or promotions. In Malaysia, homestay is classified as community-based rural tourism. It involves the rural local community to work together offering to the tourists the beautiful culture and heritage experience of life in the "kampong" with Malaysian family thus, tourists have the unique opportunities to learn about the family lifestyles and cultures. Most homestays are operated by small-scale farmers and villagers, assisted and monitored by the state government, the Ministry of Tourism, Arts and Culture (MOTAC), Tourism Malaysia and Tourism Selangor Sdn Bhd.

Through homestay business, the rural local community can sustain their tradition and identity as well as shared benefits from the homestay business (MOTAC, 2011).

II. METHODOLOGY

Methodological approach stakeholder inquiry was conducted in this study comprises of two groups (1) Registered homestay operators and (2) Unregistered homestay operators in Selangor, Malaysia to elicit stakeholders' views on the homestay revenue. The diversity of these stakeholder groups and how their perceptions of Malaysian homestay business concepts, their interests, expertise, needs, problems and challenges are seen to have a significant impact on the development of homestay collaborative economy business model enable for the homestay business survive in is sharing economy- a new business model collaboration that led to an increase in productivity through disruptive innovations and the emergence of social media (e.g., YouTube, Instagram, Facebook, WhatsApp) has contributed to direct revenue from spreading the sharing of goods and services through online platforms. The researchers were particularly interested in how the stakeholders understand Malaysian homestay business concept and its contribution to socioeconomics and how they think homestay business can engage with the consumers knowing tourism is a dynamic and competitive industry that exposed to rapid and challenging development. A qualitative approach was applied using in-depth interviews with selected stakeholders that included 15 registered and 15 unregistered homestay operators in Selangor from MOTAC list and Airbnb website.

III. RESULTS

Through in-depth interviews, we learned that one of the main motivation factors and the encouragement to participate in the homestay business was the income. The success of the sharing economy has had a negative impact on traditional businesses across

various industries that do not cater to these changing trends. This study reveals not all operators who engaged in homestay business received a good income after a long involvement in the homestay business led to more registered homestay operators are demotivate and withdraw from being a registered MOTAC's homestay [8]. Hence, the researchers describes four major themes as follows:

3.1. Theme 1: Cost of Operation from Homestay Business of Registered Homestay Operators

Our findings reveal that the registered homestay operators do not have a bookkeeping record such as cash IN and cash OUT flows. Thus, most operates do not have any knowledge regarding their average total cost of their homestay business. The findings reveal that on an average, registered homestay operators receive four tourists per month, and the average length of their stay is 3 days 2 nights (3D2N). Thus, their estimated average cost of operation is RM 761.00 (Table 1). This result is also supported by the study by Bachok et al. [9], who stated in their research that the monthly expenses of homestay operators were mostly in the range of RM 100.00 to RM 999.00 and the rental cost of the homestay was normally standardized by the head of the homestay. The majority of homestay operators charged between of RM 51.00 and RM 100.00 per night, per person (including food), and the average number of tourists were two or three persons monthly with a minimum stay of duration of two nights. In contrast, the study by Ibrahim et al. [10] showed that hosting a guest per night would cost roughly about RM 23.00 including three meals, electricity, and water. However, from the researchers' perspective, this cost is too low and may not be relevant anymore under the current economy.

Table I:
The Registered Homestay Operator's Average Cost of Operation Homestay for 3D2N

Item	Quantity	Unit Price RM	Calculation	Total RM
Utilities (e.g. electricity, water, etc.)	2 Nights	10	(2N x RM10) x 4 Pax	80.00
Accommodation	2 Nights	30	(2N x RM30) x 4 Pax	240.00
Meals	3 Days			80.00
• Breakfast	4		• Lunch (RM8 x 4 Pax)	
• Morning Tea	4		• Afternoon Tea (RM4 x 4 Pax)	
• Lunch	8		• Dinner (RM8 x 4 Pax)	112.00
• Afternoon Tea	8			
• Dinner				
			Day 2	
			• Breakfast (RM 4 x 4 Pax)	64.00
			• Morning Tea (RM4 x 4 Pax)	
			• Lunch (RM8 x 4 Pax)	
			• Afternoon Tea (RM4 x 4 Pax)	
			• Dinner (RM8 x 4 Pax)	
			Day 3	
			• Breakfast (RM 4 x 4 Pax)	
			• Morning Tea (RM4 x 4 Pax)	
			• Lunch (RM8 x 4 Pax)	
Transportation	3 Days	10	(3Days x RM10) x 4 Pax	120.00
Miscellaneous	3 Days	5	(3Days x RM5) x 4 Pax	60.00
Homestay committee account*	Monthly	5	(RM5 x 1)	5.00
Total Cost of Production 3D2N				761

Note: Visitor check-in time 2.00pm and check-out time at 12.00 noon. * Fixed monthly payment RM5

to the homestay committee account only applicable when homestay operator received the tourist.

3.2. Theme 2: Revenue of Registered Homestay Operators from the Homestay Business

Registered homestay operators receive homestay revenue through various homestay packages and additional homestay activities. Our results indicate that the homestay packages in Selangor ranged between RM 135.00 and RM 250.00 inclusive of the accommodation, food, and basic homestay activities. The revenue from the homestay would vary accordingly based on the homestay packages selected by tourists as well as whether the tourists participate in the additional homestay activities such as cultural activities and traditional games. The findings also reveal that most MOTAC homestay operators do not have proper homestay pamphlets or brochures as marketing tools to inform tourists about their homestay services and activities. Thus, they faced challenges related to marketing and promotion of their homestay business.

This result is supported by some studies including Murillo et al., [11] and Oskam and Boswijk, [12] which state that tourism is a dynamic and competitive industry. When the industry is exposed to rapid and challenging development, it requires the ability to adapt constantly to the customers' changing needs and desires because customer satisfaction, safety, and enjoyment are the main focus of the tourism industry. Unfortunately, at present, our findings indicate that registered homestay operators faced challenges in terms of lack of homestay marketing and promotions because of the lack of knowledge and understanding of the industry, creativity, and entrepreneurship skills, leading to diminishing number of homestay tourist arrivals.

The results of this study also suggest that the rise of the economic-technological phenomenon of the sharing economy facilitated through online platforms requires registered homestay operators to move from

the traditional marketing space to digital marketing by using ICT technology and social media, for example YouTube, Instagram, Facebook, and WhatsApp, to publicize their homestay products and activities through online platforms to survive the challenges ahead. Hence, through digital platforms, registered homestay operators can flexibly offer their services to a larger number of tourists without incurring additional costs as well as increase their profit margins as the tourists become aware about homestay products and more attractive homestay offers.

3.3 Theme 3: Income Generated by Registered Homestay Operators from the Homestay Business

The result of the comparison of the income between registered homestay operators and unregistered homestay operators indicates there has a large gap in the income generation. The average homestay income received by registered homestay operators is between RM 191.00 to RM 529.00 per month because of the lack of tourists arriving, whereas that of unregistered homestay operators is between RM 4,000.00 to RM 15,000.00 because the homestay activities do not depend on the season (Table 2). This study reveals that not all registered homestay operators who engaged in the homestay business received good income after a long involvement in the homestay business. Therefore, more registered homestay operators are demotivated and become hesitant to fully commit and prone to retract when they see little advantage and no adequate income generated from being a registered MOTAC homestay operator.

Table II:

The Registered Homestay Operator's Average Income Statement Generated Without and With Homestay Activity

Item	Calculation	Without Homestay Activity (RM)	With Homestay Activity (RM)

Revenues		1,000.00	2,450.00		committee account**		
(Package 3D2N: RM250)	RM250 x 4 Pax	1,000.00	1,000.00		Total commission	(47.80)	(1,160.00)
(+) <u>Example Additional Homestay Activities:</u>					Net income	191.20	529.00
• Batik painting	RM100/session		1,450.00	<p>Note: *Fixed monthly payment RM5 to the homestay committee account only applicable when homestay host received the visitor. **Additional homestay activities are managed by homestay coordinator together with the representative from the local community.</p> <p>Hence, through digital platforms, registered homestay operators can flexibly offer their services to a larger number of tourists without incurring proportional additional costs as well as increase their profit margins as the tourists become aware about homestay products and homestay offers become more attractive. In terms of the income generated from MOTACs homestays, the results of our study suggest that to enable registered homestay operators to survive in their homestay business, they must be able to market and manage their homestay business aggressively, have 100% power to control their owned business, and attract more homestay tourist arrivals to boost their homestay income. Registered homestay operators need to transform from the traditional business model to new homestay business models innovated from the emerging economic-technological phenomenon facilitated through online platforms, thus creating a win-win situation and engaging stakeholders in their homestay business through collaborative networks, which have a significant impact on homestay performance.</p> <p><i>3.4 Theme 4: Non-existent Online Presence and Poor Tourism Networks Collaboration</i></p> <p>Findings from this study indicates most registered homestay operators faced the lack of digital marketing and promotion as well as poor tourism networks with tourism industry players to accommodate millennial travelers. Traditional MOTAC's homestay business appear harder to</p>			
• "Cempuling"	RM300/session						
• Cooking package	RM200/session						
• Traditional Dances (3 Types)	RM350/session						
• 'Silat'	RM200/session						
(-) Expenditure		(761.00)	(761.00)				
• Cost of Operation*							
Gross income		239.00	1,689.00				
(-) Homestay commission	20% from gross income will be credited to homestay committee account if no additional homestay activity	(47.80)	-				
(-) Homestay commission from additional homestay activities	80% of the total additional homestay activities revenue will be credited to homestay	-	(1,160.00)				

survive with the emerging IT trends when non-existent online presence in MOTAC's homestay traditional business model. These days, almost everyone is online and if homestay business cannot be found online, homestay operators will be missing out many tourists.

A participant from unregistered homestay said, *"...There are not many business opportunities that I can get free marketing and access to the big number of renter... more people now opting to use Airbnb... guest looking for a 5-star home with a cheaper price...I'm renting out several apartments and rooms full time and has welcomed over 600 guests...There is good demand although I do not provide any activity"* (Participant 16).

Unlike MOTAC's homestays, the tourists can only view the list of registered homestay operators from the official MOTAC's website at <https://www.tourism.gov.my>. There is a limited number of mobile website (web apps) to book a registered homestay, as well as no registered homestay app is available to download and install from an online store such as App Store or Google Play.

Moreover, the growth of the collaborative economy in tourism has emerged as a response to several problems characterizing the traditional homestay businesses. It allows customers and providers to directly link enabling idling resources to be used, and it also minimizes transaction costs.

Chang [13] in his study on 'Growing Pains: The Role of Regulation in the Collaborative Economy', stated that *"A collaborative economy gives everyone the capability to access underutilized or unused assets...the collaborative economy is so powerful because people stand to gain something from their participation lead to constitute a powerful force that redistributes social and economic power into the hands of the consumer...collaborative economy offers a distributed network of individuals builds upon a foundation of trust...large networks are*

exponentially more valuable than smaller network thus increasing the possibility of monopolizing in the market".

Findings from this study also reveal that registered homestay operators do not have networking in their homestay business as well as collaborative partnership, leading to the poor performance of homestay business because they don't have an online presence. Without an online presence, registered homestay operators would potentially be missing out on the biggest free exposure to a worldwide audience, not only lack of MOTAC's homestay brand recognition but also missing the potential leads and sales. A participant from unregistered homestay mentioned that, *"...I don't have network...I do not know how to engage with people that I not really know...I don't know anyone..."* (Participant 20).

The effectiveness of the online homestay marketplace to connect people with a large network example like Airbnb shows the possibility of unregistered homestay operators monopolizing the homestay market. This trend can be seen when the number of unregistered homestay operator is increasing. Small profits and competition with the increasing number of unregistered homestays have further demotivated registered MOTAC's homestay operators to upgrade their facilities and compromised the quality of services as perceived by tourists [14] and [8].

This result is supported by some studies Ravichandran [15]; Roberts and Grover [16]; Ramayah et al. [17]; Lu and Ramamurthy [18]: nonexistent online presence and poor collaboration between tourism networks cause traditional MOTAC's homestay business seen harder to survive in emergence IT trend thus, firms that neglect to react properly disruptive innovation tend to lose market openings and to become obsolete or extinct. The result in this study also suggests that to respond to disruptive innovation, registered homestay

operators need to create capabilities in the face of new circumstances to accomplish the agility. Thus, the MOTAC's homestay traditional model needs to transform to homestay network collaboration model to survive with the challenges ahead. These days, almost everyone is online. Hence, this study suggests that registered homestay operators should actively promote homestay business through digital marketing, accommodate millennial travelers, create social media accounts and regularly update and engage with tourists, promote homestay products and activities and announce any homestay package special offers.

Moreover, for homestay business to create and maintain good reputation, tourists should be encouraged to leave a review on the registered homestay operator's website, social media or review sites. When potential tourists see the reviews online, they might think better about MOTAC's homestay and choose to purchase homestay package. However, if homestay business can't be found online, registered homestay operators start missing out many tourists. Therefore, by making an online presence can help tourists find out about MOTAC's homestay business and know how to contact and find the MOTAC's homestay location.

IV. CONCLUSION

In conclusion, the overall findings of this study offer some implications to improve the existing guidelines on homestay businesses for authorities, particularly MOTAC and local authorities, who give licenses for homestay businesses. Businesses involving lodging houses for all residential apartments, condominium, flats, and gated private houses should be regulated. The homestay businesses should only be allowed to operate with a license, irrespective of whether they use the term "homestay" in promoting their homestay business. Furthermore, the findings of this study denote the importance of the homestay business sharing economy via the collaborative economy model among homestay stakeholders

which gives an energy practice of the traditional homestay business longevity in an effort to serve the customer better from competition to network collaboration.

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