Agglomeration Strategy towards Rural Resilience: Perspectives of Homestay Tourism Operators in Sri Lanka as a Developing Tourism Economy

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ABSTRACT: Rural homestay operators are vital to Sri Lanka's tourism-driven socio-economic development. However, remain disproportionately vulnerable to economic and environmental shocks due to limited resources, inadequate training, and weak institutional support. This qualitative study examines how agglomeration strategies (AS) can strengthen rural resilience (RR) addressing the limitations and opportunities of homestay operators in the Kandy District. Data was collected from 15 homestay tour operators registered in SLTDA using semi-structured interviews using purposive sampling method and analyzed through content analysis. Findings reveal that collaboration is constrained by relational, resource-based, and regulatory barriers, including communication difficulties, competition arising from inconsistent service standards, lack of a common vision, and complicated licensing procedures. However, significant opportunities emerge through mutual assistance, knowledge sharing, joint packages, and shared marketing and transportation, which enhance networking, reputation, and skill development. The study concludes that cooperative governance frameworks, capacity-building, and integration of homestay networks into regional tourism strategies are essential for transitioning operators from vulnerability to systemic resilience, offering practical implications for policymakers supporting and empower the Sri Lanka's rural tourism MSME sector.

Keywords: Agglomeration Strategy, Rural Resilience, Homestay Tour Operators, Developing Tourism Economies, Sri Lanka

1 INTRODUCTION

Tourism stands as one of the world's most dynamic and fastest-growing industries serving as a critical engine for socio-economic advancement, employment, and cross-cultural exchange. In Sri Lanka, tourism is the country's third-largest source of foreign exchange contributing 4.9% to the national GDP and providing direct or indirect employment to over 388,000 individuals. However, this growth remains inherently fragile over the past two decades, as Sri Lanka's tourism sector has faced recurring disruptions which have severely undermined resilience. These challenges range from the three-decade civil war that concluded in 2009, to the 2019 Easter Sunday terrorist attacks, the global COVID-19 pandemic and natural disasters. Such volatile history underscores the urgent necessity of developing tourism systems capable of handling external shocks and resisting disturbances without compromising the stability of local communities or the livelihoods of who depend on the tourism industry where majority

represents the MSMEs (Micro, Small, Medium Enterprises)

In this context, homestay tourism has emerged as a key mechanism for socio-economic revitalization and to ensure sustainability of rural areas. By enabling visitors to reside with host families, homestays concept provide authentic cultural experiences while routing direct economic benefits to local households[1]. Although the concept remained underdeveloped during the crisis situations in past years, the sector has expanded significantly since 2009, reaching 1,112 registered tourism business by 2026 [2]. Despite this potential, homestay operators confront multifaceted economic and environmental challenges including inadequate infrastructure, limited market visibility, and high vulnerability to natural disasters and trade disputes.

To mitigate these risks the agglomeration strategy geographically proximate the firms cluster to share resources, foster collaboration, and exchange knowledge has emerged as a strategic solution for small-scale operators to overcome challenges [3]. By examining the perspectives of homestay operators in the Kandy District Sri Lanka, this study explores how agglomeration strategies influence rural resilience. Specifically, exploring the opportunities and limitations associated with implementing agglomeration strategies in the unique socio-economic landscape of Sri Lanka. Hence, the study aims to contribute to a deeper understanding of resilience-building strategies and providing actionable insights for sustainable tourism development in rural communities while ensuring the resilience.

2 LITERATURE REVIEW

2.1 *Conceptualizing Tourism Resilience*

Tourism resilience has increasingly become a critical imperative for businesses, communities and destinations facing systemic shocks[4].While resilience was historically conceptualized as "bouncing back" from adversity, and contemporary literature emphasizes it as "bouncing forward" which is a transformative capacity that enables organizations absorb shocks and adapt to improve capabilities for long-term development. This evolutionary perspective in resilience reflects as a dynamic process rather than a static state where tourism systems continuously reorganize to maintain business functionalities in the face of uncertainty.

The explanation on resilience agility which is a managerial approach encompassing operational, network and destination levels highlights the need for a comprehensive strategy to identify and bridge competence gaps in the business [5]. The approach is essential for practitioners to incorporate both forced and voluntary transformations to ensure that tourism systems remain resilient and sustainable in the "new normal" situations. The adaptive capacity is critical for rural and community-based tourism to mitigate the vulnerabilities inherent in tourism-dependent economies which are susceptible to economic, environmental, and geopolitical disruptions.

2.2 *Challenges in Rural and Homestay Tourism*

Small tourism enterprises including homestay operators play a vital role in rural development by preserving cultural heritage of the destination, supporting local livelihoods and enhancing social cohesion [6]. These enterprises are particularly prone to crises because they operate with limited financial resources, inadequate formal training, and a high dependence on external demand than stick to business strategies [7].In the Sri Lankan context, the tourism industry has faced recurring disruptions which have severely undermined the resilience of small-scale operators which lead to fluctuations in the economic gains. The home-based businesses are operating solely on convenience and particularly for women entrepreneurs with lack dedicated premises and formal institutional support are highly vulnerable to shocks. Consequently, maintaining the continuity and viability of these small-scale operations necessitates strategic interventions that move beyond mere survival along with new strategic support [8].

2.3 *Agglomeration Strategies as Resilience Mechanisms*

To overcome the constraints inherent in small-scale rural tourism, the literature emphasizes the strategic importance of agglomeration for clustering of geographically proximate firms in offering complementary services. By fostering functional connectivi-

ty, operators can leverage synergistic effects, pool resources, and share knowledge for creating effective "homestay-rural" community network[9]. This clustering mechanism not only promotes efficiency but also enhances collective competitiveness by enabling consensus in strategic decision-making and facilitating risk-sharing among stakeholders [10].

Agglomeration strategies go beyond simple co-location which involved the creation of integrated visitor itineraries and the consolidation of resilience [9]. As evidenced in various contexts, such partnerships between homestays, local residents, and village collectives foster sustainable resilience which enabling stakeholders to capitalize on their respective resource advantages[11]. Furthermore, integrating sustainability and community social responsibility into the business models, operators can signal stability and foster trust among tourists which is essential for long-term viability. The public sector plays a pivotal role in these frameworks in providing the governance necessary to institutionalize cooperative efforts and overcome the fragmented approaches often seen in rural destination management.

2.4 *Empirical Gaps in Rural Tourism Resilience*

Despite the growing recognition of agglomeration as a resilience-building there is a significant empirical gaps remain in the literature in different context. While research from developed nations, such as China demonstrates how localized practices of rural tourism service providers can enhance cross-scalar resilience[12]. The application of these strategies in rural regions of developing countries remains limited. Existing studies have frequently focused on disaster management in to destination level than community-based tourism focused on rural areas. This has created a gap in understanding how small-scale operators in specific contexts such as the Kandy District of Sri Lanka can effectively implement agglomeration to foster tourism resilience.

Furthermore, although policymakers have identified resilient tourism as a core priority, there is a lack of context-specific analysis on understanding the opportunities and limitations associated with implementing these strategies at a local level. Given that the majority of agglomeration research is centered on urban settings in developed nations, rural regions in developing countries like Sri Lanka remain relatively understudied. This study aims to address this knowledge gap by exploring how agglomeration strategies influence rural resilience within the homestay sector, thereby contributing to a deeper understanding of sustainable tourism development in volatile contexts [12]

3 METHODOLOGY

This study employed an interpretivist qualitative case study design to explore the opportunities and challenges of adopting agglomeration strategies (AS) for rural resilience (RR) among homestay operators in Kandy District. Given the absence of a centralized operator registry, the study utilized a purposive sampling to select 15 operators with a minimum of five years' industry experience ensuring information-rich case. Interviews continued until thematic saturation was reached. Data were gathered through semi-structured face-to-face interviews in duration of 30 minutes conducted in Sinhala and English based on participant preference. The interviews were audio-recorded with informed consent, transcribed verbatim and translated where necessary. Data were analyzed using inductive thematic content analysis following six-phase framework.

4 RESULTS AND DISCUSSION

4.1 *Challenges and opportunities caused by homestay tourism operators when implementing an agglomeration strategy to enhance rural resilience*

4.1.1 *Challenges*

Challenges initially took place in some main aspects: communication barriers, competition, Lack of common Vision, and regulatory restrictions.

4.1.1.1 Communication Barriers

"Ummm..... Yes, one challenge I see here is that few people share the same opinion. Most homestays here are done by people from other regions. That's why there is a lack of communication."

(Respondent 01: Personal Communication - 2026)

The interviewee highlighted that among the key issues facing homestay operators is the absence of a common vision among stakeholders. The interviewee highlighted that the majority of the homestay business entities operating in the region have owners with origins from elsewhere. External involvement has led to limited local harmony as well as creating barriers towards effective communication. It therefore follows that the absence of a common vision constrains collaboration and reduces collective action capabilities among the operators.[13]

"We... face many challenges in terms of communication."

(Respondent 05: Personal Communication - 2026)

This interviewee highlighted communication issues which lead inability to maintain stable and meaningful relationships has curtailed cooperative network evolution. Also, the interviewee highlighted that the absence of a coordinated communication mechanism has made joint event organization particularly challenging. This lack of coordination negates collective marketing opportunities, resource sharing, and collaboration of community-based tourism endeavors.

4.1.1.2 Competition

"Some operators dislike our rates and, rather than referring guests to cheaper homestays, offer extra perks or discounts to win bookings themselves. This competitive mindset makes forming alliances or pooling resources difficult"

(Respondent 07: Personal Communication - 2026)

The rate differences among homestay operators, where differences in rates lead to dissatisfaction and rivalry. Instead of collaborating through the sharing of customers between homestays, some operators attempt to entice with discounts or additional services. This behavior reduces the likelihood of achieving alliances or pool resources, thereby preventing collective benefit.

"Sometimes, even though some homestays have a large number of guests, accommodation operators are hesitant to refer them to other nearby"

(Respondent 05: Personal Communication - 2026)

From this viewpoint, competition occurs due to the fact that operators do not wish to refer excess guests to close-by homestays. Despite their limited accommodation, some operators prefer retaining potential clients rather than promoting cooperation, and this violates cooperative possibility and trust in the business.

"Ummm.....Also, the goals of other homestay operators are a bit different from ours, so some operators often see each other as competitors rather than partners."

(Respondent 01: Personal Communication - 2026).

4.1.1.3 Lack of a Common Vision

"The lack of a common goal is one of the main obstacles and put more emphasis on long-term sustainability or cultural preservation, and others maximizing short-term profitability."

(Respondent 06: Personal Communication - 2026)

This response identifies the absence of shared vision as a serious impediment to collective action among homestay operators. Divergent priorities, such as the preference for sustainability against immediate profitability, lead to fragmented efforts. Promotional campaigns, resource utilization, and service standards become erratic, thereby diluting the overall effect of collective effort [9]

"Ummm... There is no common goal among the homestay operators here now. This is leading to disorganized efforts."

(Respondent 02: Personal Communication - 2026)

4.1.1.4 Complicated Licensing and Regulations

"Aaaa.... there are different legal standards here. Then many homestay operators here struggle to comply with the legal standards in the city."

(Respondent 01: Personal Communication - 2026)

This respondent points to the challenge of rural and urban disparity in terms of legal standards. Homestay operators of rural Kandy are challenged with adapting to city-focused regulatory requirements, which limits their ability to participate in collective or collaborative actions fully.

"Homestays in rural difficult time obtaining business permits than those in central Kandy, which could limit their capacity to work together on cooperative homestay projects."

(Respondent 08: Personal Communication - 2026)

Accordingly, the homestay operators provided comparable answers regarding the challenges caused by homestay tourism operators when implementing an AS to enhance RR. Respondents mentioned that Resistance to Change, Lack of Trust, Geographical Distance, and Differences in Service Standards are main considerations.

4.1.2 *Opportunity*

4.1.2.1 Helping Each Other

“ “When homestays get extra guests, they refer them to us. Hotels also contact us to arrange accommodation for tour guides, and we coordinate with local operators.”

(Respondent 01: Personal Communication - 2026)

This identifies the cooperative practices among homestay operators and local hotels in managing excess demand. As guest numbers increase, additional visitors are referred to other homestays or on-sold to tour operators, exemplifying the cooperative system that promotes business opportunities for more than one stakeholder.

“If the other guests increase, they will contact us and give us those guests.”

(Respondent 02: Personal Communication - 2026)

This finding also supports the cooperative guest-sharing behavior. Operators readily transfer surplus guests to others and exhibit mutual trust and interdependence, that they subscribe to a cooperative relationship in the homestay business[5].

4.1.2.2 Learning from each other

“Some operators may know how to decorate rooms beautifully, while another may know how to use social media to attract guests. This is where sharing tips comes in.”

(Respondent 03: Personal Communication - 2026)

This response identifies the sharing practices of homestay operators and local hotels in managing excess demand. During high guest numbers, excess visitors are transferred to other homestays or distributed to tour guides, indicating a concerned network that provides business opportunities for different stakeholders.

“Some people know how to serve the best Kandyan food, how to organize cultural activities.”

(Respondent 01: Personal Communication - 2026)

This finding also supports the existence of cooperative guest-sharing practice. Managers easily send redundant guests to others due to mutual trust and interdependence, enhancing cooperative relationships in the homestay sector.

4.1.2.3 Offering Package

“Hmmm..... In addition to accommodation, we provide Ayurvedic treatments and organic food to guests.”

(Respondent 03: Personal Communication - 2026)

This response focuses on the value-added diversification of homestay experiences in terms of organic produce and Ayurvedic therapies. In extending beyond mere provision of lodging, operators create unique experiences that target niche markets and enhance satisfaction.

“We partnered with a local tour operator to provide our clients with special packages that included transportation.”

(Respondent 06: Personal Communication - 2026)

This statement illustrates package collaboration through partnerships with indigenous tour operators. By putting together accommodation with cultural tours, performances, and indigenous experience, operators create holistic packages that enhance competitiveness and regional tourism.

4.1.2.4 Offer Divers Experience

“We arrange tours for tourists to Hanthana and Ambuluwa. For this, we are supported by the Amaya Hotel in Kandy.”

(Respondent 04: Personal Communication - 2026)

This is an example of collaborative tour organizing, whereby homestay operators collaborate with hotels such as the Amaya Hotel to organize excursions for tourists. Collaborations such as these serve to enrich tourist experience while encouraging cross-business cooperation.

“By staying at various homestays, we created a "Kandy Homestay Cycle" that enables visitors to see various areas of Kandy.”

(Respondent 05: Personal Communication - 2026)

By analyzing responses given by the interviewees it shows above by the main opportunities caused by homestay tourism operators when implementing an AS to enhance RR. In here respondent also men-

tioned sub-categories. They are Sharing resources, problem-solving, collaborative packages, joint packages, package deals.

Table 1. Category summary

Core Category	Category	Theme	Sub-Themes / Codes
Challenges	Challenges in working with other homestay operators	Communication barriers	1. Resistance to Change 2. Lack of Trust 3. Geographical Distance
		Competition	1. Differences in Service Standards
		Lack of coordination	
	Impact of limited funds and resources on teamwork	Limited investment	1. Limited Investment in Shared Marketing 2. Inability to Invest in Shared Initiatives 3. Fewer Resources 4. Reduced Participation
		Lack of Proper Training Opportunities	
		Low moral	
	Problems associated with collaboration and trust	Cultural and Social Differences	
		Lack of a Common Vision	1. Poor Management of Disagreements 2. Standards 3. Different Goals
		Mistrust	1. Mistrust with Past Experience
	Regulatory barriers to collaboration	Complicated Licensing and Regulations	1. Tight Building Regulations 2. Environmental Regulations
		Too many Rules	
		Tax Challenges	
Opportunities	Advantages of working with other homestay operators	Helping Each Other	1. Sharing Resources 2. Problem Solving
		Learning from each other	1. Knowledge Sharing
	Contribution of homestay grouping to visitor growth	Offering Package	1. Collaborative Packages 2. Joint Packages 3. Package Deals
		Destination appeal	1. Destination Promotion
		Offer diverse experience	—
	Benefits of sharing marketing and transportation resources	Joint marketing	1. Enhanced Marketing Impact 2. Joint Promotions at Travel Fairs 3. Wider Reach
		Shared transportation service	
	New opportunities and skills gained through collaboration	Networking	1. Partnering with Local Businesses 2. More Activities
		Reputation growth	
		Skill Development	1. Innovation

Source: Developed by researcher, 2026

4.2 *Objective 1 & 2 : To examine the Challenges and Opportunities faced by homestay tourism operators in implementing Agglomeration Strategy to strengthen Rural Resilience.*

The objective is to explore challenges and opportunities caused by homestay tourism operators when implementing AS to enhance RR. Based on the data gathered from the participants, the following subthemes were developed. According to the challenges and opportunities code, the core categories created sub-categories. Several studies have examined the potential and challenges associated with challenges and opportunities caused by homestay tourism operators when implementing AS to enhance RR. According to the challenge[14] investigated that the

main problems facing homestays are lacking physical facilities, as well as a lack of skilled workers, expertise, marketing plans, collaboration amongst tourism stakeholders, preservation of natural resources, and visitor safety. [15] explained in the research as challenges of Malaysia's homestay, they classified challenges into internal and external challenges; Lack of market understanding and awareness, insufficient networking, and a lack of innovation and entrepreneurship skills are a few of these. According to this study, Homestay-driven rural tourism in Nepal employs traditional homes to offer reasonably priced lodging, increasing local revenue and protecting the environment while improving the skills and standard of living of locals. This strategy promotes young involvement in community development, creates jobs, and reduces rural-to-urban migration. Another investigation carried out by [1] explored the opportunities in tourism makers or businesses promote rural economic development by creating jobs, reducing poverty, and giving disadvantaged groups, especially women. They provide visitors with genuine experiences that increase the attraction of the place while promoting intercultural dialogue, community pride, and personal development. The author found that although Kandy District homestay tourism operators deal with issues like financial limitations, competitiveness, mistrust, and communication challenges, they also gain from cooperation through destination branding, sharing of resources, and shared marketing. Considering laws and regulations, collaborative efforts in travel packages and creative experiences build RR, indicating that further collaboration and policy assistance may increase the sustainability of the homestay industry. Results appear to be consistent with these and other studies' findings, which suggest that enhancing communication, fostering trust between homestay operators, getting supportive regulations into place, and encouraging cooperative projects like resource sharing and joint marketing can all greatly increase the AS ability to strengthen RR.

5 CONCLUSION

This study demonstrates that homestay operator's perspectives integral to rural development that remain disproportionately vulnerable to economic and environmental shocks due to limited resources, weak institutional support, and dependence on external demand [4]. Content analysis was employed with 15 homestay operators in Kandy District validates this vulnerability while identifying concrete pathways through which resilience can be built.

The findings show in terms of challenges that collaboration among operators is constrained by interlocking relational, resource-based, and regulatory barriers[16]. Participants described communication difficulties, including resistance to change, mistrust among peers, and geographical distance, alongside competition arising from inconsistent service standards both of which weaken coordination at the grassroots level of the tourism eco-system [17][9]. These relational resistances are compounded by resource constraints such as limited investment capacity, inadequate training, and low morale were repeatedly cited as barriers to joint marketing or shared initiatives. Homestay operators also pointed to an absence of common vision and unresolved historical mistrust as deeper obstacles to sustained cooperation in rural context. Based on the internal dynamics, a regulatory environment marked by complex licensing procedures, restrictive building and environmental rules, and tax burdens was consistently reported as difficult for individual, small-scale operators to navigate solely when operate in businesses.

Simultaneously, the data point to substantial opportunities when agglomeration is pursued deliberately. Operators who engaged in mutual assistance and knowledge sharing reported improved capacity to solve operational problems collectively[18]. Diversified service packages were associated with stronger destination appeal while shared marketing and transportation arrangements, particularly joint participation in travel fairs, were linked to measurable gains in market reach and promotional visibility. Several operators reported improvements in networking, reputation, and skill development as a direct result of collaboration suggesting that agglomeration functions not only as a defensive response to vulnerability but as an active driver of competitiveness and growth[19].

These findings carry practical implications for policy and practice. Public policy should move beyond fragmented, ad-hoc

initiatives toward formal support for homestay clustering through cooperative governance frameworks. Empowering local tourism boards and cooperatives to coordinate shared marketing and standardized service protocols could reduce administrative burden on individual operators while strengthening collective competitiveness embracing the agglomeration concept. Targeted capacity-building programs in digital literacy, service diversification, and sustainable business practices further support long-term viability. Integrating homestay networks into broader regional tourism strategies may help bridge urban–rural divides and build resilience extending beyond individual enterprises. Embedding sustainability and community social responsibility into operational practice than treating it as secondary aid operators preserve local cultural heritage while withstanding volatile market conditions.

This study contributes to the limited empirical literature on how agglomeration strategies operate within developing-country tourism contexts offering context-specific insight from Sri Lanka. The findings should be interpreted in light of the study's limitations as the study utilized purposive based sample of 15 homestay operators drawn from a single district constrains statistical generalizability. Future research employing larger, multi-district samples or mixed-methods designs quantifying theme prevalence support in validate and extend these findings across the small tourism business in developing economies.

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