

CHAPTER I INTRODUCTION

This chapter presents a comprehensive overview of the study by elaborating on the research background, problem formulation, objectives, research questions, scope, contribution, and the structural outline of the subsequent sub-chapters.

1.1 Research Background

Indonesia has emerged as one of the most important tourism destinations in Asia. This is due to the performance of the tourism sector which has continued to increase in the last 10 years (Damanik et al., 2018). Every region in Indonesia has a diversity of nature, art, culture, flora, and fauna, which will benefit the country if it is utilized in the development and increase of state revenue, one of which is through the tourism industry sector (Setyo et al., n.d.). With its extensive archipelago spanning from Aceh in the west to Papua in the east, Indonesia offers a diverse range of tourist attractions that highlight the country's abundant biological and cultural diversity (Mancacaritadipura, n.d.).

In recent years, the increasing global significance of the tourism industry has revitalized scholarly interest in examining the location determinants that influence the establishment of international hotels in tourist destination (Assaf et al., 2015). Alongside the expansion of Indonesia's tourist industry, the hospitality sector has seen substantial growth, becoming a competitive and appealing facility that supports tourism. The hotel industry's explosive growth nationwide, especially in popular tourist locations, is indicative of this tendency. About 13% of the 205 new hotels that were added to Indonesia in 2023 were five-star businesses, according to statistics from the Indonesian Central Bureau of Statistics (BPS). Increased demand for high-quality lodging to sustain the growing tourist industry is reflected in this rise. Bali, East Java, West Java, Central Java, and Yogyakarta have the most hotels, indicating that the hotel industry's growth is centered on popular tourist areas.

Hotels are vital to the tourist and hospitality sectors because they provide passengers the necessary lodging services. Hotels are classified as businesses that

provide room service, food and drink, and recreational amenities run for profit, under Regulation of the Minister of Tourism and Creative Economy of the Republic of Indonesia No. *PM.53/HM.001/MPEK/2013* (Yusniar Rahman et al., n.d.). With a variety of alternatives to suit the various requirements and interests of travelers, Indonesia's hotel business has seen tremendous expansion. It supports the larger tourist ecosystem and generates job opportunities, making a significant economic contribution to Indonesia. The hotel business is well-positioned to play a significant part in accomplishing the tourist sector's goals, which include contributing 4.6% of Indonesia's GDP by 2025 and 5% by 2029 (Hasudungan et al., 2021).

In considering hotel selection, there are several factors that encourage consumers to consider it, namely facilities, price, location, and other factors (Sany & Hapsoro, n.d.). Indonesia's hotel industry is characterized by a competitive climate, with local hotels emphasizing cultural distinctiveness and genuine experiences to appeal to both domestic and foreign tourists seeking local flavors, while international hotels offer luxury amenities and global standards to draw in foreign visitors (Dharmawan et al., 2018). Various factors such as differentiation strategies, environmentally sustainable technologies, service quality, marketing effectiveness, marketing orientation, innovation capacity, leadership approaches, information system utilization, managerial competencies, strong consumer relationship, budgetary considerations, and human capital collectively influence the competitive landscape and contribute to a hotel's overall competitive advantage (Firdawati et al., 2021). In the MICE industry, international hotels are often the go-to choice for large-scale events. Nevertheless, local hotels have their own benefits, drawing in a diverse clientele with their own cultural appeal and well-located venues, especially for domestic business meetings or smaller, more private events. While international hotel chains increase a destination's competitiveness and attractiveness on a global scale, local hotels may differentiate themselves by providing genuine, culturally immersive experiences. (Assaf et al., 2015).

Decision to choose an accommodation facility is crucial for travelers, yet this process is often complicated and complex. Understanding travelers' needs and

preferences can help hoteliers provide customized services to guests, which is critical to increasing occupancy rates. Over the years, hoteliers have sought to identify factors that influence guests' selection of the right accommodation, such as price, location, amenities, and cleanliness. In addition, factors such as room size, staff, food, and security and safety, especially after terrorist attacks, are also important considerations. Guests' preferences for accommodation facilities are often influenced by the reason for their trip, whether for leisure, business, conference, or transit (Nutsugbodo et al., 2022).

This research examines the variables that affect hotel guest's judgments while deciding between local and international hotels using binary logistic model. A binary logistic model examines the likelihood of binary dependent variable, which has only two possible values 0 or 1 (Nguyen & Vu, 2021). Binary logistic regression is a widely applied analytical method for examining cause and effect relationship involving binary outcome variables, such as the presence or absence of disease in epidemiological studies, positive or negative results in laboratory settings, and gender prediction in forensic identification of unidentified individuals (Srimaneekarn et al., 2022). This statistical technique is frequently employed to investigate existing issues by identifying associated factors and estimating the probability of a specific outcome in new or future cases. Binary logistic regression methods can assess the probabilities of various classes (Wang et al., 2022).

Study conducted by (Assaf et al., 2015) showed that the three most important factors influencing the selection of international hotel locations in host destinations were hospitality, infrastructure, and crime rates. These factors are considered the main determinants in determining whether a destination will be attractive or not for international hotels. According to research by (Dwi Astuti & Yolanda Sukmawati, n.d.) Gen Z considers five primary factors when selecting a hotel: pricing, brand, product and service quality, and genuine goods that provide accepted value. These elements are crucial in their decision-making process when selecting a hotel (place to stay).

Travelers are presented with the option of choosing between local and

international hotels in this situation, each of which offers unique features. Binary logistic regression analysis has been used to predict, from continuous and categorical independent variables such as hotel price, location, amenities, brand reputation and online rating, the probability that an observation will be classified into one of the two categories of the dichotomous dependent variable which is international and local hotel (Shrestha, 2019). This model has emerged as a standard analytical approach across various disciplines. A critical methodological concern, however, lies in determining the extent to which the findings derived from a sample-based logistic regression analysis can be validly generalized to the broader target population (Mastorakis, 2010a). Accordingly, this research seeks to determine the key determinants that affect consumer's preferences between international and local hotels in Indonesia, and to model the likelihood of hotel type selection through the application of a binary logistic regression framework.

1.2 Research Problem

Due to its ability to create employment, distribute money, and earn foreign currency, tourism is a significant business in Indonesia's economy. The main attractions for both domestic and international tourists are the area's historical significance, cultural diversity, and scenic beauty. The government has developed several tourism development initiatives aimed at enhancing community welfare to take use of this vast potential. In Indonesia's framework for economic growth, tourism has been acknowledged as a vital industry that makes a substantial contribution to regional development, job creation, and national revenue (Program & Vokasi, 2020). Due to its contribution to economic development, the

tourist industry is expected to expand from 5.8% of Indonesia's GDP in 2023 to 7.4% by 2027 By Badan Pusat Statistik, 2023 (Fadilla, n.d.). To boost tourism, the government through the Ministry of Tourism and Creative Economy in 2023 has put in place several initiatives, such as creating five super-priority priority tourist locations.

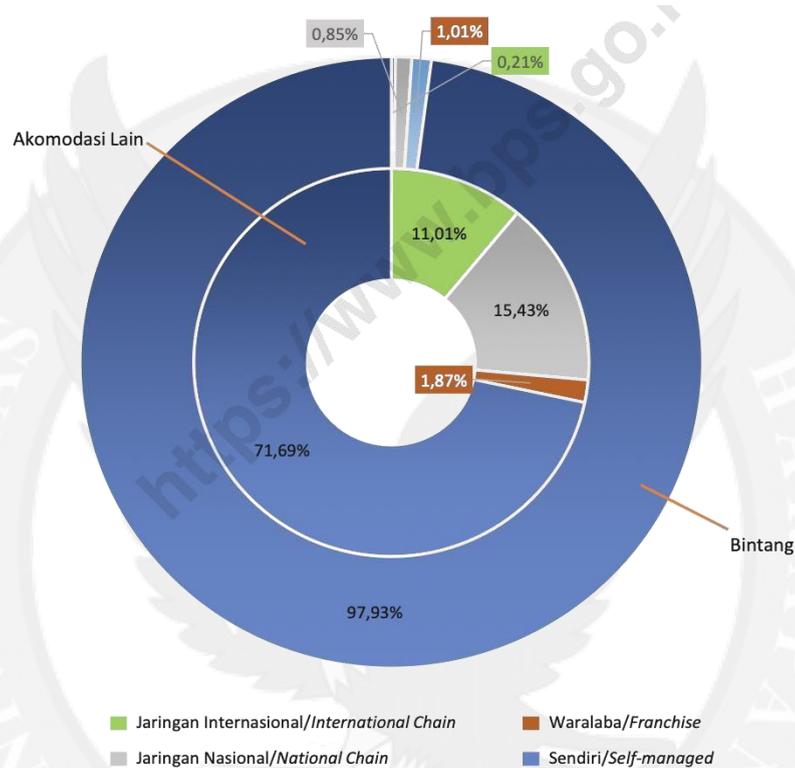


Figure 1. 1 Accommodation Business as a Percentage of Classification and Management Type 2023

Source : BPS

According to (BADAN PUSAT STATISTIK, 2024) Star-rated hotels and other forms of lodging have quite different management structures. International hotel chains manage 11.12% of star hotels, national chains manage 15.58%, and ten franchisees manage 1.89%, and self-management accounts for 72.40%. On the other hand, only 0.21 percent of non-star lodgings are run by foreign chains, 0.85 percent by domestic chains, 1.01 percent by franchises, and 97.93 percent by self-

management. Star-rated hotels tend to have stronger connections with both international and national networks. International networks provide access to global service standards, modern management systems, and extensive marketing through international reservation platforms, making these hotels more competitive, especially in the international tourism market. Similarly, national networks help maintain operational standards while effectively reaching local markets. Although franchise systems play a smaller role, they still offer advantages, such as well-established brand recognition and a structured business model.

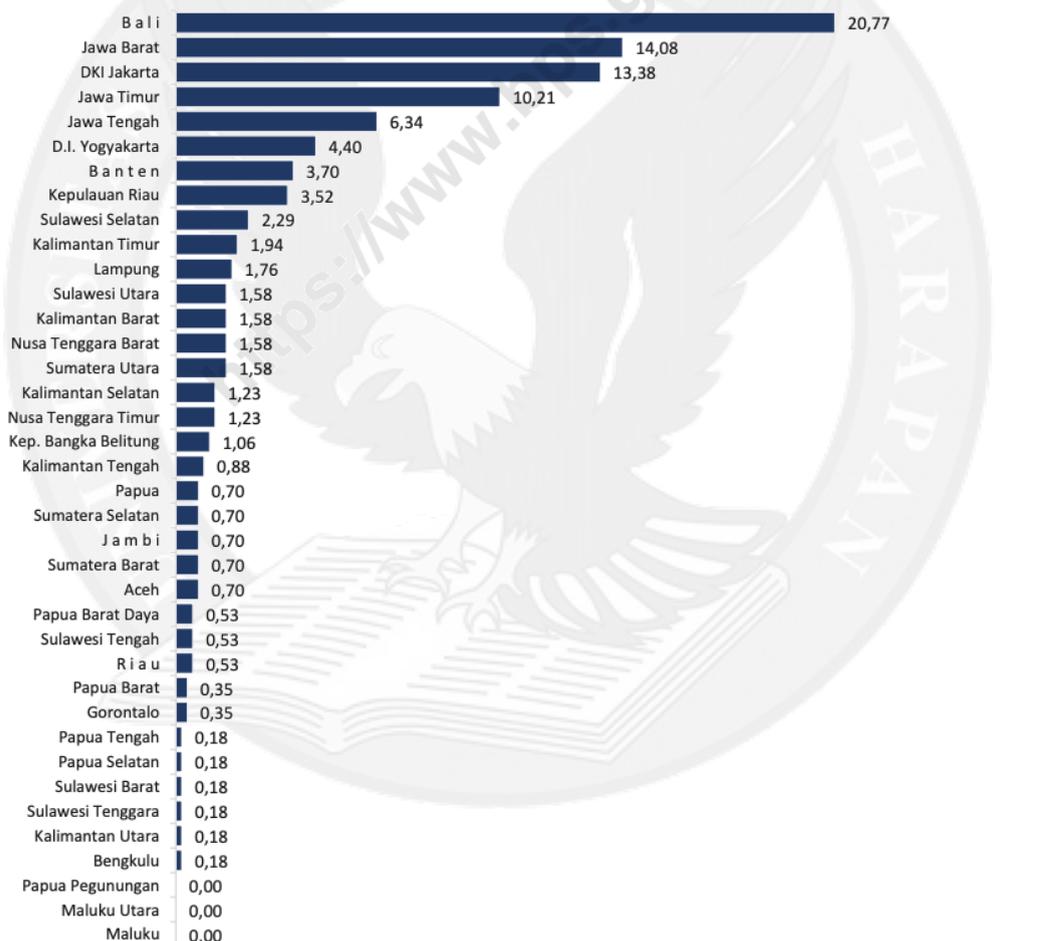


Figure 1. 2 Distribution of Indonesian Accommodations Companies with International Chains, 2023

Source : BPS

Most Indonesia's worldwide chain hotels are located on the Java and Bali islands, as shown in figure 1.2. With 20.77 percent of all foreign chain hotels in the nation, Bali Province has the largest proportion, followed by West Java with 14.08 percent and DKI Jakarta with 13.38 percent. On the other hand, there are no worldwide chain hotels in the provinces of Maluku, Maluku Utara, or Papua Pegunungan.

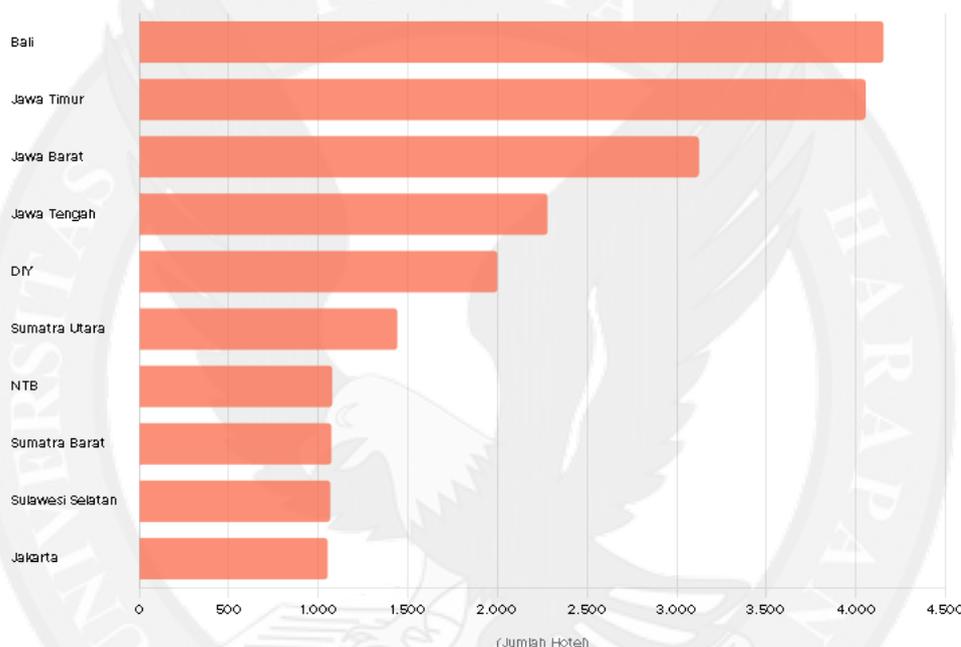


Figure 1. 3 List of 10 Provinces with the highest number of hotels in Indonesia based on BPS data 2024.

Source : BPS

The number of hotels spread across various provinces in Indonesia shows a significant concentration in several key tourism areas. Bali, as an international tourist destination, has the highest number of hotels with 4,154 hotels, reflecting the high demand and attractiveness of the region. East Java and West Java also recorded a high number of hotels, with 4,055 and 3,125 hotels respectively, demonstrating the important role of these two provinces in supporting the domestic

and international tourism sectors. Meanwhile, other provinces such as Central Java, D.I. Yogyakarta, and North Sumatra, despite their lower number of hotels, still show significant contributions to the hospitality industry. Regions such as West Nusa Tenggara and West Sumatra, despite having fewer hotels, remain important in supporting regional tourism by offering distinctive natural and cultural tourism potential. This distribution of hotels shows that regions with leading tourist destinations tend to have more accommodation facilities to meet the needs of tourists.

Factors influencing the choice of international and local hotels in Indonesia can be analyzed through data on foreign tourist visits by nationality for 2024 as shown in table 1.1 Variations in the number of visits by area, such as ASEAN, which exhibits a very high number of visits, can be examined using binary logistics model. When choosing a place to stay, travelers consider several factors, including cultural norms, geographic closeness, and whether they prefer local or foreign amenities. As an example, tourists from ASEAN nations—which have strong cultural and economic links with Indonesia—tend to choose local hotels, while tourists from the Americas, Europe, and the Middle East want international hotels that meet international standards. This data gives the hotel sector valuable information for creating marketing plans and service offers that cater to the traits and tastes of international tourists.

Number of foreign visitor arrivals per month by geographic region

Region	2024												
	January	February	March	April	May	June	July	August	Sept	October	Nov	Dec	Year
ASEAN	31 42 70	428 241	361 641	371 155	396 224	430 087	376 010	419 263	431 858	391 985	383 038	497 922	4801 694
ASIA (Excl. ASEAN)	26 34 96	295 173	289 636	280 689	322 110	337 923	364 347	371 984	346 826	330 787	319 508	324 678	3847 157
MIDDLE EAST	15 27 2	140 81	558 7	149 94	167 38	276 46	339 23	204 32	189 72	176 58	232 70	160 93	2246 66
EUROPE	14 41 15	155 491	183 972	196 091	190 305	173 285	273 682	282 418	233 153	216 860	158 444	169 982	2377 798
AMERICA	42 04 1	473 55	567 73	498 78	536 97	530 55	564 34	512 43	496 23	495 07	470 49	490 29	6056 84
OCEANIA	14 40 89	117 351	139 880	148 511	158 861	169 280	197 313	183 289	188 872	178 935	153 883	176 473	1956 737
AFRICA	44 63	445 7	437 2	564 0	756 4	666 5	904 7	113 17	995 4	813 5	687 5	101 95	8868 4

GRAN	92	106	104	106	114	119	131	133	127	119	109	124	1390
D	77	214	186	695	549	794	075	994	925	386	206	437	2420
TOTA	46	9	1	8	9	1	6	6	8	7	7	2	
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Table 1. 1 Number of foreign visitor arrivals per month by geographic region

Source : BPS

1.3 Research Objectives

Assess the factors that affect Indonesian guests' decisions between local and international hotels. By examining the traits and inclinations of various target audiences, this research will provide significant understanding of how these elements impact hotel choices. Especially when looking at a growing market like Indonesia, this in-depth analysis will provide the foundation for a deeper understanding of consumer behavior in the hotel business.

Using this paradigm as a basis, this research will examine how certain hotel attributes influence the decisions made by visitors. A few of them are price, location, facilities, brand reputation, purpose of the trip, and demographics. This research also will measure the importance of each characteristic in the decision-making process and comprehend the links among these features to provide a comprehensive picture of how different factors affect hotel choosing. This detailed research will provide hotel owners useful information to enhance their offerings and marketing strategies.

Combining these findings will enable this research to develop and use binary logistics models for predicting hotel guests' preferences based on the identified characteristics. Hotel operations and marketing strategies will be guided by the projected insights generated by this advanced statistical tool, which will evaluate the gathered data. Using this advanced modeling approach, the study will close the knowledge gap between theory and practice, providing hotel management with a strong tool to predict and address guest preferences in a changing market.

1.4 Research Question

Based on the description of the research objective, the research question can be formulated and elucidated as follows :

- a. What factors influence the choice of hotel type (international and local hotel) for guests?
- b. How do hotel price, hotel location, hotel facilities , brand reputation, hotel purpose and demographics affect guest's hotel preference?
- c. How to utilize the binary logistics model to predict the reference of guests choosing a hotel based on the factors that have been identified?

1.5 Research Demarcation

The study scope must be constrained to ensure that the discussion and analysis correspond with the aims and issues to be addressed. The scope of this research is :

- a. This research examines the determinants affecting the choice of international and local hotels, with particular emphasis on hotel pricing, hotel location, brand reputation, online reviews, hotel facilities (3-5 stars hotel).
- b. The respondents on this study will consist of travelers who have lodged at either international or local hotels in Indonesia within the past two years, encompassing both domestic and international tourists.

1.6 Research contribution

This study will provide empirical data on the variables influencing travel's choices between domestic and international hotels in Indonesia, hence enhancing the existing literature on hotel selection. To fill gaps in the current scholarly debate, the research will use binary logistic models to clarify how many independent factors interact to influence consumer preferences. By using this advanced statistical method, the study seeks to provide a more nuanced comprehension of the intricate decision-making process associated with hotel choosing.

Building on this methodological framework, the study will provide significant insights for Indonesian hotel operators and marketers. This research will enable hotel managers to better tailor their services and promotional strategies to

the preferences and inclinations of different traveler groups, increasing customer satisfaction and loyalty, by identifying the critical factors that influence hotel choice. Implementation of this research's findings in practice gives the hotel industry significant benefits by bridging the gap between academic theory and industry practice.

Moreover, by centering on the Indonesia market, this study contributes to a deeper understanding of the dynamics underlying hotel selection in emerging economies. To capture the complexities of consumer behavior in non-Western contexts, the research explores the distinct cultural, economic, and social factors that shape travel related decision making in Indonesia. Apart from assisting both local and international hotel chains that are active in Indonesia, this expanded perspective will provide valuable insights to businesses in the hospitality sector aiming to expand into similar regions. The primary objective of this research is to contribute to the development of a more comprehensive and globally applicable body of knowledge within the domains of tourism studies and hotel management.

1.7 Research Outline

This research examines the factors that affect travelers' choices between local and internationally affiliated hotel chains operating in Indonesia using binary logistic models. A statistical method for analyzing binary outcomes, a binary logistic model will be used to identify and quantify the crucial elements in this decision-making process. By examining both qualitative factors like cultural preferences and perceived value as well as quantitative factors like cost and occupancy rates, this research seeks to provide a comprehensive understanding of hotel selection patterns in the Indonesian context.

The method will combine secondary research on hotel business metrics with primary data collection via questionnaire thorough passenger surveys. Respondents will be asked to rate the importance of several characteristics in five primary categories: hotel location, price, brand reputation, online review, facilities

are examples of such areas. Advanced statistical approaches will be utilized to investigate how these factors interact and affect choices, with a focus on how demographic features and travel goals influence decision-making processes.

According to early research, there are three key areas of focus including location-specific effects, value calculations, and brand impression dynamics. International chains can rely on a track record of consistent excellence, although smaller hotels can attract travelers seeking authentic cultural experiences. Given that business travelers are less sensitive to premium pricing for foreign products, the effect of price differences seems to be non-linear. Furthermore, it has been shown that local lodgings are substantially preferred over motels in more commercial regions when they are close to cultural and historical landmarks.

It is anticipated that the study's conclusions would provide insightful information to a range of stakeholders in the Indonesian travel industry. The findings may help multinational hotel companies develop strategies that better match their services to the cultural norms of the local market. The results may be used by nearby hotels to emphasize their distinct advantages and improve their competitiveness. Using this knowledge, policymakers may create tourist plans that strike a compromise between preserving regional hospitality customs and attracting international companies. Future studies can examine how tourist tastes have changed after the epidemic and how internet platforms have affected Indonesian hotel choosing procedures.