# The Influence of Perceived Value Towards Customer Satisfaction in Hostel Business:
## A Case of Young Adult Tourist in Indonesia

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## ABSTRACT

Perceived value is one of the elements that can influence customer satisfaction in the hotel and hospitality industry. In order to re-create the effective strategies, hostel business needs to understand more about factors that influence customer satisfaction. To identify which one is more preferable, this research measured the influence of perceived value, consisting of four aspects, which are image, price, technical dimension, and functional dimension. This study uses quantitative method through multiple linear regression. Data was collected by spreading questionnaires; 300 respondents have participated in this research. This research focused on domestic young adults in Indonesia who already had experience in hostel service as respondents. This study found that perceived value in the form of price is the most influential aspect that influences young adult tourist satisfaction towards the hostel business.

## KEYWORDS

Customer Satisfaction, Hostel Business, Perceived Value, Tourism and Hospitality Industry, Young Adult Tourists

## 1. INTRODUCTION

Hotel and hospitality business is the main object in Indonesian travel and tourism business (National Geographic Indonesia, 2013). Indonesia tourism and hospitality sector are growing up. Tourism has turned out to be the most crucial cultural influences; as well as social and economic (Alhroot &Al-Alak, 2009). It also supported by Indonesia investments (2014) stated that Indonesia's Investments in tourism industry reached a total of USD $602.6 million in 2013. This consisted of foreign investments (USD $462.5 million) and domestic investments (USD $140.2 million).

The hospitality industry of Indonesia is booming, it can see the increasing number of tourists each year (Indonesia investments, 2014). WEGO Indonesia study (2013) showed that 8 from 10 persons in Indonesia prefer to have their holiday in the domestic area. It also shows that 64% of Indonesian young adults and active tourist were traveling more than once in a year.

This research covered a narrow and very specific type aspect that influencing customer satisfaction which is the perceived value. The main scope of this research is to provide the valuable information regarding customer level satisfaction in hostel business. The hostel has become the main part of travel option for young adults traveler to have lower price accommodation. Many travelers especially students and young travelers prefer to spend their holiday in a hostel rather than a hotel. That situation becomes the main reason why nowadays the hotels are not the only source of travel and tourism income.

Therefore, the aim of this study is to analyze the influence of perceived value towards customer's satisfaction in hostel business. This research is using young adults in Indonesia perspectives as customer

point of view towards satisfaction. Furthermore, this research will determine which aspects become the main reason why young adults prefer to choose hostel as their accommodation. This research is expected to find a new strategic model for developing customer level satisfaction in hostel business.

## 2. LITERATURE REVIEW

### 2.1 Customer Satisfaction

Customer satisfaction is defined as an emotional response to the experiences related to specific products or services purchased, retail outlets, or even patterns of behavior, as well as the overall market (Tjiptono, 2008). Customer satisfaction is determined by the quality of the phenomenon in service in the field. Customer satisfaction is an important element in service delivery because understanding and satisfying customers' needs and wants can generate increased market share from repeat custom and referrals (Chitty, Ward & Chua, 2007). Customer satisfaction is determined by the quality of the phenomenon in service in the field. "The satisfaction judgment is related to all the experiences made with a certain supplier concerning his products, the sales process, and the after-sale service" (Gandhi and Kang, 2011).

Furthermore, Kaveh, Mosavi, and Ghaedi (2012) determine the level of customer satisfaction is influenced by five factors: product quality, service quality, emotional factors, the price, and the cost and ease of getting your product /service.

### 2.2 Perceived Value

The concept of perceived value has recently gained and popular in the business environment. Perceived value has an effect on consumer behavior and provides strategic implications for the success of companies. According to Dhillon (2013), a perceived value defined as the benefits of customers believe, what are they receive relative to the costs associated with the consumptions. For a service organization, it is important to know how their services are perceived by their customers. Customer Perceived value has been conceptualized in the literature as a trade-off made by a customer between the costs and benefits of a particular product or service. (Kaveh, Mosavi, and Ghaedi, 2012). Hence, perceived value is claimed to be a major tool to help the service company to gain a better competitive position in the market.

In perceived value, the company should know who their customers and know what products or services that customer needs. Consumers can select the best among the available options. This research is using four aspects of perceived value towards customer satisfaction such as image, technical dimension, functional dimension and price as the independent variables (Figure 1).

### 2.3 Image

The image is a reflection of an organization's identity. While the image can vary among constituencies, identity needs to be consistent. Identity consists of a company's defining attributes of a company. The consumers will actively perceive and determine how they react to a company or form of business since the image itself is part of how the company show themselves in front of public whether it's the logo, motto, products, services, any other tangible forms of the company (Khozaei et al.,2010). While, Milfelner (2009) has suggested that image is based on customers' beliefs about a brand, while Chitty, Ward & Chua (2007). argues that it is a value-added antecedent determining satisfaction and loyalty.

### 2.4 Price

In general, price is the cost incurred in making a purchase which influences perceptions of value (Tse and Wilton, 1988; Rust and Oliver, 1994; Gandhi and Kang, 2011). Price affects spending behavior. Consumers' discretionary spending limits will determine what is to be bought on the basis of the price. How much they are willing to pay differs because their readiness depends on their needs, and

the importance of the service to them compare with time and place (Chitty, Ward & Chua, 2007). Price affects spending behavior, consumers' discretionary spending limits will determine what is to be bought on the basis of the price (Kaveh, Mosavi and Ghaedi, 2012). How much they are willing to pay differs because their readiness depends on their needs, and the importance of the service to them at a given time and place. Price is believed to have an impact on perceived quality because high-quality products and services normally cost more than low-quality equivalents (Chitty, Ward & Chua, 2007).

## 2.5 Technical Dimension

In general, the price is the cost incurred in making a purchase which influences perceptions of value (Tse and Wilton, 1988; Rust and Oliver, 1994; Gandhi and Kang, 2011). Price affects spending behavior. Consumers' discretionary spending limits will determine what is to be bought on the basis of the price. How much they are willing to pay differs because their readiness depends on their needs, and the importance of the service to them compare with time and place (Chitty, Ward & Chua, 2007). Price affects spending behavior, consumers' discretionary spending limits will determine what is to be bought on the basis of the price (Kaveh, Mosavi and Ghaedi, 2012). How much they are willing to pay differs because their readiness depends on their needs, and the importance of the service to them at a given time and place. Price is believed to have an impact on perceived quality because high-quality products and services normally cost more than low-quality equivalents (Chitty, Ward & Chua, 2007).

## 2.6 Functional Dimension

The functional dimension described as "process quality" dictates how the service and its concurrent production and consumption process are received and experienced by customers (Dhillon, 2013). Friendliness, courtesy and personalized services are components of the functional dimension that contribute to and customer satisfaction (Chitty, Ward & Chua, 2007). Some specific functional dimensions in the context of hostels are the behavior of the staff, the ease of checking in and out, and whether the backpackers are shown to their rooms or left to find them on their own.

Even though the evaluation of the functional dimension varies between individuals, it plays an important role in determining customer satisfaction. A related purpose of the current research is to ascertain how the functional dimension of a service encounter affects customer' perceived value of the hostel services (Chitty, Ward & Chua, 2007).

Based on the research conceptual framework, five statements of the hypothesis can be indicated as follows:

H1: Hostel perceived value in the form of the image has a significant influence towards customer satisfaction.

H2: Hostel perceived value in the form of price has a significant influence towards customer satisfaction.

H3: Hostel perceived value in the form of technical dimension has a significant influence towards customer satisfaction.

H4: Hostel perceived value in the form of functional dimension has a significant influence towards customer satisfaction.

H5: Hostel perceived value in the form of image, price, technical dimension and functional dimension altogether have a significant influence towards customer satisfaction

## 3. RESEARCH METHOD

### 3.1 Population and Sampling Design

According to Malhotra (2010), a population defined as the collections of all the elements that share some mutual set of characteristics. The population of this research is consists of domestic young

Figure 1. Conceptual framework. Source: Chitty, Ward & Chua (2007).
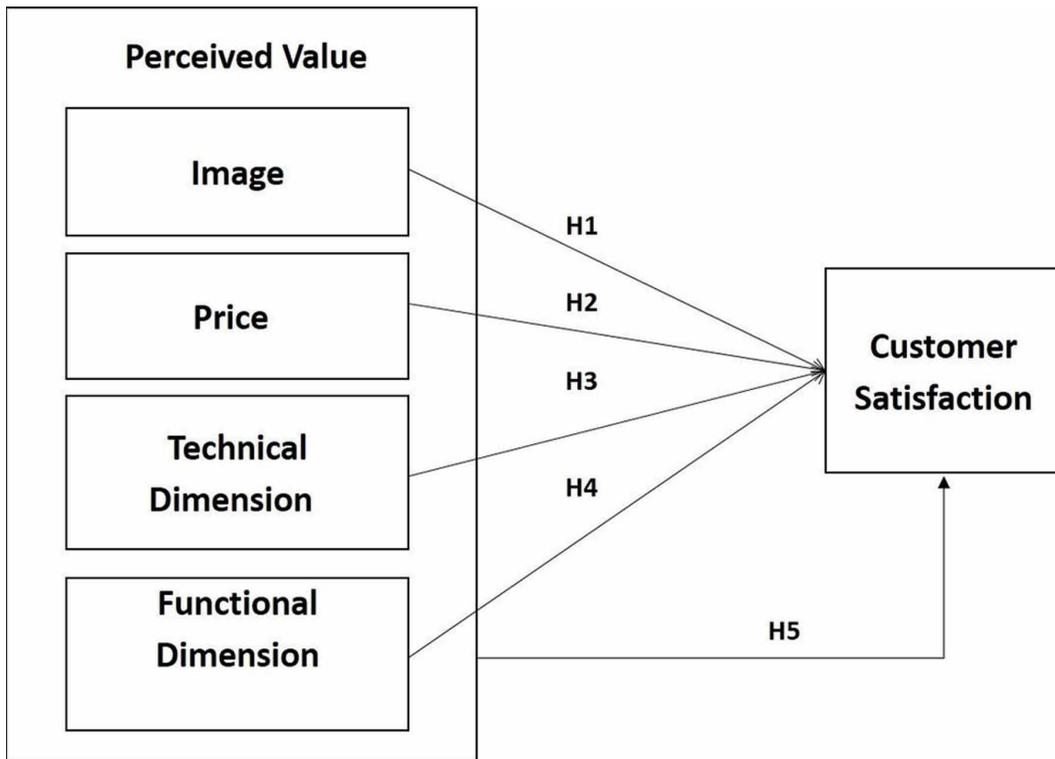


adults with age ranged from 18–25 years old and already experience the hostel services. According to Sekaran (2010), the determination of sample size number should be among 30 to 500 elements. Malhotra (2010) argue that sample size is at least four to five times of variables researched. Then on the other research, an excellent research needed 1000 or more sample sizes, very good is 500, good is 300, fair is 200 and a poor research is 100 or less for its sample. The range of age for target respondents is 18-25 years old, primarily domestic young adults that already stayed in a hostel. The total of 300 samples was successfully obtained and analyzed in this research. The margin of error is the percentage of allowance for no precision of error that occurs due to the use of sample instead of population. There is two level of percentage 0.01 and 0.5 percent. In this study, the researcher used 0.05 percentage of margin, because of that the confidence level is 95%.

## 3.2 Research Instrument, Data Collection, and Measurement

This study aims to reveal the influence of four different types perceived value which is Image, Price, Technical Dimension and Functional Dimension towards Customers Satisfaction, specifically in Hostel Industry. The questions of each variable are adapted from the previous research which is from an application of ECSI Model as a predictor of satisfaction and loyalty for backpackers hostels written by Chitty, Ward & Chua (2007). The questionnaire consists of 25 questions which constructed from previous journals and researchers. The primary data collected for this research were obtained through online. To measure this primary data, the researcher used five points of Likert scale (strongly disagree, disagree, fair, agree and strongly agree).

## 3.3 Analysis

This study used Multiple Regression to analyse the data and obtain results. "Multiple regression is a statistical technique used for predicting the unknown value of a variable from the known value of two or more variables that also called predictors". The Variables whose value is to be predicted in known as dependent variable and the one that known as independent variables are used for prediction.

## 4. STATISTICAL ANALYSIS, RESULTS AND DISCUSSION

### 4.1 Descriptive Statistics

This study used multiple regression to analyze the data and obtain results. Multiple regression is a statistical technique used for predicting the unknown value of a variable from the known value of two or more variables that also called predictors. The main purpose of determining the respondent profile is to find which kind of young adults that mostly use the hostel service in Indonesia and to find the trend of aspects that affect their satisfaction in a hostel. The total responses that were submitted through Google spreadsheet are 342. However, there were 42 respondents that have not stayed in a Hostel. Thus, 300 responses were usable to be analyzed. The summary of respondents' demographic profile can be seen in Table 1. The percentage of respondents' gender is dominated by a female as it reached 52.7% of the total respondents. Since this research is intended for domestic young adults, the dominant range of age is 20-22 as it represented 53.7% of the total respondents. Most of the respondents are traveling more than once in a year no matter the destination with 43% of the total respondents.

### 4.2 Validity and Reliability Test Result

This study uses Pearson correlation to validity testing. The formula of Pearson correlation is significance test of r coefficient by doing t-test (significance level 5%). The rest of testing the validity of the items count has the significance level of 5% means if the results correlation obtained higher than r table at a significance level of 0.05. As the result of the validity test, 25 statements from the questionnaire are all valid. For reliability test, Cronbach's Alpha should be more than 0.6 to be considered as reliable. Based on a test result, it shows that data is reliable (Table 2).

### 4.3 Hypothesis Testing

Multiple linear regressions is to define whether there is any significant influence through independent variables on the dependent variable. The test result shows that: price significantly affects the customer's satisfaction of domestic young adults that stayed in a hostel (H1), it is indicated by the sig value of price which is .000 or lower than .05. It means that the variable already met the requirement of significant influence variable. Hypothesis four (H4), the functional dimension significantly affects the customer's satisfaction of domestic young adults. The result indicated the sig value of the functional dimension is .000 or lower than .05. While, the other variables which are image and technical dimension do not significantly affect the customer's satisfaction of domestic young adults that stayed in a hostel, indicated by the value of regression coefficient of 0.849 and 0.258. The result shows that both hypotheses are bigger than 0.05.

### 4.3.1 F – Test

The result of this F-test shows the F value = 53.846 with a significance level of 0.000. The F table value is found on the F table with df1 = 4 and df2 = 295, thus the F table value is 2.3719. F value > F table (53.846 > 2.3719) and a significance level of 0.000 means that there is a simultaneous of Perceived Value (Image, Price, Technical Dimension and Functional Dimension) towards Customers Satisfaction (Table 4).

**Table 1. Respondent profiles**

| Profile | Category | Frequency | Percentage |
|---|---|---|---|
| Sex | Male | 142 | 47.3% |
| | Female | 158 | 52.7% |
| | Total | 300 | 100% |
| Age | 17 – 19 | 76 | 25.3% |
| | 20 – 22 | 161 | 53.7% |
| | 23 – 25 | 63 | 21% |
| | Total | 300 | 100% |
| Origin | Java | 133 | 44.3% |
| | Sumatra | 69 | 23% |
| | Kalimantan | 22 | 7.3% |
| | Sulawesi | 50 | 16.7% |
| | Papua and Maluku | 14 | 4.7% |
| | Bali and Nusa tenggara | 12 | 4.0% |
| | Total | 300 | 100% |
| Travelling Frequency in 1 year | Rarely | 52 | 17.3% |
| | At least once | 119 | 39.7% |
| | More than once | 129 | 43% |
| | Total | 300 | 100% |

**Table 2. The result of reliability test - Cronbach's alpha**

| Variable | Cronbach's Alpha | N of Items | Reliability Consistency |
|---|---|---|---|
| Image (X1) | 0.741 | 5 | Good (0.7 £ α £ 0.9) |
| Price (X2) | 0.745 | 5 | Good (0.7 £ α £ 0.9) |
| Technical Dimension (X3) | 0.651 | 5 | Acceptable (0.6 £ α £ 0.7) |
| Functional Dimension (X4) | 0.709 | 5 | Good (0.7 £ α £ 0.9) |
| Costumers Satisfaction (Y) | 0.825 | 5 | Good (0.7 £ α £ 0.9) |
| **Total Sample** | | | **30** |

Table 3. Multiple linear regression analysis: Coefficients

**Coefficients**[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .990 | .209 | | 4.733 | .000 |
| | Image | -.010 | .054 | -.011 | -.191 | .849 |
| | Price | .485 | .059 | .453 | 8.215 | .000 |
| | Facility | .074 | .065 | .067 | 1.133 | .258 |
| | Staffm | .259 | .061 | .238 | 4.287 | .000 |

a. Dependent Variable: Cussat

Table 4. Multiple linear regression analysis: F-Test (ANOVA)

**ANOVA**[b]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 70.315 | 4 | 17.579 | 53.846 | .000[a] |
| | Residual | 96.307 | 295 | .326 | | |
| | Total | 166.622 | 299 | | | |

a. Predictors: (Constant), **Image, Price, Technical Dimension, Functional Dimension**

b. Dependent Variable: **Customer Satisfaction**

## 4.3.2 T – Test

The t-test was used to determine significance influence of perceived value that consists of image, price, technical dimension and functional dimension towards customer satisfaction. The result of the t-test progress can be shown in table 5.

Table 5 shows that variable X1 (Image) have a significance level of 0.849, it concludes that there is no partial significant influence between image and perceived value in the form of Image and Customers Satisfaction. The second hypothesis was supported. The results showed that there is a

Table 5. t – test results

| Model | | t | Sig. |
|---|---|---|---|
| 1 | (Constant) | 4.733 | .000 |
| | Image | -.191 | .849 |
| | Price | 8.215 | .000 |
| | Facility | 1.133 | .258 |
| | Staff | 4.287 | .000 |

partial significant influence on the perceived value in the form of price and customers satisfaction. While the hypothesis three (H3) was rejected because the significance level is bigger than 0.05 (0.258). Therefore, perceived value in the form of technical dimension has no partial significant influence towards customer satisfaction. In the other hand, the variable X4 (Functional Dimension), the results showed t value = 4.287 with a significance level of 0.000. Thus, the fourth hypothesis was accepted that there is a partial significant influence on the perceived value in the form of functional dimension and customers satisfaction.

## 4.4 Multiple Correlation Analysis

The coefficient of determination (R2) used to measure how much the ability of the model to explain the variations dependent variable. The value of coefficient determination (R2) itself between zero and one. Results calculated that the adjusted R square value of 0.414 obtained. The 41.4% means that customers satisfaction can be explained by the variable perceived value (image, price, technical dimension and functional dimension), while the rest is 58.6% influenced by other variables. The coefficient represents in table 6.

The researcher using multiple linear regression analysis to find out whether the data are reliable and valid for each variable. Based on the multiple linear regression methods, researcher got the data already valid and reliable.

**Table 6. Coefficient determination table**

**Model Summary[b]**

| Mode l | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .650[a] | .422 | .414 | .57137 |

a. Predictors: (Constant), Staffmean, Imagemean, Pricemean, Facilitymean

b. Dependent Variable: Cussatmean

## 4.5 Data Interpretation and Discussion

Hypothesis 1 testing results show that Image variable did not have significant effects or influence towards Customer Satisfaction of Domestic Young Adults. Based on the result of multiple linear regression analysis with a significance level of 0.849 bigger than 0.05. This data means that the Perceived value in the form of Image factor can't influence the customer satisfaction of Domestic young adults of Indonesian Hostel guests.

Based on above statement and related with questionnaire in image part statements showed that the perceived value in the form of image itself did not gives significance affect toward the customers satisfaction of domestic young adults towards hostel and most Indonesians young adults do not really give concern if the image of the hostel are really affecting their experience and satisfaction in their stay in the hostel.

Hypothesis 2 testing results show that price has a significant effect or influence towards customers satisfaction of domestic young adults in Indonesia. Based on the result of multiple linear regression analysis with the significance level of 0.000 lower than 0.05 and the t value is 8.215 which it is the

strongest influence towards customers satisfaction of domestic young adults in Indonesia. This data means that the perceived value in the form of price factor has a significant influence towards customer satisfaction of hostel guest. The results showed that the perceived value in the form of price itself gives significance effect toward the customer's satisfaction of domestic young adults. It also showed that most domestic young adults in Indonesia prefer to stay in a hostel because the price that suitable for their needs. Indonesian young adults mostly consist of backpackers and have the intention to travel in a big group, it helps them to lower the cost of traveling and make them enjoy their holiday because hostel provides great accommodation with low costs.

Hypothesis three (H3) testing results show that technical dimension (X3) did not have significant effects or influence towards customer satisfaction of domestic young adults. Based on the result of multiple linear regression analysis with the significance level of 0.258 bigger than 0.05. This data means that the perceived value in the form of technical dimension factor cannot influence the customer satisfaction of domestic young adults of Indonesian hostel guests. While perceived value in the form of technical dimension itself did not give significant effect toward domestic young adults satisfaction. It shows that most Indonesians young adults not really give concern to technical dimension aspect (facilities, room quality, etc). Therefore, H3 result is proof not have significant affect young adults experience and satisfaction in the hostel.

Hypothesis 4 testing result shows that functional dimension has a significant effects or influence towards domestic young adults satisfaction in Indonesia. Based on the result of multiple linear regression analysis with the significance level of 0.000 lower than 0.05. This data means that the perceived value in the form of functional dimension factor has a significant influence towards domestic young adults satisfaction of Indonesian hostel guests. Functional dimension itself gives significance effect toward domestic young adults satisfaction. It showed that most domestic young adults in Indonesia prefer to stay in the hostel that has staff rater that provides them with information and some minor bits of help.

The results of the research above showed that perceived value has a significant impact towards determining the customer satisfaction. As a result, consumers, particularly inexperienced ones, tend to base their expectations and perceptions of image, quality, and value on price. The price is one of perceived value aspect that most influential to the customer satisfaction. Similar to the previous research that mentions the usage of perceived value in hospitality Industry like Kaveh, Mosavi, and Ghaedi (2012), the perceived value has a positive impact towards customer satisfaction. The usage of the aspect itself varies depends on the area of the hospitality business. Chokesikarin (2014) mention that in south-east Asia mostly customers within young adults age are affected by the price and room quality in the most cases, the problem of it is mainly because the young adults guest is focusing on exploring the tourism area so they will use the hostel or their accommodation as the place for resting not more to relaxing like hostel. Thus, the probability customers to get more satisfaction are more in how the hostel management can serve them with the affordable price and cozy facility, not the luxurious one. The staff that can provide tourism service and information are mostly well accepted by the customers, the research showed that functional dimension (an aspect that influences the staff performances and knowledge.etc) also have some impact that influencing the customer satisfaction.

Other aspects like the image and technical dimension are not really affecting the customer satisfaction and its quietly opposite from the previous research like from Chokesikarin (2014) and Chitty, Ward & Chua (2007), that mention image and technical dimension from perceived value mostly become the main factor that influencing the customer satisfaction. The result might be different because the implementation of the population and also sample area are different between the research and by that means it also prove that each area has its own characteristic of the customer since the previous research also both conducted in different areas like Australia and Europe.

Moreover, the result of this research was based on young adults in Indonesia as its respondents thus it may also reflect their preferences regarding hotel and hospitality industry, which is hospitality, especially for hostel Industry. By knowing this information, marketers, and business developers are

expected to be more aware and understanding about the consumer satisfaction as they may set young adults as their target market.

## 5. CONCLUSION

From the research, it was found that price in term of perceived value is the most affecting aspect that makes most hostel costumers satisfy with their hostel experience. The statistical results also implied that according to the F test result which derived from chapter four. It showed that all independent variables have significance simultaneously influence the customer's satisfaction. It can be proven by the F value and significance value which F value and significance value which present that F value is 53.846 greater than 2.3719 and significance value is 0.000 lower than 0.05. Statistically speaking, this research also found that functional dimension has a significant influence on customer satisfaction. However, the level of its significance was much lower compared to price aspect from perceived value.

Perceived value in the form of image and technical dimension was identified to be insignificant on customers satisfaction based on its statistical calculation. This finding is in contrast with a previous study by Chokesikarin (2014) as they stated that image of a hostel and its facility (Technical Dimension) was one of the most influencing aspects towards customer satisfaction, inducing the other perceived value aspects which are price and functional dimension.

The variable of an image, show a negative impact to the customer's satisfaction variable, it maybe happened because mostly the young adults are focus more deeply into the price and services that hostel offers, so the image itself are not really considered as their part of the consideration in case of choosing their accommodation. While, technical dimension is not considered to have a big impact towards the customers satisfaction, it is assumed because mostly the costumer which come from the young adults are looking for at least a place to "crashed" or stay for night and since they will have their activity outside of the hostel more often, the facility and other source are not really considered to be very important.

In conclusion according to the research, price aspect from perceived value still holds an important role in customer satisfaction, especially in the hospitality industry of hostel business for young adults in Indonesia. Moreover, the result of this research was based on domestic young adults as its respondents thus it may also reflect their preferences regarding related sector, which is hostel industry, especially for modern franchises. By knowing this information, marketers are expected to be more aware and understanding about the consumer preferences as they may set young adults in Indonesia as their target market.

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