The Influence of Service Quality, Brand Image, and Customer Satisfaction on Customer Loyalty for Private Karaoke Rooms in Taiwan

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ABSTRACT

Private karaoke rooms (known as “KTV” or karaoke television) are a special type of leisure space in Taiwan. The focus of this study is to show the relationship between service quality, brand image, customer satisfaction, and customer loyalty in the KTV industry. This study examines two chain KTV operations in Taiwan, with two locations for each chain; the study comprises a total of 255 valid questionnaires. Structural equation modeling was used for empirical testing. The results show that, in the relationship between service quality, customer satisfaction, and customer loyalty, service quality does not have a positive influence on customer loyalty. Instead, this relationship is mediated by customer satisfaction, showing that in KTV operations, the perception of customer satisfaction is crucial consideration. In addition, this study shows that brand image has a positive influence on service quality and customer loyalty, demonstrating the important role of brand image in the KTV industry.

Keywords: KTV (Karaoke Television), Leisure Space, Entertainment Industry, Pleasure Experience, Music

INTRODUCTION

In today’s highly competitive business environment, maintaining and generating customer loyalty through high levels of service quality and satisfying customer demands is a key focus for achieving sustainable business operations (Lee, 2013). Reich et al. (2006) point out that keeping existing customers is easier than attracting new customers. In some industries, retaining 5% of existing customers can increase profit by 85%. Therefore, brand image has emerged as an approach to maintaining long-term competitive advantage. Kotler (1997) points out that establishing brand image is a long-term marketing strategy. Companies must pay constant attention to service quality, customer satisfaction, and customer loyalty in order to become market leaders.

The private karaoke rooms that emerged at the end of the 1980s in Taiwan were given the name “KTV” (karaoke television); they offered room rental for customers (typically a group of friends) to sing together. This produced a leisure space unique to Taiwan which Moskowitz (2008) titled “Taiwan-style Karaoke”. KTV became an important leisure choice in Taiwan due to the pleasure experience it generated. The pleasure experience in KTV establishments derives from the provision of private rooms, together with its magical appearance and spatial changes, producing feelings of both physical and visual novelty, as well as service that gives customers a feeling that they are valued (Chang, 1994).

In the early development of KTV in Taiwan, symbolic imagery through the name of establishment,
internal furnishings, and attentive service produced an image of KTV as a leisure option that offered a pleasure experience (Chang, 1994). However, after over two decades of development of KTV in the Taiwanese market, the number of independent KTV establishments has fallen dramatically, to be replaced with chain establishments such as Cashbox and Holiday. As a result, brand image has become an important factor in consumer choice of KTV establishments. In addition, the attentive service provided at KTV establishments gives customers pleasure from a feeling of being respected (Chang, 1994). This is a concrete manifestation of service quality, and remains an important factor influencing customers’ choice of KTV establishment. In addition, there were larger differences between the physical environments provided by early independent KTV establishments due to different approaches to management of the business. In contrast, today’s KMT industry is dominated by chain operations and the physical environment has become increasingly standardized, significantly reducing the importance of interior furnishings in consumer choice of KTV establishment.

KTV has already become an important leisure option for Taiwanese people. From the above discussion we find that faced with fierce market competition, the long-term sustainability of KTV establishments is determined by consumer loyalty, ensuring that existing customers continue to generate profits for the business (Trasorras et al., 2009). However, consumer loyalty is influenced by the brand image and service quality. As a result, this study looks at chain KTV establishments in Taiwan, examining the relationship between service quality, brand image, customer satisfaction, and customer loyalty.

**LITERATURE REVIEW AND HYPOTHESIS**

**Customer loyalty**

Selnes (1993) argues that customer loyalty incorporates the possibility of future purposes, continuing service contracts, the possibility of switching brands, and positive word of mouth publicity. A high degree of customer loyalty generates significant barriers to switching brands. Customer loyalty indicates repeated actions with respect to a company’s products or services (Cronin Jr et al., 2000). These repeat actions may be based on inertia (Reichheld, 2003) that generates barriers to switching. Ultimately, these repeated actions translate into higher corporate profits (Treasures et al., 2009). In addition, looking at the content of loyalty, Oliver (1997) proposes the “belief-attitude-conation model,” arguing that customer loyalty is divided into two parts: attitudinal loyalty and behavioral loyalty. Attitudinal loyalty is at the level of consumer psychology, while behavioral loyalty indicates actual repeat purchase behavior.

KTV is a service-oriented industry, and consumers expect to be valued and feel pleasure (Chang, 1994). This type of satisfaction with a service will produce customer loyalty. Sutanto and Minantyo (2014) maintain that consumers use loyalty to help resolve issues that go beyond consumer expectations. On this basis, the loyalty of KTV consumers is closely related to the service quality in the sector.

**Service quality**

Service quality is determined by consumers themselves, and occurs when an organization provides services that meet the needs of consumers (Metters et al. 2004). Service quality has a complex and multidimensional structure (Lee, 2013). However, over the past twenty or so years, there has been a great deal of research in this area, for example, the SERVQUAL structure of service quality proposed by Parasuraman et al. (1985). They define service quality as the difference between the level of service expected by customers and the actual level of service, and propose ten major dimensions influencing service quality. Subsequently, Parasuraman et al. (1988) reduce the number of dimensions influencing
service quality, producing a five-dimensional scale. Although subsequent research has proposed revisions to the SERVQUAL model (Lee, 2011), this research is still based on the same framework.

The SERVQUAL model provides a theoretical basis for the causal relationship between service quality and customer satisfaction (Cronin Jr & Taylor, 1992). Many previous studies have shown that service quality has a significant influence on customer satisfaction (Lee, 2013). Looking at the KTV industry in this study, whether or not consumers are satisfied is determined by whether the service process provides consumers with a pleasurable experience (Chang, 1994). Therefore, in the KTV industry, service quality is not just an important aspect of business operations, it is also an important factor affecting customer satisfaction. Parasuraman et al. (1991) believe that consumers’ perception of service quality has a positive influence on their willingness to recommend the company to others, and that willingness to recommend is an important indicator of customer loyalty. Therefore, there is a positive relationship between consumers’ subjective perception of service quality and customer loyalty. In fact, many previous studies have shown a significant relationship between service quality and customer loyalty, and that customer satisfaction influences customer loyalty (Chu et al., 2012; Siddiqi, 2011). Therefore, as far as the KTV industry is concerned, there should be a positive relationship between service quality and customer satisfaction.

Based on the preceding discussion on service quality, we propose the hypotheses below:

**H1:** Service quality has a positive and significant impact on customer loyalty.
**H2:** Service quality has a positive and significant impact on customer satisfaction.
**H3:** Customer satisfaction has a positive and significant impact on customer loyalty.

**Brand image**

Brand image refers to consumers’ knowledge and evaluation of a brand (Friedmann, & Lessig, 1987). In other words, it refers to consumers’ feelings about a company or a product (Kotler, & Pfoertsch, 2006). Dobni and Zinkhan (1990) believe that the brand image is a subjective and emotional phenomenon. Therefore, brand perception is a very important factor in brand image (Keller, 1993). Ulusua (2011) believes that brand image is important because it occupies an important position in the minds of consumers. Ulusuaempha sizes that the key of brand research is to identify or develop the most powerful brand image and then strengthen it through subsequent brand communication.

Brand image is often considered an important factor when evaluating service (Bitner, 1991). When consumers are forming their feelings about service quality, they are influenced by brand image. Previous research has also shown that brand image has a positive influence on service quality (Bloemer et al., 1998; Wu et al., 2011). In addition, brand image is an important factor affecting customer satisfaction. Johnson et al. (2001) believes that as a type of attitude, brand image also drives loyalty. Previous research has also shown that brand image has a positive influence on customer loyalty (Hung, 2008; Wu et al., 2011). Therefore, as far as the KTV industry is concerned, brand image may also have a positive influence on both service quality and customer loyalty.

Based on the preceding discussion on brand image, we propose the hypotheses below:

**H4:** Brand image has a positive and significant impact on service quality.
**H5:** Brand image has a positive and significant impact on customer loyalty.
METHODOLOGY

Measurement

Questionnaires were used to measure the views of KTV consumers on service quality, brand image, customer satisfaction, and customer loyalty. The questionnaires for the above four dimensions are independent from each other. The service quality questionnaire is based on the SERVQUAL scale as revised by Lai et al. (2009), with adjustments as necessary. The brand image questionnaire is based on the scale developed by Kim and Kim (2005), with adjustments as necessary. The customer satisfaction questionnaire is based on the scale developed by Eggert and Ulaga (2002), with adjustments as necessary. The customer loyalty questionnaire is based on the scale developed by Chaudhuri and Holbrook (2001), with adjustments as necessary. We use a seven-point Likert scale, with the response items: “strongly disagree”, “disagree”, “somewhat disagree”, “neither agree nor disagree”, “somewhat agree”, “agree”, and “strongly agree”, producing a score of between one and seven points.

Data collection, sample, and statistical method

This study looks at consumers of two large KTV chains in Taiwan, selecting two locations for each of the two chains to distribute questionnaires. We collected questionnaire responses using random sampling. A total of 280 questionnaires were distributed, resulting in a total of 255 questionnaires and a response rate of 91.07% after excluding invalid questionnaires. Of the respondents, 54% were male and 46% were female. In terms of age distribution, the 15-20 age range accounted for 6.1% of respondents, the 21-25 age range accounted for 71.9% of respondents, the 26-30 age range accounted for 16.7% of respondents, and the above 31 age range accounted for 5.3% of respondents; this demonstrates that KTV consumers tend to be young. In terms of occupation, a majority (74.1%) were students; the remaining respondents were employed by the service industry (11.4%), the manufacturing industry (3.4%), the government (3.4%), and others (7.6%). Hsia (1992) points out that KTV consumers in Taiwan primarily consist of students and wage earners. This survey produces the same findings as Hsia, indicating that the consumer segment for KTV in Taiwan has not undergone any significant change. We use structural equation modeling (SEM) for empirical testing, using Amos 22 as an analytical tool to understand the relationship between service quality, brand image, customer satisfaction, and customer loyalty among KTV consumers.

RESULTS

Measurement model

A measurement model specifies how latent variables or hypothetical constructs are assessed in terms of observed variables, and represents the validity and reliability of the observed variables’ responses for the latent variables (Hair et al., 2006). Table 1 lists the factor loadings, t-values, average variance extracted (AVE), and composite reliability (CR) for the variables. All of these values were necessary to assess the measurement model fit for this study. The measurement reached convergent validity at the item level because all of the factor loadings exceeded 0.5. Furthermore, all of the indicators of the t-values associated with each standardized loading exceeded 1.96, thereby reaching statistical significance (Anderson, & Gerbing, 1988). In this study, all of the factor loadings exceeded 0.5 and were significant (t > 1.96, p < 0.05), which demonstrates convergent validity. Also, the inter correlations among the four latent variables were assessed to test discriminant validity. All of the intercorrelations, which ranged from
0.520 to 0.802, were below the suggested threshold of 0.85 (Table 2; Kline, 2005), providing evidence of discriminant validity.

Structural model

The goodness-of-fit of the structural model can be assessed using many statistics of SEM analysis (McDonald & Ho, 2002). Related studies have also applied other measures such as the GFI, the AGFI, the RMSEA, the CFI, and PGFI to assess model fitness (McDonald & Ho, 2002). In this study, the structural equation model was tested using the maximum likelihood method. As Table 3 shows, a comparison of all fit indices with their corresponding recommended values indicated a good model fitness ($\chi^2 = 361.729$, df= 130, GFI= 0.872, AGFI= 0.832, RMSEA= 0.084, CFI=0.901, PGFI=0.663).

To examine the hypotheses through the structural equation model, the results in Table 3 show that service quality do not influence customer loyalty (standardized estimate=0.032; $t = 0.222; p >.05$). Thus, H1 is not supported. Service quality has direct effects on customer satisfaction (standardized estimate=0.802; $t = 7.549; p < .001$), and indicate support for H2. Customer satisfaction has direct effects on customer loyalty (standardized estimate=0.244; $t = 1.988; p < .05$), and indicate support for H3. Brand image has direct effects on service quality (standardized estimate=0.648; $t = 7.303; p < .001$), and indicate support for H4. Brand image has direct effects on customer loyalty (standardized estimate=0.548; $t = 5.946; p < .001$), and indicate support for H5.

<table>
<thead>
<tr>
<th>Item description</th>
<th>Loading</th>
<th>Factor loading</th>
<th>t value*</th>
<th>CR**</th>
<th>AVE***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Quality</td>
<td></td>
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</tr>
<tr>
<td>SQ1</td>
<td>0.624</td>
<td>-</td>
<td>0.492</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SQ2</td>
<td>0.692</td>
<td>8.727</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SQ3</td>
<td>0.676</td>
<td>8.583</td>
<td>0.784</td>
<td>0.492</td>
<td></td>
</tr>
<tr>
<td>SQ4</td>
<td>0.633</td>
<td>8.166</td>
<td></td>
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<tr>
<td>SQ5</td>
<td>0.619</td>
<td>8.029</td>
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<tr>
<td>Brand Image</td>
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</tr>
<tr>
<td>BI1</td>
<td>0.771</td>
<td>-</td>
<td>0.596</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BI2</td>
<td>0.816</td>
<td>12.986</td>
<td>0.855</td>
<td>0.596</td>
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</tr>
<tr>
<td>BI3</td>
<td>0.739</td>
<td>11.701</td>
<td></td>
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<tr>
<td>BI4</td>
<td>0.760</td>
<td>12.058</td>
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<tr>
<td>Customer Satisfaction</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>S1</td>
<td>0.659</td>
<td>-</td>
<td>0.537</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S2</td>
<td>0.745</td>
<td>9.834</td>
<td>0.822</td>
<td>0.537</td>
<td></td>
</tr>
<tr>
<td>S3</td>
<td>0.759</td>
<td>9.977</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S4</td>
<td>0.763</td>
<td>10.007</td>
<td></td>
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<td></td>
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<tr>
<td>Customer Loyalty</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>L1</td>
<td>0.704</td>
<td>-</td>
<td>0.614</td>
<td></td>
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</tr>
<tr>
<td>L2</td>
<td>0.780</td>
<td>11.614</td>
<td>0.888</td>
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<tr>
<td>L3</td>
<td>0.869</td>
<td>12.81</td>
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<tr>
<td>L4</td>
<td>0.827</td>
<td>12.259</td>
<td></td>
<td></td>
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<tr>
<td>L5</td>
<td>0.727</td>
<td>10.867</td>
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</tbody>
</table>

Note: *t-value is significant at $p < .05$ when the t-value exceeds 1.96; **CR: composite reliability; ***AVE: average variance extracted.
Table 2: Correlation Matrix of the Latent Variables

<table>
<thead>
<tr>
<th></th>
<th>Service Quality</th>
<th>Brand Image</th>
<th>Customer Satisfaction</th>
<th>Customer Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Quality</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand Image</td>
<td>0.648</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>0.802</td>
<td>0.520</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>0.583</td>
<td>0.696</td>
<td>0.555</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 3: SEM Path Coefficients

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Standardized Estimate</th>
<th>t value</th>
<th>Significant</th>
<th>Supporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Service Quality → Customer Loyalty</td>
<td>0.032</td>
<td>0.222</td>
<td>N</td>
<td>No</td>
</tr>
<tr>
<td>H2: Service Quality → Customer Satisfaction</td>
<td>0.802</td>
<td>7.549***</td>
<td>Y</td>
<td>Established</td>
</tr>
<tr>
<td>H3: Customer Satisfaction → Customer Loyalty</td>
<td>0.244</td>
<td>1.988*</td>
<td>Y</td>
<td>Established</td>
</tr>
<tr>
<td>H4: Brand Image → Service Quality</td>
<td>0.648</td>
<td>7.303***</td>
<td>Y</td>
<td>Established</td>
</tr>
<tr>
<td>H5: Brand Image → Customer Loyalty</td>
<td>0.548</td>
<td>5.946***</td>
<td>Y</td>
<td>Established</td>
</tr>
</tbody>
</table>

Fit Indices:
χ²=361.729, df=130, GFI=0.872, AGFI=0.832, RMSEA=0.084; CFI=0.901; PGFI=0.663

Note: t-value is significant at p < .05 when the t-value exceeds 1.96.

DISCUSSIONS AND IMPLICATIONS

KTV has developed into a unique form of leisure space in Taiwan, which has already expanded to mainland China, becoming an urban leisure space in the Chinese market (Liu, & Bai, 2006; Moskowitz, 2008). The division of space into private rooms gives KTV the feeling of providing a high class space. Chang (1994) believes that KTV provides a pleasure experience where customers feel they are valued. Attentive service from employees is a crucial factor in this regard. She also points out that attentive service from employees is manifested in consistent and courteous standards of service. Customers are given a feeling that they are valued, and the use of a service bell for on call service satisfies customers’ desire to feel in control. As a result, KTV has the service characteristics of intangibility, inseparability, heterogeneity, and perishability mentioned by Kotler (1999). For KTV operators, it is critical to focus on service quality to satisfy customer demands, and thereby increase customer loyalty and repeat purchase intention.

However, the results of this research show that in the relationship between service quality, customer satisfaction, and customer loyalty, there is no significant positive relationship between service quality and customer loyalty (H1), indicating that in order to achieve the ultimate goal of customer loyalty, the mediating effect of customer satisfaction as a latent variable is required. In other words, if attentive service does not produce a subjective response among consumers, it becomes a type of formalized and regularized behavior that does not offer consumers a feeling that they have been “treated well.” Although previous studies have shown that service quality has a positive effect on customer loyalty (Chu et al., 2012; Siddiqi, 2011; Yee et al., 2010), this finding is based on the assumption that service quality will produce customer satisfaction. As a result, while the development of standard operating procedures (SOP) is undoubtedly an important factor in maintaining service quality, only enthusiastic service from employees gives customers the feeling of being serviced, which increases their loyalty.

In this study, there was a positive relationship between both brand image and service quality (H4) as well as brand image and customer loyalty (H5), demonstrating the increasing importance of brand image in the KTV industry. In fact, in the early stages of the KTV industry in Taiwan, independent KTV operations were typical. Therefore, during the early period, in order to satisfy consumers’ imagined
unique leisure space, KTV operators would use their names to distinguish themselves, such as Versailles, Blue Danube, and Magic Mirror. Chang (1994) described this phenomenon as the reconstruction of an imaged ideology. Twenty years later, the KTV industry in Taiwan is booming and competition is fierce. However, at the same time as this successful development, the industry has become increasingly dominated by chains, with little space for independent operators. The main reason is that for Taiwanese consumers, KTV as a form of leisure lacks the feeling of mystery it possessed during its early days two or more decades ago. Instead, this has been replaced by the service and experience represented by brands. Brands are like a corporate personality; when we understand a brand, we will generate trust in that brand, increasing our customer loyalty (Ulusua, 2011). Therefore, in the service industry, familiarity with and trust in a brand represents a guarantee of service quality. Kotler and Pfoertsch (2006) point out that since the brands of large companies have strong connections with consumers, these companies enjoy a dominate position in market competition and leading market trends. The development of the KTV industry demonstrates the market effect of major brands identified by Kotler and Pfoertsch (2006).

CONCLUSION

The empirical results of this study help us to understand consumers’ views on the relationship between service quality, brand image, and customer satisfaction in the KTV industry in Taiwan. The study draws two conclusions. First, the KTV industry places significant focus on service quality. However, in order to generate customer loyalty, consumers’ perceived satisfaction is critical. Second, as there is a clear trend towards chain KTV establishments in Taiwan, brand image has become increasingly important in the industry.

Several limitations of this study must be pointed out which can act as a reference for future research. Firstly, this research was carried out in Taiwan. The Taiwanese KTV model has already been exported to mainland China and has enjoyed rapid development in Chinese cities (Liu & Bai, 2006; Moskowitz, 2008). However, as the cultural conditions and social context are different in Taiwan and mainland China, a comparative study looking at mainland China can be carried out. Secondly, most employees in the KTV industry are aged between eighteen and twenty-five (Chang, 1994). These employees directly influence service quality and customer satisfaction in the KTV industry. Future research can therefore explore workers in the KTV industry. Finally, the effects of brand image, such as brand value and brand trust, are also worthy of further investigation.

REFERENCES


