

POST-ADOPTION MODEL ON CLOUD COMPUTING
AND SME PERFORMANCE IN MALAYSIA:
RESOURCES-BASED VIEW

BY

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ABSTRACT

The trend of cloud computing has accelerated business model evolution for delivering information technology services. In the transition from traditional IT to cloud-based services, Small Medium Enterprises (SMEs) seems to have experienced substantial difficulties and hurdles in realising cloud benefits, which in turn lead to improving SME performance. In spite of the common belief that SMEs can potentially gain from cloud services, there are numerous evidence which indicate that SMEs have not utilised it at the desired level of adoption. Additionally, past literature also indicates that among those that have adopted, it is unclear as to how cloud services affect SME performance. Generally, it was noted that Malaysia SMEs are not utilising cloud computing for the advancement of their business strategy, and therefore they seem to not able to reap the cloud benefits as expected. Since there is a lack of past studies that examine the effect of cloud computing use on SME performance or the post-adoption stage, this study aims to fill this gap by developing a model for the post-adoption of cloud computing among SMEs in Malaysia. Considering this research purpose, the Resources-Based View (RBV) deems fit as an adoption theory to develop the proposed model since RBV considers organizations can gain competitive advantage and hence improve performance by leveraging on their unique resources. Based on the review of past literature, IT capability is viewed as the essential antecedent that influences how SMEs can gain cloud benefits, which in turn will affect the performance. Specifically, the model examines the effect of technical IT capability, relational IT capability and managerial IT capability on cloud computing benefits, which in turn affects SME performance. This study employed a quantitative approach to test the hypotheses of the developed model by surveying 387 Malaysian SMEs cloud adopters. By using purposive sampling, this number of responses were analysed using Partial Least Squares (PLS) based on Structural Equation Modelling (SEM). The empirical findings indicate that IT capability significantly affects cloud benefits and cloud computing benefits have resulted in a significant effect on SME performance among Malaysia SMEs in the sample. The other important finding is that the model developed has been validated. As this study represents the pioneering investigations on cloud computing post-adoption by SMEs in Malaysia using the RBV lens, the new evidence contributes to knowledge and enhances our understanding of cloud computing post-adoption. The study not only assists SME owners/managers to adopt cloud computing to improve competitiveness but also helps cloud service providers to understand SMEs' requirements, and guides relevant policymakers to formulate policies to promote effective use of cloud services among SMEs in Malaysia.

خلاصة البحث

الاتجاه نحو الحوسبة السحابية متسارع في تطور نموذج الأعمال لتقديم خدمات تكنولوجيا المعلومات. وفي الانتقال من تكنولوجيا المعلومات التقليدية إلى الخدمات المستندة إلى خدمة السحابة، يبدو أن الشركات الصغيرة والمتوسطة (SME) تواجه صعوبات وعقبات كبيرة في تحقيق فوائد السحابة والتي تؤدي بدورها إلى تحسين أداء الشركات الصغيرة والمتوسطة. وعلى الرغم من الاعتقاد السائد بأن الشركات الصغيرة والمتوسطة يمكنها أن تستفيد من الخدمات السحابية، فإن هناك العديد من الأدلة التي تشير إلى أن الشركات الصغيرة والمتوسطة لم تستخدمها على المستوى المطلوب. إضافة إلى ذلك، فإن الدراسات السابقة تشير إلى أنه لم يتضح كيف تؤثر الخدمات السحابية على أداء الشركات الصغيرة والمتوسطة من بين الشركات التي تبنتها. وقد لوحظ بشكل عام، أن الشركات الصغيرة والمتوسطة في ماليزيا لا تستخدم الحوسبة السحابية للنهوض باستراتيجية أعمالها، وبالتالي يبدو أنها غير قادرة على الاستفادة من خدمات السحابة كما هو متوقع. ونظرًا لعدم وجود دراسات سابقة تستكشف تأثير استخدام الحوسبة السحابية على أداء الشركات الصغيرة والمتوسطة أو مرحلة ما بعد التبني، فهذه الدراسة تهدف إلى سد هذه الفجوة من خلال تطوير نموذج للتطبيق اللاحق للحوسبة السحابية بين الشركات الصغيرة والمتوسطة في ماليزيا. وباعتبار الغرض من هذا البحث؛ فإن طريقة العرض المستندة إلى الموارد (RBV) كنظرية مناسبة لتبنيها في تطوير النموذج المقترح، لأن (RBV) تعتبر أن المؤسسات يمكنها الحصول على التنافس، وبالتالي تحسين الأداء من خلال الاستفادة من مصادرها الفريدة. واستنادًا على الدراسات السابقة، يُنظر إلى قدرة تقنية المعلومات على أنها سابقة تؤثر على كيفية حصول الشركات الصغيرة والمتوسطة الحجم على مزايا سحابية مما سيؤثر بدوره على الأداء. على وجه التحديد، فإن هذا النموذج يفحص تأثير قدرة تقنية تكنولوجيا المعلومات، والقدرة الارتباطية، والقدرة الإدارية لتكنولوجيا المعلومات على فوائد الحوسبة السحابية التي تؤثر بدورها على أداء الشركات الصغيرة والمتوسطة. واستخدمت هذه الدراسة المنهج الكمي لاختبار فرضيات النموذج المقترح من خلال استبانة شملت 387 من الشركات الصغيرة والمتوسطة التي تبنت السحابة. وهذه العينة تم اختيارها بالطريقة القصدية، وتم تحليل الاستجابات باستخدام المربعات الصغرى الأقل (PLS) بناءً على نمذجة المعادلات الهيكلية (SEM). وتشير النتائج العملية إلى أن قدرة تقنية المعلومات تؤثر بشكل كبير على فوائد السحابة، وأن فوائد الحوسبة السحابية لها تأثير كبير على أداء الشركات الصغيرة والمتوسطة في ماليزيا من الشركات عينة الدراسة. ومن النتائج المهمة أن النموذج المطور قد تم التحقق من مصدقته. ونظرًا لأن هذه الدراسة تمثل التحقيقات الرائدة في مجال الحوسبة السحابية بعد اعتماد الشركات الصغيرة والمتوسطة في ماليزيا باستخدام موارد RBV، فإن الأدلة الجديدة تساهم في المعرفة وتعزز فهمنا للحوسبة السحابية. هذه النتائج لا تساعد الدراسة مالكي/ مديري الشركات الصغيرة والمتوسطة على تبني الحوسبة السحابية لتحسين القدرة التنافسية فحسب، ولكنها تساعد أيضًا مقدمي الخدمات السحابية على فهم متطلبات الشركات الصغيرة والمتوسطة، وتوجه واضعي السياسات المعنيين بصياغة سياسات لتعزيز الاستخدام الفعال للخدمات السحابية بين الشركات الصغيرة والمتوسطة في ماليزيا.

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DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Noor Afzan Salleh

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This thesis dedicated

To my dearest mother Hajjah Selimah Binti Abbas

To the memory of my late father, Allahyarham Haji Salleh Bin Kia

May Allah be with your soul

You are never forgotten

And to my wonderful children: Nur Wahida Husna and Ahmad Syahmi Hakim

May this serve as an inspiration to all of you.

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TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page.....	iv
Declaration	v
Copyright	vi
Dedication	vii
Acknowledgements	viii
List of Tables	xv
List of Figures	xix
List of Abbreviations	xx
CHAPTER ONE: INTRODUCTION	1
1.1 Research Background.....	1
1.2 Problem Statement	7
1.3 Research Questions	9
1.4 Research Aim and Objectives	10
1.5 Research Scope	10
1.6 Significance of Study	11
1.7 Research Methodology.....	13
1.8 Thesis Structure.....	13
1.9 Chapter Summary.....	15
CHAPTER TWO: REVIEW OF THE LITERATURE.....	17
2.1 Introduction	17
2.2 Cloud Computing: Definition and Concept	17
2.2.1 Cloud Computing Definition	18
2.2.1.1 Cloud Computing Services.....	19
2.2.2 Cloud Deployment Model	21
2.2.3 Cloud Computing Characteristics.....	23
2.3 Stage of Cloud Computing Adoption.....	24
2.3.1 Stage of the Adoption Process.....	25
2.4 Cloud Computing Adoption and SMEs	27
2.5 Systematic Literature Review (SLR)	28
2.6 SLR on Cloud Computing And SMEs	29
2.6.1 Stage One: Plan Review	30
2.6.1.1 Define SLR’s Research Questions.	30
2.6.1.2 Define Search String Strategy	32
2.6.1.3 Define Sources of Research.....	33
2.6.1.4 Strategy for the Secondary Search Process	35
2.6.1.5 Define Criteria for Inclusion and Exclusion.....	36
2.6.2 Stage Two: Conduct Review	36
2.6.2.1 Quality Checklist and Procedure	37
2.6.2.2 Data Extraction Strategy.....	39
2.6.3 Stage Three: Result Review.....	39
2.7 Results of SLR	41

2.7.1	Answering Review Question No.1	42
2.7.2	Answering Review Question No.2	44
2.7.3	Answering Review Question No.3	47
2.7.4	Answering Review Question No.4	49
2.8	Discussion on SLR's Findings	50
2.8.1	A Critical Analysis of Adoption Theories : Organizational Level	50
2.8.2	Analysis of Past Research on Research Method and Context	58
2.8.3	Analysis of Research Methodology and Context	60
2.9	Research Gaps	62
2.9.1	Limited Post-Adoption Cloud Computing.....	63
2.9.2	Limited Cloud Computing Adoption Entrenched in Theory	63
2.9.3	Limited Research from SMEs Context.....	63
2.10	Chapter Summary.....	64
CHAPTER THREE: THEORETICAL FRAMEWORK		65
3.1	Introduction	65
3.2	Theoretical Orientation	65
3.2.1	Resources-Based View	66
3.2.2	Application of the RBV in Past Research.....	71
3.2.3	RBV and Cloud Computing Usage.....	72
3.2.4	Justification for Selecting RBV Theory	73
3.3	The Research Model	75
3.3.1	The Role of IT Capability.....	76
3.3.2	The Role of Cloud Benefit as a Mediator.....	76
3.3.3	The Role of Market Turbulence as a Moderator	77
3.4	Defining Variables	79
3.4.1	IT Capability.....	79
3.4.2	Market Turbulence.....	82
3.4.3	Cloud Benefits	83
3.4.4	SME Performance.....	85
3.4.5	Summary of Construct.....	87
3.5	Hypotheses Development	88
3.5.1	Relationship of Technical IT Capability to Cloud Benefits	88
3.5.2	Relationship of Relational IT Capability to Cloud Benefits.....	89
3.5.3	Relationship of Managerial IT Capability to Cloud Benefits.....	89
3.5.4	Relationship Between Cloud Benefits and SME Performance.....	90
3.5.5	The Moderating Effects of Marketing Turbulence on IT Capability.....	90
3.6	Enhanced Research Model.....	91
3.7	Chapter Summary.....	92
CHAPTER FOUR: METHODOLOGY AND RESEARCH DESIGN		93
4.1	Introduction	93
4.2	Research Paradigms	93
4.2.1	Major Research Paradigms	94
4.2.2	Justification for the Research Paradigm: Positivism	96
4.3	Research Methodology.....	97

4.3.1	Chosen of Research Methodology.....	99
4.3.2	Justification of Research Methodology	99
4.3.3	Chosen of Research Methods	100
4.4	Research Design.....	101
4.4.1	Chosen of Research Design	102
4.4.2	Justification of The Research Design Of This Study.....	107
4.5	Sampling Design	107
4.5.1	SME Definition.....	107
4.5.2	Population.....	108
4.5.3	Sampling Procedure.....	109
4.5.3.1	Probability Sampling And Non-Probability Sampling.....	110
4.5.4	Sampling Frame.....	112
4.5.5	Sample Size	113
4.6	Preliminary Study	107
4.6.1	Purpose of a Preliminary Study	107
4.6.2	Justification of Interview	108
4.6.3	Interviewee Background.....	109
4.6.4	Interview Procedures	112
4.6.5	Credibility	113
4.6.6	Cross-Case Analysis	108
4.6.7	Finding of Interview Results	109
4.6.8	Preliminary Findings	112
4.6	Data Collection Procedures	125
4.6.1	Survey Instrumentation.....	126
4.6.2	Questionnaire Content	128
4.6.3	Questionnaire Layout.....	128
4.6.4	Measurement Scale.....	129
4.6.5	Pre-Test Instrument	130
4.6.5.1	Face Validity	131
4.6.5.2	Content Validity	132
4.6.6	Pilot Study	134
4.6.6.1	Data Collection Strategy for Pilot Study.....	135
4.6.6.2	Data Analysis of the Pilot Study	137
4.6.6.3	Reliability Analysis of the Pilot Study	141
4.7	A Plan for Data Analysis.....	142
4.8	Chapter Summary.....	143

CHAPTER FIVE: DESCRIPTIVE ANALYSIS AND RESULTS..... 144

5.1	Introduction	144
5.2	Responses Analysis.....	144
5.3	Non-Response Bias	148
5.3.1	Investigating Common Method Bias (CMB)	148
5.4	Data Screening	150
5.4.1	Missing Data Identification	150
5.4.1.1	Missing Data Treatment	152
5.4.2	Normality	152
5.4.3	Outliers Examination	153
5.4.3.1	Outliers Treatment.....	154

5.5	Demographic Analysis And Results	155
5.5.1	Profile of SMEs	155
5.5.2	Number of a Full-Time Employee.....	155
5.5.3	Type of Industry	156
5.5.4	Type of Company	157
5.5.5	Number of IT Staff	158
5.6	Cloud Computing Use.....	159
5.6.1	Type of Cloud Computing Services Model	159
5.6.2	Type of Cloud Computing Services	160
5.6.3	Cloud Delivery Model	161
5.6.4	Cloud Computing Experiences	162
5.6.5	Reason for Using Cloud Computing.....	163
5.7	Profile of Respondents	163
5.7.1	Role in the Company.	164
5.7.2	Gender.....	164
5.7.3	Age.....	165
5.7.4	Education	166
5.7.5	Rate of IT Knowledge	166
5.8	Crosstab Cloud Computing and SMEs	167
5.8.1	Type of Cloud Computing and Total Experience.....	167
5.8.2	Industry and Cloud Computing Services.....	168
5.8.3	Number of Fulltime Employees and Cloud Computing Deployment Model	169
5.8.4	Cloud Deployment Model Vs Reason	170
5.9	Descriptive Statistics of the Construct	170
5.9.1	Technical IT Capability	170
5.9.2	Relational IT Capability	171
5.9.3	Managerial IT Capability.....	172
5.9.4	Market Turbulence.....	173
5.9.5	Cloud Benefits	173
5.9.6	SME Performance.....	174
5.10	Chapter Summary.....	175

CHAPTER SIX: MEASUREMENT MODEL AND HYPOTHESES TESTING..... 176

6.1	Introduction	176
6.2	Structural Equation Modeling (Sem)	176
6.2.1	The Rules for Selecting CB-SEM or PLS-SEM.....	178
6.2.2	Justification for Applying PLS-SEM.....	179
6.3	Measurement Model.....	181
6.3.1	Internal Consistency (Reliability).....	181
6.3.2	Convergent Validity.....	182
6.3.3	Discriminant Validity	183
6.3.4	Summary Procedure of Measurement Model Criteria.....	184
6.4	Assessment of Measurement Model	184
6.4.1	Assessment of Reliability	185
6.4.2	Assessment of Validity	186
6.4.2.1	Convergent Validity	186
6.4.2.2	Discriminant Validity	187

6.4.3	Final Measurement Model Evaluation.....	189
6.5	Assessment of the Structural Model	192
6.5.1	Collinearity Assessment	193
6.5.2	Path Coefficient (B).....	193
6.5.3	The Coefficient of Determination (R^2 Value).....	195
6.5.4	Assessment of the Effect Size (F^2)	196
6.5.5	Assessment of the Predictive Relevance (Q^2).....	197
6.6.6	The Final Structural Model Evaluation	197
6.6	Hypothesis Testing Results	201
6.7	Chapter Summary.....	205
CHAPTER SEVEN: DISCUSSION.....		206
7.1	Introduction	206
7.2	Overview of the Research	206
7.2.1	Systematic Literature Review	203
7.2.2	Questionnaire Development and Data Collection	203
7.2.3	Data Analysis.....	203
7.3	Recaptulation of Research Findings.....	208
7.4	Discussion of Research Questions	211
7.4.1	Effect on IT Capability to Cloud Benefits.....	214
7.4.2	Effect on Cloud Benefits on SME Performance.....	217
7.4.3	Moderating Effect of Market Turbulence on Cloud Benefits.....	
7.5	Research Finding Summary	218
7.6	Chapter Summary.....	220
CHAPTER EIGHT: CONCLUSION		221
8.1	Introduction	221
8.2	Research Achievement.....	221
8.2.1	Research Objective 1	222
8.2.2	Research Objective 2	224
8.2.3	Research Objective 3	224
8.2.4	Research Objective 4	225
8.3	Research Contributions	227
8.3.1	Theoretical Contribution and Implications.....	227
8.3.2	Practical Contribution and Implications	228
8.4	Study Limitations	230
8.5	Future Direction	231
8.6	Final Remarks	232
REFERENCES.....		236
APPENDIX A: LIST OF THE STUDY INCLUDED IN THE SLR.....		249
APPENDIX B: SURVEY QUESTIONNAIRE.....		253
APPENDIX C: LETTER OF INTRODUCTION		259
APPENDIX D: CONSENT FORM.....		260
APPENDIX E: LETTER TO EXPERTS ON CONTENT VALIDITY		262
APPENDIX F: LIST OF PUBLICATIONS		262

LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
1.1	Cloud Readiness Index 2014	5
2.1	Cloud Computing Definition	16
2.2	Cloud Computing Characteristic	20
2.3	Summary of PICOC	28
2.4	Major search terms	30
2.5	The alternate search terms	30
2.6	Sub-strings	31
2.7	Results by sub-strings	31
2.8	List Resources	32
2.9	Selected Primary Studies	32
2.10	The set of inclusion and exclusion criteria	33
2.11	Study Quality Checklist	35
2.12	Classification of studies to identify the purpose of the study	40
2.13	Relevant studies for RQ 2	41
2.14	Dimension of factors affecting cloud computing and SMEs	42
2.15	Past research TOE, cloud computing and SMEs	44
2.16	Cloud benefits	44
2.17	Measure used for cloud computing and SMEs performance	46
2.18	Past empirical study and theories used in cloud computing and SMEs	54
2.19	Mapping of articles to classification research method and context	56
3.1	The Resource Characteristics (VRIN)	65
3.2	Definition of constructs in the context of this study	84

4.1	Characteristics of major research paradigms (adapted from Lincoln and Guba, 1994 and Creswell, 2013)	91
4.2	Characteristics and Justification	93
4.3	Differences between quantitative and qualitative methodology	95
4.4	Research phases, objective, and outcomes	103
4.5	SME definitions in Malaysia according to SME Corp	105
4.6	Number of SME Establishment by State	106
4.7	Establishment by Sector	109
4.8	Sample size method and minimum required sample	111
4.9	IS and RBV: Using SEM	112
4.10	Characterization of interviewees	120
4.11	Summarise of interview questions and objectives	121
4.12	Length of interview	121
4.13	Interview results	123
4.14	The measure of constructs and sources	127
4.15	Questionnaire layout	128
4.16	Early instrument feedbacks by the supervisor	130
4.17	Expert profile for content validity test	133
4.18	Content Validity Findings	134
4.19	Method and number of questionnaires distributed	137
4.20	SME Profile	138
4.21	Values and result of Cronbach's α for Pilot Study	141
5.1	The process of questionnaire distribution	143
5.2	Screening criteria and reason excluded	143
5.3	Response rate	144
5.4	Past research cloud computing and SMEs response rates	144
5.5	Construct/Variable-Level Missing Data	148

5.6	Randomness of Missing Data	149
5.7	Multivariate Outlier Detection	151
5.8	Number of a full-time employee	153
5.9	Type of industry	154
5.10	Type of company	155
5.11	Number of IT staff	155
5.12	Shows the cloud computing delivery model	156
5.13	Type of cloud computing services	157
5.14	Cloud Delivery Model	159
5.15	Total experience using cloud computing	159
5.16	Reason for using cloud computing	160
5.17	Role in the company	161
5.18	Gender	162
5.19	Age	162
5.20	Educational qualification	163
5.21	IT knowledge	164
5.22	Type of cloud computing and total experience	165
5.23	Type of Industry and Cloud Computing Services	165
5.24	Number of Fulltime employees and cloud computing deployment model	166
5.25	Cloud Deployment model vs reason	167
5.26	Descriptive Statistics of Technical IT Capability Rates (n=387)	168
5.27	Descriptive analysis of Relational Capability	169
5.28	Descriptive Analysis of Managerial IT Capability	169
5.29	Descriptive Analysis of Market Turbulence	170
5.30	Descriptive Analysis of Cloud Benefits	171
5.31	Descriptive Analysis of SME performance	172

6.1	Rules of Thumb for Choosing between CB-SEM and PLS-SEM (adapted from Hair 2014)	176
6.2	summary of the measurement model criteria and the steps	181
6.3	Cronbach's Alpha and Composite Reliability	182
6.4	Average Variance Extracted (AVE)	183
6.5	Outer/Factor Loading with cross-loadings	185
6.6	The results of Fornell- Larcker's Criterion	186
6.7	Summary of Criteria Used to Assess the Structural Model	189
6.8	The result of Collinearity (VIF)	190
6.9	Path coefficient β	191
6.10	The coefficient of determination (R2 value)	192
6.11	Summarised Results of the Structural Model Path Coefficients	198

LIST OF FIGURES

<u>Figure No.</u>		<u>Page No.</u>
2.1	Cloud computing services models and deployments model Adopted from Mell& Grance (2011)	19
2.2	Stages of the adoption process	23
2.3	The actual SLR stage adopted from (Kitchenham & Charters, 2007)	27
2.4	Distribution of articles	38
2.5	DOI Theory	48
2.6	Technology-Organization-Environment (TOE)	51
3.1	Resource-Based View	64
3.2	Cloud Computing model (Truong, 2010)	70
3.3	Direct causal relationship model	73
3.4	Mediation model	74
3.5	Market turbulence as moderator	75
3.6	Proposed holistic research model	76
3.7	The hypothesised model of cloud computing post-adoption and SME performance	89
4.1	Actual phases of Research Design (Adapted from Cresswell (2013))	100
5.1	Normality	150
6.1	Measurement Model	187
6.2	Structural Model Assessment Procedure Adopted by Hair (2014)	188
6.3	Results of bootstrapping	196
6.4	Structural model	197
7.1	The validated cloud computing post-adoption model	212

LIST OF ABBREVIATIONS

AVE	Average Variance Extracted
BSC	Balanced Score Card
CB	Covariance-Based
CC	Cloud Computing
CaPex	Capital Expenditure
DOI	Diffusion of Innovation
ICT	Information and Communication Technology
IaaS	Infrastructure as a Service
IS	Information Systems
PLS	Partial Least Squares
PaaS	Platform as a Service
R ²	Coefficient of Determination
RBV	Resources Based-View
SaaS	Software as a Service
SEM	Structural Equation Modelling
SME	Small and Medium-sized Enterprises
SPSS	Statistical Package for the Social Sciences
SP	Service Provider
β	Path-coefficient
TOE	Technology-Organisation-Environment
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 RESEARCH BACKGROUND

The adoption of Information and Communication Technologies (ICTs) may improve business competitiveness and may provide real benefits for Small and Medium Enterprises (SMEs). SMEs are a vital component of the national economy since they are the primary source of employment opportunities and technological development (Marian Carcary, Doherty, & Conway, 2014; Kumar, Samalia, & Verma, 2017). SMEs are the world's fastest-growing sector of most economies globally and account for a more significant percentage of all companies and the gross domestic product (GDP). Nowadays, the newest ICT trend that appeared central for debate on modern business computing is the notion of cloud computing.

Cloud computing is an up-and-coming trend of computing that left the attention and focused on academic research, the software industry, and SMEs. With the advance of computer science and the establishment of the internet, cloud computing evolved scientific technology into the concrete business paradigm. Although the introduction of cloud-based services has turned into a type of utility, it can deliver as different models, namely Software-as-a-Service (SaaS), Platform-as-a-Service (PaaS), and Infrastructure-as-a-Service (IaaS) (Mell & Grance, 2011). According to NASSCOM and Deloitte (2012), the worldwide cloud computing market is estimated to surpass 16 billion USD by 2020.

Cloud computing is becoming a broad mainstream set of enterprise applications which is the role of IT in organisations strategically migrating by using suitable cloud services such as SaaS, IaaS, and Platform as a Service (PaaS) (Doherty,

Carcary, & Conway, 2015; Khajeh-Hosseini, Greenwood, & Sommerville, 2010; Khayer et al., 2016). SMEs have begun aware of exploiting the opportunity as cloud-based business services are becoming increasingly prevalent. The cloud-based computing paradigm will reach a level of maturity, which lays the foundation for IS researchers to examine how cloud computing will influence SME performance.

Nowadays, cloud computing is one of the disruptive technologies that enable SMEs to compete with large companies. Cloud computing promises to aid the delivery of cloud-based services, lowering costs, and ultimately boost profitability. To face and confront the intensity of competition from rivals, SMEs strive to formulate new ways to upgrade, improve, and restructure their technology infrastructure. All-encompassing cloud computing is going to empower SMEs to shun capitalism that is at a high cost, which includes setting up ICT infrastructure, reducing the costs of maintenance and services of traditional IT infrastructures. In this case, SMEs adopted cloud computing to lower IT costs and enhance competitiveness, and they may gain value over time.

SMEs would benefit meaningfully from cloud computing due to the benefits of elasticity, flexibility, pay-as-you-go, and diminished computer equipment investment in the SME sector (Chatzithanasis & Michalakelis, 2018). Apart from that, as SMEs would have the highest benefit from the flexibility of faster time to market and better access to highly scalable technologies without upfront capital expenditures, cloud computing subsequently makes more benefits for SMEs. Realisation and adoption of cloud computing by SMEs may facilitate the opportunity to confront large enterprises with adaptive, reactive, and borderless capabilities of the cloud. Cloud computing offers opportunities to SMEs to acquire advanced and flexible IT services at a moderately reasonable cost. By incrementally embracing and using ICT innovations,

which include cloud computing services, SMEs can gain competitive advantages, including increasing access to global markets. SMEs need to enrich their performance by implementing suitable technology to survive due to the recent market turbulence, which is categorised as fast-changing technology, fast-changing customer preferences, and shorter product life cycles or obsolete. From the business perspective of the cloud identified, SMEs act as the primary beneficiaries of this computing paradigm. It offers the opportunity for new entrants amongst SMEs in various business sectors to leapfrog and compete with larger enterprises in the market.

Although deploying the cloud has significant benefits, there are several concerns associated with cloud computing avert organisations from adopting cloud computing. SMEs faced cloud issues such as vendor lock-in, which is explained as the inability or difficulty in switching over to other cloud service providers. Simply, SMEs not secure of getting trapped with only one provider, availability, and reliability of the cloud services. Also, high risk associated with security aspects prevents many firms from using cloud computing and losing control of their data and IT infrastructure (Abolfazli, Sanaei, Tabassi, Rosen, Gani, & Khan, 2015a; Khayer et al., 2016; Raut, Gardas, Jha, & Priyadarshinee, 2017). In cloud computing, customers are provided access to a shared pool of computing resources through the internet, which further gives rise to concerns regarding the availability of cloud services and their subsequent effect on their businesses. The fears of SMEs regarding poor consistency and inadequate accessibility of cloud services may also obstruct the adoption of cloud computing.

Cloud computing is extensively being used in multi-domains including the public sector, education, healthcare, business, tourism, transportation and scientific computing (Abolfazli, Sanaei, Tabassi, Rosen, Gani, Khan, et al., 2015; Yang & Tate,

2012). Thus, this chapter also highlights cloud computing readiness and adoption rate in Malaysia. According to National ICT Roadmap 2012, Malaysia's ICT focus area is divided into wireless intelligence, everywhere connectivity, E-services, Security and platforms, big data and analytic and Cloud Computing. In Malaysia, for instance, cloud computing is not mature yet, but it is growing at a rapid pace. The transformation to acceptance, adoption and deploying of cloud computing has become an important trend and is expected to reach from US\$ 43 Million in the year 2012 to US\$900 million by 2020 (Vidhyalakshmi & Kumar, 2016).

Networked Readiness Index (NRI) is a holistic approach designed to measure ICT access and impacts divided drivers to Readiness, Usage and Environment (NRI, 2014). On this note, Malaysia remains in a stable position ranked 30 from the total of 148 cloud computing countries. The level of penetration the usage of cloud computing by the government value is 5.6 while individual and business value is 4.5, respectively. Value is 1 (worst) and 7 (best). This is because in Malaysia cloud computing technology supportive by government platforms. However, the cloud computing adoption rate is different across the countries around the world. The Software Alliance and Asia Cloud computing Association (ACCA) has been performed analytical studies started in 2012 to identify the cloud readiness rates, challenges and possible solutions to expedite cloud adoption in different countries. The Table 1.1 has shown the adoption rate country- by- country basis.