



**Faculty of Technology Management and Technopreneurship**

**ICT USAGE IN MALAYSIAN SMEs: ANALYSIS ON ICT ADOPTION  
AND PERCEIVED ATTRIBUTES**

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**ICT USAGE IN MALAYSIAN SMEs: ANALYSIS ON ICT ADOPTION AND  
PERCEIVED ATTRIBUTES**

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**2015**

## DECLARATION

I declare that this thesis entitle “ICT Usage in Malaysian SMEs: Analysis on ICT Adoption and Perceived Attributes” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

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## APPROVAL

I hereby declare that I have read this thesis and in my opinion this thesis is sufficient in terms of scope and quality for the award of Doctor of Philosophy.

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## ABSTRACT

The main objective of this study is to identify the level of ICT adoption among micro, small and medium categories of Malaysian SMEs from services sector. The empirical study from this research determined the relationship between perceived attributes of innovation elements and level of ICT adoption furthermore the ICT usage. From the probability proportionate stratified random sampling, 390 SMEs from the micro, small and medium categories as the respondents participated in the survey questionnaires. The data collection was performed throughout Malaysia by email, telephone calls and exhibition. The results were analyzed by descriptive statistic, correlation, multiple regression and ANOVA analysis. This empirical study revealed that 75.1% SMEs in service sectors at Level 3 – Advanced Communication, followed by 12.3% at Level 4 – Advanced Information Technology, 6.4% at Level 2 – Basic Information Technology and 6.2% at Level 1 – Basic Communication. The profile of ICT usage measured by the list of core ICT indicators was developed from the primary data gathering. Previous research has indicated that the rate of adoption of ICT innovation specifically among SMEs in Malaysia was low although there are many initiatives have been implemented by the government but the outcomes have not been fully translated into results. This is important to improve the performances by adopting the ICT innovation as SMEs are key drivers and engine for the economic growth. More importantly, ICT are among the National Key Economic Areas (NKEAs) that need to be focus especially for the purpose of SMEs development. Perceived attributes of innovation are important elements that have been considered in this study since it contributed up to 87% to the rate of adoption and core ICT indicators as the guidance adhered to globally accepted standards. Thus, the information on the current status is important before further develop the action plan. This study provided the useful information as the guidance to policy maker by created the identification of level ICT adoption and relate with the profile of ICT usage based on the list of core ICT indicators as the standard measuring tools. The practical implications to policy maker as well as society are to suggest the ICT trialability package, human capital development programs to increase the ICT-skilled workforce and empowering bottom 40 percent micro SMEs through ICT utilization along the business value chain. Mainly, the findings supported government agenda towards developing the SMEs as stated in SME Masterplan (2012-2020), Third Industrial Master Plan (IMP3), Tenth Malaysia Plan (10MP) and contribute to the government aspirations to become high income and developed nation by 2020 as stated in New Economic Model (NEM).

## ABSTRAK

*Objektif utama kajian ini adalah untuk mengenalpasti tahap penggunaan teknologi maklumat dan komunikasi (ICT) bagi kategori mikro, kecil dan sederhana (PKS) dalam sektor perkhidmatan di Malaysia. Kaji selidik ini mendapatkan hubungkait antara elemen-elemen anggapan inovasi dan tahap penggunaan ICT seterusnya penggunaan ICT itu sendiri. Melalui kaedah pensampelan rawak berperingkat, 390 PKS dari kategori mikro, kecil dan sederhana sebagai responden memberi maklumbalas mengambil bahagian kepada kaji selidik yang dijalankan. Pengumpulan data dijalankan merangkumi seluruh Malaysia melalui mel elektronik, panggilan telefon dan pameran. Data yang dikumpulkan dianalisa melalui kaedah demografik, hubungkait Pearson, analisa regresi berganda dan ANOVA. Kajian ini mendedahkan 75.1% PKS dalam sektor perkhidmatan berada pada Tahap 3 – Komunikasi Termaju, diikuti 12.3% pada Tahap 4 – Teknologi Maklumat Termaju, 6.4% pada Tahap 2 – Teknologi Maklumat Asas dan 6.2% pada Tahap 1 – Komunikasi Asas. Profil penggunaan ICT telah diukur dengan senarai penanda teras ICT melalui pengumpulan data utama. Penyelidikan sebelum ini menunjukkan tahap penggunaan inovasi ICT terutamanya di kalangan PKS adalah rendah sungguhpun berbagai-bagai inisiatif telah dilaksanakan oleh kerajaan tetapi belum menampakkan hasilnya. Adalah mustahak untuk menambahbaik prestasi penggunaan ICT melalui inovasi ICT memandangkan PKS adalah enjin dan penggerak utama kepada pertumbuhan ekonomi. Lebih penting lagi, ICT adalah antara Bidang Ekonomi Utama Negara (NKEAs) yang perlu di beri tumpuan terutamanya kepada pembangunan PKS. Elemen dalam ciri-ciri anggapan terhadap inovasi digunapakai dalam kajian ini kerana ianya menyumbang sehingga 87% terhadap kadar penggunaan ICT dan penanda teras ICT sebagai panduan ke arah mematuhi tahap global. Oleh itu, maklumat status terkini adalah penting sebelum membangunkan sebarang pelan tindakan. Kajian ini menyediakan informasi berguna sebagai panduan kepada penggubal polisi dengan mewujudkan kenalpasti penggunaan tahap ICT dan mengaitkannya dengan profil penggunaan ICT yang berdasarkan senarai penanda teras ICT sebagai alat pengukuran yang seragam. Kesan praktikal kepada penggubal polisi dan juga masyarakat adalah dengan mencadangkan pakej percubaan ICT, program pembangunan modal insan untuk meningkatkan tenaga kerja mahir ICT dan memantapkan 40% yang terkebawah kategori mikro melalui penggunaan ICT merangkumi semua proses perniagaan. Secara umumnya, hasil kajian ini menyokong agenda kerajaan ke arah pembangunan PKS seperti yang termaktub dalam SME Masterplan (2011-2020) dan menyumbang kepada aspirasi kerajaan ke arah mencapai negara maju pada 2020 seperti yang dinyatakan dalam model ekonomi baru.*

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## TABLE OF CONTENTS

	<b>PAGE</b>
<b>DECLARATION</b>	
<b>ABSTRACT</b>	<b>i</b>
<b>ABSTRAK</b>	<b>ii</b>
<b>ACKNOWLEDGEMENTS</b>	<b>iii</b>
<b>TABLE OF CONTENTS</b>	<b>iv</b>
<b>LIST OF TABLES</b>	<b>vii</b>
<b>LIST OF FIGURES</b>	<b>x</b>
<b>LIST OF APPENDICES</b>	<b>xi</b>
<b>LIST OF ABBREVIATIONS</b>	<b>xii</b>
<b>CHAPTER</b>	
<b>1. INTRODUCTION</b>	<b>1</b>
1.1 Purpose of study	1
1.2 The Problem and its Background	1
1.2.1 The Problem	1
1.2.2 The Importance of the Problem	3
1.2.3 The Problem in more Detail	3
1.2.4 The Solution to the Problem	4
1.3 The Conceptual Framework	4
1.3.1 This Research Position	4
1.3.2 The Previous Study	5
1.3.3 The New Studies	6
1.4 Research Questions	7
1.5 Research Objectives	7
1.6 Hypotheses	8
1.7 Justification of the Study	10
1.8 Scope of study	10
1.9 Research Contribution	11
1.10 Operational Definition	12
1.10.1 Perceived Attributes of Innovation	12
1.10.2 Relative Advantage	12
1.10.3 Compatibility	13
1.10.4 Complexity	13
1.10.5 Trialability	13
1.10.6 Observability	13
1.10.7 Rate of Adoption	13
1.10.8 Information and Communication Technology (ICT)	14
1.10.9 Core ICT Indicator	14
1.10.10 Basic Communication	14
1.10.11 Basic Information Technology	15
1.10.12 Advanced Communication	15
1.10.13 Advanced Information Technology	15
1.11 Definition of Terms	15
1.11.1 Profile	15
1.11.2 Usage	15
1.11.3 Dependent Variable	16



1.11.4	Independent Variable	16
1.11.5	Mediating Variable	16
1.11.6	Small and Medium Enterprises (SMEs)	16
1.11.7	Service Sector	16
1.11.8	Competitiveness	16
1.11.9	Sustainability	17
1.11.10	Empirical	17
1.12	Structure of Thesis	17
1.13	Summary	18
<b>2.</b>	<b>LITERATURE REVIEW</b>	<b>19</b>
2.1	Introduction	19
2.2	Small and Medium-sized Enterprises in Malaysia (SMEs)	19
2.2.1	Definition of SMEs	20
2.2.2	SMEs Achievement and Contribution to the Economy	22
2.2.3	ICT and Policies on SME Development by Government	23
2.2.3.1	SME Masterplan (2012-2020)	24
2.2.3.2	Third Industrial Masterplan (IMP3)	25
2.2.3.3	10 <sup>th</sup> Malaysia Plan (10MP)	25
2.2.3.4	New Economic Model (NEM)	25
2.3	The Importance of ICT to SMEs	27
2.4	ICT and Malaysian SMEs	32
2.5	Theories on ICT Adoption	36
2.5.1	The Importance of Innovation	38
2.5.2	Adoption Decision	42
2.5.3	Perceived Attributes of Innovation	44
2.5.3.1	Relative Advantage	46
2.5.3.2	Compatibility	47
2.5.3.3	Complexity	48
2.5.3.4	Trialability	49
2.5.3.5	Observability	50
2.5.4	Diffusion of Innovation	50
2.6	International Telecommunication Union (ITU) and Core ICT Indicators	54
2.7	Core ICT Indicators	57
2.7.1	Explanation on Core ICT Indicators	58
2.8	Theoretical Framework	63
2.9	Operational Framework	65
2.10	Summary	69
<b>3.</b>	<b>METHODOLOGY</b>	<b>70</b>
3.1	Introduction	70
3.2	Research Design	70
3.3	Questionnaire Development	71
3.4	Population and Sample	73
3.5	Data Collection	76
3.6	Method of Statistical Analysis	79
3.7	Summary	79

<b>4.</b>	<b>RESULT AND DISCUSSION</b>	<b>81</b>
4.1	Introduction	81
4.2	Goodness of Data	81
	4.2.1 Reliability	81
	4.2.2 Normality Distribution	82
	4.2.3 Validity	85
	4.2.4 Multicollinearity	91
4.3	Descriptive Characteristics	92
	4.3.1 Demographic Information	92
	4.3.2 Utilization of Core ICT Indicators by SMEs	96
	4.3.3 Level of ICT adoption	107
	4.3.4 Profile of Core ICT Indicators	115
4.4	Responses of the Perceived Attributes of Innovation	121
	4.4.1 Relative Advantage	121
	4.4.2 Compatibility	122
	4.4.3 Complexity	123
	4.4.4 Trialability	125
	4.4.5 Observability	127
4.5	Hypotheses Testing	130
4.6	Perceived Attributes of Innovation on ICT Usage	140
4.7	Overall Response on ICT Usage	144
4.8	Discussion	147
4.9	Summary	152
<b>5.</b>	<b>CONCLUSION AND RECOMMENDATIONS FOR FUTURE RESEARCH</b>	<b>154</b>
5.1	Introduction	154
5.2	Conclusion	154
	5.2.1 Government Agenda	155
	5.2.2 Level of ICT Adoption and ICT Usage	157
	5.2.3 ICT Usage based on ICT Core Indicators	159
	5.2.4 Perceived Attributes of Innovation	160
5.3	Theoretical and Practical Implications	161
5.4	Limitation of the Research	163
5.5	Direction for Future Research	164
	<b>REFERENCES</b>	<b>165</b>
	<b>APPENDICES</b>	<b>186</b>

## LIST OF TABLES

<b>TABLE</b>	<b>TITLE</b>	<b>PAGE</b>
1.1	Proposed improvements on previous related studies	6
2.1	Definition of SME based on category	20
2.2	New definition of SMEs based on category	21
2.3	Core indicators on use of ICT by businesses	57
3.1	Profile of SMEs, breakdown by size and sector (DOSM, 2011)	74
3.2	Profile of SMEs, breakdown by size and sector (DOSM, 2005)	74
3.3	Profile of SMEs in the services sector, breakdown by state and size	75
3.4	Number of sample size: Proposed and actual	76
3.5	Business main activities	78
4.1	Construct scales reliabilities (N = 390)	81
4.2	Skewness and Kurtosis	82
4.3	KMO and Bartlett's test	86
4.4	Communalities	86
4.5	Total variance explained	87
4.6	Factor matrix	89
4.7	Pattern matrix	90
4.8	Test of Multicollinearity	92
4.9	Basic information of respondents	93
4.10	Basic business characteristics of respondents	94

4.11	Number of firms within state in Malaysia by categories	95
4.12	Breakdown utilization of basic communication	97
4.13	Business used computer by SMEs	97
4.14	Business did not used computer by category and state	98
4.15	Number of employee routinely used a computer at work	99
4.16	Utilization of internet by SMEs	99
4.17	Business did not used internet by category and state	100
4.18	Number of employee routinely used the internet at work	101
4.19	Business web presence by SMEs	102
4.20	Web presence by business activities	102
4.21	Mechanism connection to internet	103
4.22	Make sales and purchases via the internet	104
4.23	Connection with intranet, local area network and extranet	105
4.24	Business using the internet by type of activities	106
4.25	Business using specific software	107
4.26	Level of ICT adoption by category of SMEs	108
4.27	Calculation for generalization of findings	115
4.28	Profile of core ICT indicators for Malaysian SMEs from services sector by category	116
4.29	Mean for relative advantage by category	122
4.30	Mean for compatibility by category	123
4.31	Mean for complexity by category	124
4.32	Mean for trialability by category	126
4.33	Mean for observability by category	127
4.34	Mean for perceived attributes of innovation by category	129
4.35	Correlation between relative advantage items with level of ICT adoption	130

4.36	Correlation between compatibility items with level of ICT adoption	131
4.37	Correlation between complexity items with level of ICT adoption	132
4.38	Correlation between trialability items with level of ICT adoption	133
4.39	Correlation between observability items with level of ICT adoption	134
4.40	Correlation matrix and summary of variables	136
4.41	Aggregate effect of the five independent variables on level of ICT adoption	137
4.42	Coefficients of independent variables for level of ICT adoption	138
4.43	Effect the level of ICT adoption and ICT usage	139
4.44	Influence level of ICT adoption on ICT usage	140
4.45	Mean – ANOVA for relative advantage by category	141
4.46	Mean - ANOVA for compatibility by category	142
4.47	Mean - ANOVA for complexity by category	142
4.48	Mean - ANOVA for trialability by category	143
4.49	Mean - ANOVA for observability by category	144
4.50	ICT contributing towards business performance improvement by category	145

## LIST OF FIGURES

FIGURE	TITLE	PAGE
2.1	Gradual progression of ICT adoption in SMEs	52
2.2	Theoretical framework	65
2.3	Operational framework	68
3.1	Method of data collection	78
4.1	Distribution for micro category	84
4.2	Distribution for small category	84
4.3	Distribution for medium category	85
4.4	Scree plot	88
4.5	Level of ICT adoption by category of SMEs	109
4.6	Level 1 – Business Main Activities	110
4.7	Level 2 – Business Main Activities	111
4.8	Level 3 – Business Main Activities	112
4.9	Level 4 – Business Main Activities	113
4.10	Percentage mean for relative advantage by category	122
4.11	Percentage mean for compatibility by category	123
4.12	Percentage mean for complexity by category	124
4.13	Percentage mean for trialability by category	126
4.14	Percentage mean for observability by category	128
4.15	Percentage mean for perceived attributes of innovation by category	130

## LIST OF APPENDICES

APPENDIX	TITLE	PAGE
A	Development of an instrument to measure the perceptions of adopting an information technology innovation by Moore and Benbasat (1991)	186
B	First phase of a scale development project for consumer communication technologies by Dupagne and Driscoll (2005)	188
C	Partnership on measuring ICT for development core ICT indicators, 2010, International Telecommunication Union	190
D	Survey questionnaire	207

## LIST OF ABBREVIATIONS

10MP	-	10 <sup>th</sup> Master Plan
ANOVA	-	Analysis of Variance
CDMA	-	Code Division Multiple Access
CRM	-	Customer Relationship Management
DOI	-	Diffusion of Innovation
DOSM	-	Department of Statistics Malaysia
DSL	-	Digital Subscriber Line
E&E	-	Electrical and Electronics
ERP	-	Enterprise Resources Planning
F&B	-	Food and Beverage
GDP	-	Gross Domestic Product
GPRS	-	Global Positioning Remote Satellite
GST	-	Goods and Services Tax
HSDPA	-	High-Speed Downlink Pocket Access
HSUPA	-	High-Speed Uplink Pocket Access
ICT	-	Information Communication and Technology
IMP3	-	Integrated Malaysia Plan 3
IP	-	Intellectual Property
ISDN	-	Integrated Services Digital Network
ITU	-	International Telecommunication Union
KMO	-	Kaiser-Meyer-Olkin



LAN	-	Local Area Network
MNC	-	Multi National Company
MRS	-	Manufacturing Related Services
NEM	-	New Economic Model
NKEAs	-	National Key Economic Areas
NSDC	-	National SME Development Council
PC	-	Personal Computer
PDA's	-	Personal Digital Assistants
R&D	-	Research and Development
RPM	-	Rapid Prototyping and Manufacturing
SCM	-	Supply Chain Management
SMECorp	-	SME Corporation
SMEs	-	Small and Medium Enterprises
SPSS 19.0	-	Statistical Package for Social Sciences 19.0
SRI	-	Strategic Reform Initiatives
TAM	-	Technology Acceptance Model
TPB	-	Theory of Planned Behavior
TV	-	Television
UMTS	-	Universal Mobile Telecommunications System
VIF	-	Variance Inflation Frequency
VOIP	-	Voice over Internet Protocol
W-CDMA	-	Wideband-Code Division Multiple Access
WP KL	-	Wilayah Persekutuan Kuala Lumpur
WWW	-	World Wide Web

# CHAPTER 1

## INTRODUCTION

### 1.1 Purpose of Study

The main objective of this study is to identify the level of ICT adoption among micro, small and medium categories of Malaysian SMEs from services sector. The empirical study from this research determined the relationship between perceived attributes of innovation elements and level of ICT adoption furthermore the ICT usage. The contribution from this study is to provide useful information and support the government agenda in development of the SMEs as stated in the SME MasterPlan (2012-2020), Tenth Malaysia Plan (10MP), Third Industrial Master Plan (IMP3) and to become high income nation as described in New Economic Model (NEM) by increasing the productivity through creativity in managing the technology innovation.

### 1.2 The Problem and its Background

#### 1.2.1 The Problem

Over the years, there had been a growing concern of ICT development among SMEs with regards to the slow adoption of ICT. Tan (2006) found that ICT in Malaysia is facing big challenges because of the slow adoption of technology by SMEs. SME owners in Malaysia possess below-average ICT skills and seldom use the ICT such internet at their workplace while they also find IT adoption are difficult and thus SME owners in Malaysia are in the late majority in the adopter category (Hashim, 2007). The Report of 2012 SMEs Survey by The Associated Chinese Chambers of Commerce &

Industry of Malaysia (ACCCIM), in regard to the use of e-commerce, Malaysian SMEs are still bond of using the conventional method of doing business. The finding showed 48 percent not using e-commerce, 24 percent in planning and only 28 percent used e-commerce. Only 20 percent of SMEs used IT extensively in daily operations (SME Masterplan 2012-2020).

Recognizing the important role of ICT to SMEs in the economy, the government is committed to support and nurture the development of SMEs to ensure their sustainability and competitiveness. There have the needs to identify the current status level of ICT adoption and usage as the useful information and guidance to related bodies for developing further programs. The National SME Development Council (NSDC) established in 2004 underlines the government commitment and initiatives in development of SMEs in Malaysia in a comprehensive and coordinated ways. NSDC has introduced various initiatives through the SME Development Framework which coordinates the policies and programs across more than 15 ministries and 60 agencies. The major programs in SME Masterplan (2012 – 2020) included the research to study the effectiveness of SMEs' performance, technology awareness and advisory services, developing SME business portal and to create the ICT adoption culture among SMEs. Third Industrial Master Plan (IMP3) 2006-2020 promoting the greater utilization of ICT and other technologies along the value chain of the business process. Government emphasized the courses in management, finance, marketing and ICT for SMEs in 10<sup>th</sup> Malaysia Plan (10MP). In New Economic Model (NEM), two key issues have become relevant to SME development; firstly, create a number of strong homegrown companies that can compete in the international market to become regional and global champions. Secondly, to focus on the bottom 40 percent of the income group that earn RM1,500 and below, which mainly

comprises self-employed micro enterprises to upgrade their activities and to elevate their income levels.

### **1.2.2 The Importance of the Problem**

Among the government policies regarding the SME development as stated in SME Masterplan (2012 – 2020) included the research to study the effectiveness of SMEs' performance. Although in the Asia-Pacific Development Information Program have reported several reasons contributed to the slow ICT adoption among SMEs in Asia-Pacific countries, it is important to identify these causes at several point of different time, since the user's perception and intention can change over time due to several factors (Selamat et al., 2011). SMEs play an important role and become a catalyst of economic growth in Malaysia with contribution of 99 percent of total business establishments in Malaysia, but there has been very little research done on ICT in SME (Selamat et al., 2011). In addition, this research concluded that it is critical to have more empirical evidence of the factors affecting adoption of ICT to help managers, regulatory bodies and ICT providers further access the benefits of its continuous and potential development.

### **1.2.3 The Problems in More Detail**

SMEs in most developing countries like Malaysia still have been slow to adopt it although most SMEs in Malaysia realize that ICT is critical to the productivity and performance of their companies (Lim, 2006). Findings from Tan and Eze (2008) indicated that SMEs are likely to adopt ICT in future, government initiatives through Ninth Malaysia Plan (2006-2010) seems to be not very successful because the internet-based ICT adoption is still low. Tan and Eze (2008) also revealed that email usage and information seeking by

internet become two most important factors on ICT while business transaction through like e-commerce and e-business was still not popular among SMEs in Malaysia.

#### **1.2.4 The Solution to the Problem**

To achieve this end, this research conducted the empirical study on the level of ICT adoption related with perceived attributes of innovation for micro, small and medium categories. Also included the ICT usage using core ICT indicators adhered to globally accepted standards. As identified by Rogers (1995) in his seminal work “Diffusion of Innovations”, five attributes of innovations that best determined their rate of adoption are relative advantage, compatibility, complexity, trialability, and observability affecting the rate of adoption of the technology by contributed the variance up to 87 percent. The core list of ICT indicators was the outcome of an intensive consultation process by the Partnership on Measuring ICT for Development, which involved NSOs worldwide. The indicators are based on internationally agreed standard.

### **1.3 The Conceptual Framework**

#### **1.3.1 This Research Position**

In the light of the theories cited in the review of related literature and studies, especially the insights from Kotelnikov (2007), Alam and Ahsan (2007), Selamat et al. (2011), Tan and Eze (2008), Rogers (1995) and Core Indicators on use of ICT by businesses by Partnership on Measuring ICT for Development Core ICT Indicators (2010), this study aimed to develop the empirical study on the level of ICT adoption related with the perceived attributes of innovation. Further, to determine the ICT usage using core ICT indicators adhered to globally accepted standards for micro, small and medium categories.

### **1.3.2 The Previous Studies**

Study from Kotelnikov (2007) formed the base for Gradual Progression of ICT Adoption in SMEs. The model indicated the sequential process of ICT adoption among SMEs. The adoption of ICT started from Basic communication (fixed line, mobile phone, fax) to Basic Information Technology (PC with basic software and hardware) follow with Advanced Communication (connected to internet) and Advanced Information Technology (PC with advanced software). Alam and Ahsan (2007) in their “ICT Adoption in Malaysian SMEs from Services Sectors: Preliminary Findings”, there are five variables used to measure level of ICT adoption. These are included develop formal ICT training plan, develop business web site, e-mail usage for business purposes, e-business practices and internet transactions. Selamat et al. (2011) “ICT Adoption in Malaysian SMEs” referred to the usage of ICT such as computer hardware, software and network to connect to the internet. Tan and Eze (2008) suggested for future research to investigate types of ICT applications Malaysian SMEs adopt. The Partnership on Measuring ICT for Development is an international, multi-stakeholder initiative to improve the availability and quality of ICT data and indicators particularly in developing countries. The list, which is revised regularly, was identified to help guide countries in measuring the information society. On March 2007, the UN Statistical Commission endorsed the core list of indicators on ICT, which was developed by the Partnership on Measuring ICT for Development. The indicators are based on internationally agreed standards. Rogers (1995) stated that there are five stages in adoption process which included knowledge, persuasion, decision, implementation and confirmation. The perceived attributes of innovation which consists of five elements namely relative advantage, compatibility, complexity, trialability and observability have an influenced individual decision whether to adopt or reject. Rogers

suggested that up to 87 percent of the variance in rate of adoption is contributed by these five attributes.

### 1.3.3 The New Studies

To accomplish the research objectives, the output would be the level of ICT adoption related with perceived attributes of innovation and the ICT usage based on 12 elements of core ICT indicators. For assessing level of ICT adoption in this research, the gradual processes in the model by Kotelnikov (2007) was named and identified as Level 1 for Basic Communication, Level 2 for Basic Information Technology, Level 3 for Advanced Communication and Level 4 for Advanced Information Technology. The ICT usage was measured standardized based on the 12 elements core ICT indicators for the micro, small and medium categories of SMEs. The perceived attributes of innovation elements were the factors that contributed to the level of ICT adoption. It is important to assess at several different times to identify the changes in perception of the SMEs. This study extended to fill the gaps in the several related previous research and model as shown in Table 1.1.

Table 1.1 : Proposed Improvements on Previous Related Studies

Gaps existed in related previous research/model on adoption and usage of ICT applications	Suggested improvements to the previous study
2. Alam and Ahsan (2007) measured the level of ICT adoption in terms of ICT training plan, develop business web site, e-mail usage, e-business practice and internet transactions for Melaka and Johor. The findings are not divided into categories of SMEs.	i) Measurement level of ICT adoption for micro, small and medium categories of Malaysian SMEs from services sector.
2. Tan and Eze (2008) in their suggestions of future research to investigate types of	ii) More specific ICT usage measurement on 12 elements core ICT indicators for business adhered to global standard as suggested by ITU.

<p>ICT applications adopted by SMEs.</p> <p>3. Selamat et al. (2011) referred ICT adoption to the usage of ICT such as computer hardware, software and network to connect to the internet whereby this is a broad measurement and absence of the specific ICT applications.</p>	
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#### **1.4 Research Questions**

The research questions developed based on the research objectives. This research answered the level of ICT adoption and the relationship perceived attributes of innovation elements and the impact to the ICT usage. The research questions are as follows:

1. What is the level of ICT adoption in Malaysian SMEs from service sectors?
2. What is the relationship between perceived attributes of innovation elements and level of ICT adoption in Malaysian SMEs from service sectors?
3. What is the relationship between level of ICT adoption and ICT usage in Malaysian SMEs from service sectors?

#### **1.5 Research Objectives**

As the research purposes are to study the level of ICT adoption and ICT usage, it is divided into several research objectives. The development programs for the SMEs have many strategies to be implemented and it is important to identify the present situation. This study take into account the perceived attributes of innovation elements and the core ICT indicators because the experimental results showed the relationship and impact with each other. For that, the objectives of this research are as follows:

1. To assess the level of ICT adoption in Malaysian SMEs from service sectors.