# Small firms risk falling behind as AI skills gap widens



Fewer than one in three small businesses in the UK feel equipped to adopt artificial intelligence (AI), with a lack of training emerging as the biggest obstacle. A new survey of 500 SME leaders by the Institute of Coding found that just 29% of smaller firms are confident in using AI technologies—compared with 82% of medium-sized businesses. The figures highlight a growing divide, particularly affecting micro businesses and sole traders with limited resources or expertise.

More than half of SMEs identified insufficient internal skills and knowledge as their main barrier to adopting AI. While 51% believe AI will be critical to the future of commerce, only 12% have invested in staff training. Just 27% feel confident managing AI tools safely and effectively. Awareness of platforms such as ChatGPT and Otter.ai is widespread, but this has not translated into widespread adoption, with trust and strategic uncertainty also posing challenges.

The issue spans the wider SME sector. Separate reports show that 43% of firms have no plans to use AI, and only a quarter are currently doing so. Many businesses are calling for a national AI skills strategy that covers all job levels and company sizes. In the survey, 75% of respondents said they want clearer guidance on future AI skill requirements over the next three to five years.

A further gap exists between employer enthusiasm and workforce readiness. Nearly a quarter of employees have started using AI tools, yet 32% of non-users cite a lack of training and support. Meanwhile, 39% of employers encourage AI adoption—suggesting staff development has not kept pace with business interest. Government initiatives such as the AI Opportunities Action Plan and the TechFirst programme aim to train 7.5 million workers by 2030. However, many SMEs feel these efforts are geared more towards large enterprises.

The Institute of Coding, led by the University of Bath, is seeking to close this gap through free, practical short courses to build AI confidence across all business levels. Its director, Professor Rachid Hourizi MBE, warned of a “two-tier business economy” if smaller firms continue to be left behind.

Additional hurdles include financial and bureaucratic barriers to hiring AI and digital apprentices. Despite a rise in digital apprenticeship enrolments, many SMEs believe better financial incentives could drive wider uptake—bolstering calls for more government support.

The research also reveals a gender confidence gap. Only 9% of female-led firms say they are fully confident using AI, compared with 26% of male-led businesses. The findings point to a need for more targeted support and training for underrepresented groups.

The widening adoption gap could have serious consequences for the UK economy. Small businesses form the backbone of local employment, and their exclusion from AI threatens to entrench regional and sectoral inequalities. While some larger SMEs are advancing with AI, many others risk falling further behind—missing out on gains in efficiency, innovation and growth.

The UK now stands at a crossroads in its AI journey. Government programmes and initiatives like those from the Institute of Coding offer a promising foundation, but inclusive, accessible training must remain the priority. Without it, many small firms may struggle to compete in an AI-driven economy.

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## Bibliography

1. <https://hrnews.co.uk/smes-call-for-more-ai-training-support/> - Please view link - unable to able to access data
2. <https://www.britishchambers.org.uk/news/2024/07/most-smes-still-struggling-to-embrace-ai/> - A British Chambers of Commerce report reveals that 43% of SMEs have no plans to use AI, with 25% currently using AI technology. The study highlights a significant sectoral divide, with B2B companies more likely to adopt AI compared to manufacturing firms. Additionally, only 11% of businesses feel their current training arrangements meet future skills needs, indicating a pressing need for enhanced AI training and support for SMEs.
3. <https://www.hays.co.uk/media-centre/press-releases/content/training-deficit-slowing-ai-adoption> - Research by Hays indicates that nearly a quarter of workers use AI tools in their jobs, up from 18% in 2023. However, 32% of non-users cite a lack of understanding, support, or training as the reason for non-adoption. Despite this, 39% of employers recommend AI technologies in the workplace, highlighting a disconnect between employer encouragement and employee readiness due to training deficits.
4. <https://ecommercenews.uk/story/smaller-uk-firms-risk-falling-behind-as-ai-skills-gap-widens> - An Institute of Coding survey reveals a significant AI readiness divide between larger SMEs and smaller businesses in the UK. While 82% of medium-sized businesses are confident in their AI capabilities, only 37% of smaller businesses share this confidence. The study underscores the risk of a two-tier economy where smaller firms may fall behind in AI adoption due to insufficient skills and training.
5. <https://businessbiscuit.com/business-news/business-tech-news/bcs-ai-skills/> - Research from BCS, The Chartered Institute for IT, highlights that SMEs face challenges in hiring AI and digital apprentices due to bureaucracy and funding issues. Despite a 50% growth in digital apprentice numbers, over half of SMEs believe better financial incentives would make digital apprenticeships more attractive, indicating a need for government support to address the AI skills gap.
6. <https://www.enterprisenation.com/learn-something/tech-hub-small-business-artificial-intelligence-report/> - An Enterprise Nation report finds that 57% of UK small and medium-sized businesses are exploring AI, with 60% excited about its potential to save time. However, the report highlights a significant skills and confidence gap, particularly among female-led firms, where only 9% feel 'totally confident' in using AI, compared to 26% of male-led firms, indicating a pressing need for targeted training and support.
7. <https://www.bgf.co.uk/insights/sme-ai-adoption/> - A BGF survey of 84 UK and Irish SMEs reveals that 89% of senior leaders view AI as an opportunity for their business, yet only 50% feel they have the necessary AI expertise. The study highlights that while AI adoption is seen as beneficial, many SMEs lack the internal skills and resources to implement AI effectively, underscoring the need for targeted training and support.