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THE IRISH SME AI CAPABILITY REPORT

Why Irish SMEs Are Stuck at Awareness
And What the Evidence Says Actually Works

Clear Gate Systems | June 2026

Compiled from publicly available Irish, EU, OECD, and international research sources.

Executive Summary

Irish SMEs are not ignoring AI. They are stuck. Research conducted across 2024 to 2026 by Trinity College Dublin, Microsoft, Google, the CSO, the ICT Skillnet, the Western Development Commission, and others tells a consistent story: awareness is high, confidence is low, and the gap between intention and capability is widening.

Six findings stand out from the evidence:

1. Only 7% of Irish businesses feel confident in their AI capabilities. Across independent surveys, the overwhelming majority of Irish SMEs report awareness of AI but not readiness to use it effectively. (ICT Skillnet/AI Ireland, 2025)

2. The maturity gap between SMEs and large enterprises is substantial and growing. 58% of large Irish enterprises use AI compared to 20% of medium-sized and 17% of small enterprises. Large organisations are more than twice as likely to deliver weekly time savings of two hours or more per employee. (CSO, 2025)

3. Organisations with a formal AI policy are ten times more likely to report major productivity gains. 30% of organisations with a formal AI policy report major productivity gains, compared to 3% of those without one. Yet fewer than half of Irish organisations currently have such a policy. (TCD/Microsoft AI Economy Ireland, 2026)

4. The primary barrier is not cost, complexity, or technology access. It is skills. 68% of Irish businesses identify lack of skills and training as the single biggest constraint to AI adoption. The tools exist. The capability to use them effectively does not. (Digital Business Ireland, 2026)

5. Shadow AI is already happening. 61% of Irish managers report employees using AI tools without organisational knowledge or governance, creating data, GDPR, and potential EU AI Act exposure that most SMEs are unaware of. (TCD/Microsoft, 2025)

6. EU AI Act high-risk obligations are approaching, but the timeline has shifted. Irish SMEs using AI in recruitment, candidate selection, or credit processes may be operating what the Regulation classifies as high-risk AI systems under Annex III. Under the original regulation, obligations for these systems were scheduled from 2 August 2026. A provisional agreement on the Digital Omnibus on AI, reached by EU co-legislators on 7 May 2026, moves this deadline to 2 December 2027 for stand-alone high-risk AI systems, subject to formal adoption. Most Irish SMEs will be deployers of third-party tools with obligations under Article 26, which differ from the heavier requirements placed on providers.

The evidence points to a clear conclusion: the Irish SMEs that will gain competitive advantage from AI in the next 12 to 24 months are not those that adopt the most tools. They are those that build capability, governance, skills, and structured implementation, before scaling.

Section 1: Where Irish SMEs Actually Stand

The picture that emerges from Irish research in 2025 and 2026 is of a business population that is broadly aware of AI but largely stuck at the awareness stage.

27% of Irish businesses had implemented AI tools in any meaningful way as of mid-2025. The largest single cohort, 34%, remained in early planning or research stages. *(ICT Skillnet/AI Ireland, 2025)*

58% of large Irish enterprises use AI, compared to 20% of medium and 17% of small enterprises. *(CSO, 2025)*

7% of Irish business respondents feel very confident in their AI capabilities. *(ICT Skillnet/AI Ireland, 2025)*

57% of Irish SMEs believe they are already behind competitors in adopting AI. *(Google/Amarach, 2026)*

Large organisations are more than twice as likely as SMEs to report weekly time savings of two hours or more per employee from AI use: 54% versus 25%.

Micro-businesses are most at risk. One-third of micro-businesses under ten employees are not using AI at all, compared to 7% of larger SMEs in the 50 to 250 employee range. Google/Amarach research (2026) identified micro-businesses, longer-established firms, and non-exporters as the cohorts most at risk of being left permanently behind.

This is not a story about Irish businesses being resistant to change. It is a story about a capability gap that is widening while the tools and the evidence for what to do about it have never been more accessible.

One dimension of this gap is consistently underestimated: AI capability compounds over time in a way that most technology investments do not. Organisations that build early develop better data assets, stronger institutional knowledge, and more capable internal processes. Late movers face a steeper catch-up curve not because the technology is inaccessible but because the organisational learning gap is harder to close than the technology gap.

The McKinsey State of AI in 2025 survey, based on 1,993 respondents across 105 countries and published in November 2025, found that 88% of organisations now use AI in at least one business function. Yet only about one-third have moved beyond pilots to genuinely scale AI across the enterprise, and just 6% qualify as high performers, defined as organisations seeing more than 5% EBIT impact from AI. Nearly two-thirds remain in what practitioners call Pilot Purgatory: pilots that generate early momentum but stall before delivering measurable value at scale, typically because governance, change management, and data infrastructure requirements were not built in from the outset. The McKinsey data draws predominantly from larger enterprises, but the Irish research cited throughout this report suggests the same pattern is playing out in the SME segment.

Section 2: What Is Actually Blocking Irish SMEs

When you ask Irish SMEs what is stopping them, the answers are consistent across every major survey conducted in the last two years. The barriers are not primarily what people assume.

Skills deficit is the dominant structural barrier.

> **68%** of Irish businesses identified lack of skills and training as the single biggest constraint to AI adoption. *(Digital Business Ireland, 2026)*

> **62%** of Irish SMEs cite lack of AI skills as their top barrier. *(TCD/Microsoft, 2025)*

This finding is consistent across every major independent survey of the Irish market. The tools are accessible and often affordable. The bottleneck is the internal capability to select, implement, and use them well.

Governance and policy absence is both a barrier and a risk multiplier.

> **Fewer than half** of Irish organisations have a formal AI policy. *(TCD/Microsoft, 2026)*

> **37%** of Irish SME leaders have no formal AI policy. *(OpenAI/Opinium, 2026)*

51% of Irish companies allow AI use by staff but have no governance policies, and 77% say their organisation is concerned about how to govern AI (ThinkBusiness/Irish IT research, 2024). The absence of governance does not just create legal risk. It directly suppresses the value organisations extract from AI investment. Organisations with a formal AI policy are ten times more likely to report major productivity gains.

Fear of mistakes is a genuine adoption barrier.

> **30%** of Irish SMEs cited fear of making errors as their top barrier. *(Google/Amarach, 2026)*

SME leaders without AI-skilled staff have no trusted internal reference point and default to inaction. This is a predictable response to the absence of practical support and governance structures.

Data privacy concerns are acute and rising.

> **58%** of Irish executives cited privacy as the key challenge in adopting AI tools, up from 35% six months earlier. *(Grant Thornton IBR, 2025)*

Ireland's Data Protection Commission is among the most active EU data regulators. High-profile enforcement actions in 2024 have sharpened awareness of the risk without necessarily clarifying the path forward for SMEs.

Shadow AI is already inside the business.

> **61%** of Irish managers report employees using AI tools even when prohibited. *(TCD/Microsoft, 2025)*

SMEs without IT departments have minimal visibility into which tools employees are using, what data is being entered, and what GDPR or other legal implications follow. The organisation remains the data controller regardless of which tool an employee chooses to use. This is a current exposure, not a future risk.

There is a second dimension to this finding worth noting. When employees adopt AI tools outside policy, it signals that the underlying problem they are trying to solve is real and pressing enough that they are taking personal initiative to address it. Shadow AI is simultaneously a governance risk and evidence of genuine demand for AI capability within the organisation. The appropriate response is not prohibition but structure: a clear, practical acceptable use policy that directs that energy rather than blocks it.

What this cluster of barriers has in common is that none of them are solved by a new tool. They require a different kind of intervention: capability building, governance infrastructure, and structured implementation support.

Section 3: What the Research Says Actually Works

Across Irish, EU, OECD, and international sources, seven approaches emerge as the most strongly supported by evidence.

1. Governance first, not tools first.

Organisations with a formal AI policy are ten times more likely to report major productivity gains than those without one: 30% versus 3% (TCD/Microsoft AI Economy Ireland, 2026). The bottleneck for most Irish SMEs is not access to AI tools. It is the absence of governance structure that would enable those tools to be used safely, consistently, and at scale.

A practical framework at minimum includes: a documented list of approved tools, a clear policy on what data cannot be entered into AI systems, a named person responsible for AI oversight, and a quarterly review process. Note that not all AI systems listed in Annex III of Regulation (EU) 2024/1689 are automatically high-risk. Article 6(3) provides that a system is not high-risk where it does not materially influence decision-making outcomes. Document your classification assessment; do not assume the highest risk category.

2. Start with one focused pilot, not a transformation.

The most successful AI implementations begin with one clearly defined, high-repetition, low-risk business problem. McKinsey research in manufacturing found focused pilot implementations achieved two to three times productivity improvements. A 30 to 60 day pilot with a defined success metric established upfront is the standard recommended approach.

The question to ask is not 'what AI tool should we buy?' It is 'what is our most repetitive, time-consuming, data-heavy task?' Those two starting points lead to very different outcomes.

3. Use a maturity assessment as the starting point.

MIT CISR research shows organisations in early maturity stages tend to perform below industry average, while those at Stage 3, scaled and governed use, move above it. CeADAR, Ireland's national centre for applied AI and designated European Digital Innovation Hub for AI, provides a Digital Maturity Assessment specifically designed for Irish SMEs. This is the most appropriate starting point before committing any AI budget.

4. Invest in practical, role-specific training.

Only 12% of Irish SMEs have invested in AI training for their staff (ICT Skillnet/AI Ireland, 2025). The most wanted training formats are practical tools and templates (43%) and real-world use cases (34%), not credentials or theory (ICT Skillnet/AI Ireland, 2025). Short, hands-on sessions of two to four hours, focused on real workflows, produce stronger adoption outcomes than multi-day programmes.

5. Appoint an internal AI champion.

BCG research across 2,500 AI implementations confirms technology accounts for only 10% of success. Leadership alignment and cultural change account for the rest. One named person, even part-time, maintaining the approved tool list, tracking regulatory changes, and sharing results changes adoption outcomes consistently. This person does not need to be a technical expert.

6. Address workforce anxiety directly.

ESRI/Department of Finance research (2026) found AI adoption in Irish firms is likely to lead to job losses concentrated among clerical and support roles. Unaddressed anxiety drives shadow AI use and creates hostile adoption environments. PwC Ireland's Workforce Survey (2025) found 67% of Irish workers already see AI as increasing their productivity. This is an underused internal communications reference point.

7. Use the available support infrastructure.

Most Irish SMEs do not know what support is available. The recommended entry point is the Local Enterprise Office Digital for Business programme, which provides a free AI readiness audit and tailored roadmap. The Grow Digital Voucher (up to EUR 5,000 at 50% co-funding, available to businesses with up to 50 employees) and the Digital Discovery Grant via Enterprise Ireland (up to EUR 5,000 at 80% co-funding, available to Enterprise Ireland client companies with 10 or more staff) provide co-funded support. LEO clients should check eligibility directly with their adviser. The CeADAR EDIH programme offers free or heavily subsidised AI maturity assessments and trials.

Section 4: A Practical Starting Framework

The research consistently describes AI adoption as a staged process. Moving through it in order, rather than jumping to complexity before foundations are in place, is the single most reliably cited predictor of successful implementation.

A useful planning lens for understanding what the stages are building toward is the Three Horizons framework (McKinsey), widely applied in AI strategy contexts. The timeframes below are indicative rather than fixed parameters and will vary by organisation and sector. Horizon 1 covers core efficiency gains, typically within the first 6 to 18 months: process automation, document processing, AI-assisted scheduling. These are the use cases where ROI is clearest and governance requirements are lowest. Horizon 2 covers strategic capabilities, typically at 12 to 36 months: capabilities the organisation did not previously have, such as predictive demand modelling or AI-assisted customer intelligence. Horizon 3 covers business model innovation, typically at 24 to 60 months, enabled by the data assets and governance maturity built in the earlier stages. For most Irish SMEs beginning their AI journey, Stages 1 through 3 below establish the Horizon 1 foundation. Stages 4 and 5 create the conditions for Horizon 2.

Stage 1: Know where you stand (Weeks 1 to 4)

Before selecting any tool or investing any budget, establish a baseline. Complete a formal AI maturity assessment. CeADAR's Digital Maturity Assessment is the most relevant tool for Irish SMEs and is available through their EDIH programme at low or no cost. Conduct an honest internal data audit: where does your business data live, is it usable, and what are the gaps?

Engage with the LEO Digital for Business programme for an independent AI readiness review. Identify one person who will own AI within the business, even if it is 20% of their time.

> ***Common mistake to avoid:*** *Skipping assessment and jumping directly to tool selection.*

Stage 2: Run one focused pilot (Weeks 5 to 12)

Identify the single most repetitive, time-consuming, data-heavy task in the business. Run a 30 to 60 day pilot with one tool on that task. Define a success metric before you start: 'this pilot succeeds if it saves X hours per week on task Y.'

Document what worked, what did not, and why. Share the result internally. The evidence from one well-chosen, measured pilot is worth more than five simultaneous experiments.

> ***Common mistake to avoid:*** *Running multiple simultaneous pilots before any single one has produced verified results.*

Stage 3: Build governance and train the team (Weeks 8 to 16)

Draft a one-page AI Acceptable Use Policy covering which tools are approved, what data cannot be entered into AI systems, who can approve new tools, and how outputs should be reviewed before use. Provide role-specific, practical AI training for relevant team members: two to four hours, focused on the tools being used.

Identify whether any AI tools in use are deployed in an Annex III high-risk context: most commonly recruitment and candidate selection, employee performance evaluation, or credit scoring. If so, determine whether your role is as a provider or a deployer of a third-party tool, as your obligations under Regulation (EU) 2024/1689 differ. Note that Article 6(3) provides a self-exclusion where a system does not materially influence decision-making outcomes. Documenting your classification assessment is best practice regardless of outcome.

> ***Common mistake to avoid:*** *Treating governance as a bureaucratic burden rather than a performance multiplier.*

Stage 4: Scale what works (Months 4 to 12)

Expand from one pilot to three to five active AI use cases across different business functions. Build AI into standard operating procedures, not as a side tool but as a defined step in relevant workflows.

MIT CISR research shows financial performance moves above industry average at Stage 3 of AI maturity, scaled and governed use, not before. The greatest gains come not from first adoption but from moving a successful pilot into systematic use.

> ***Common mistake to avoid:*** *Treating a successful pilot as 'AI done' rather than the foundation for systematic scaling.*

Stage 5: Optimise and expand (Year 2 and beyond)

Systematically review AI use cases quarterly against ROI and strategic fit. Explore more complex use cases as capability and confidence grow: custom automation, sector-specific tools, integration with core business systems.

Consider CeADAR or Enterprise Ireland innovation partnerships for higher-complexity AI development. At this stage, the business becomes an asset for others still at earlier stages.

> ***Common mistake to avoid:*** *There is no common mistake at this stage: organisations that reach it have already built the discipline to avoid the earlier ones.*

Section 5: What to Avoid

Eight failure patterns appear consistently across the research. They are presented here as a checklist rather than a sequential framework, and most organisations encounter several simultaneously.

1. **Starting with the technology, not the problem.**
   Purchasing AI tools without a specific business problem to solve is the most consistently cited failure mode across hundreds of SME implementations.

2. **Attempting company-wide transformation before proving value on one task.**
   SMEs that copy enterprise AI approaches: large-scale rollouts, innovation labs, expensive custom builds. These approaches routinely overrun budget and see poor adoption. The SME advantage is speed: one well-chosen use case can be piloted in 30 days.

3. **Investing in complex solutions when simpler alternatives exist.**
   Most SME AI needs in 2025 to 2026 can be met with existing tools rather than custom builds. A documented case study found a 50-person company spent GBP 200,000 building a custom AI system that replicated GBP 50-per-month off-the-shelf software.

4. **Focusing on prompts rather than processes.**
   Experimenting with AI prompts is a useful starting point but is not a business strategy. Value requires embedding AI into defined workflows with documented quality standards.

5. **Deploying AI without an acceptable use policy.**
   Deploying AI tools without clear guidance on what data employees can and cannot share creates serious exposure. In March 2023, Samsung engineers experienced three separate data exposure incidents within 20 days in which proprietary source code and internal meeting information were uploaded to ChatGPT, for debugging, code optimisation, and meeting note generation respectively. Samsung banned ChatGPT company-wide shortly after. The same risk exists in any organisation where staff use AI tools without documented guidance on what data cannot be shared.

6. **Neglecting change management and workforce communication.**
   Implementing AI without addressing workforce concerns generates resistance and low adoption. Avoiding the conversation does not reduce the anxiety. It compounds it.

7. **Skipping measurement.**
   Pilots that do not define success criteria upfront cannot demonstrate value and cannot justify the next investment.

8. **Treating the first failure as evidence that AI does not work.**
   AI pilots fail regularly, including in large organisations. Iteration, not abandonment, is the appropriate response.

About Clear Gate Systems

Clear Gate Systems helps Irish SMEs build AI capability safely. Based in West Cork and working with businesses across Munster and beyond, Clear Gate Systems provides practical, evidence-based support for organisations that want to move from AI awareness to AI competence, without the risk of costly mistakes or compliance exposure.

Services include AI Readiness Scan, AI Literacy and Safe Use Training, AI Policy and Governance Pack, AI Use-Case Discovery Workshop, AI Capability Build Programme, and Ongoing AI Support.

To discuss where your business stands, contact Eileen Weadick at **eileen@cleargatesystems.com** or visit **cleargatesystems.com**

Sources

TCD/Microsoft AI Economy Ireland 2025 and 2026; CSO Information Society Statistics Enterprises 2025; ICT Skillnet/AI Ireland Readiness Pulse 2025; Google/Amarach 2026; Digital Business Ireland 2026; OpenAI/Opinium 2026; Grant Thornton IBR 2025; ThinkBusiness/Irish IT research 2024; WDC/ATU Powered by AI West of Ireland Report 2025; ESRI/Department of Finance 2026; PwC Ireland Workforce Survey 2025; Deloitte Ireland 2025 and 2026; OECD AI Adoption in Firms 2025; MIT CISR AI Maturity research; BCG/Pertama AI Implementation meta-analysis 2026; CeADAR Digital Maturity Assessment; Ethos Institute SME AI Governance Charter; EU AI Act (Regulation (EU) 2024/1689); General Scheme of the Regulation of Artificial Intelligence Bill 2026 (Ireland, Department of Enterprise, Tourism and Employment, February 2026, General Scheme only, not yet enacted as of publication date); Digital Omnibus on AI (provisional trilogue agreement, 7 May 2026, pending formal adoption as of publication date). This report does not constitute legal, regulatory, or investment advice.