RESEARCH PAPER

The Headcount Chain

How agentic AI breaks the instrument every company plans with

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Somewhere in your company there is probably a team that produced far more this year than last, with the same number of people. Not ten per cent more. Closer to double. The work shipped, the headcount line never moved, and if you ask finance what that team can now deliver, the honest answer is that they no longer know, because the number they would reach for has come loose from the thing it used to measure.

For a century that number held. A company's capacity and its payroll rose and fell together, locked tight enough that you could plan the first by counting the second. Hire to grow, cut to save, and the arithmetic always balanced, because the thing in the middle was always a person. Agents break that lock. They do work without being people, and they scale without being hired, so a company can now add a great deal of capacity without adding anyone at all. The oldest assumption in the operating model, that capacity and cost move together, stops being true.

The visible consequences, the ones already filling the business press, are the org chart and the management layer and the question of who answers when software acts on its own. The consequence that matters more has barely been named. When capacity comes loose from headcount, a company loses the instrument it plans with, and nothing has been built to replace it.

01

The unit underneath everything

Start with what a company is actually made of. Not its products or its strategy, but the thing it uses to get anything done. Underneath the org chart, in every business in every industry, sits one unit: a person, employed for a stretch of time, turning hours into output. A bank runs on it. So does a freight company with trucks and warehouses, and so does a software firm that owns almost nothing you can touch. Different worlds, identical unit.

It is so ordinary that no one looks at it, which is the only reason what follows has gone unnoticed. Every instrument a company uses to run itself is calibrated to that unit. Capacity is forecast by forecasting headcount. The budget is a headcount plan wearing other clothes, because payroll is the largest cost most companies actually control. The hierarchy exists to group people into spans a manager can hold. Management itself grew up to get output from teams of them.

People will point out that no two employees are worth the same, that one senior engineer can be worth ten juniors, and they are right. That sets the price of the unit. It does not change its shape. Talent makes one hour of human work cost more than another, but capacity still arrives the way it always has, one person at a time, each with a ceiling of roughly forty hours. The shape is what everything is built on. The price is a detail laid over the top.

Under all of it runs an assumption so old no one says it aloud. To do more, you add people, and people cost money. Capacity and cost move together. That sentence has been true for as long as there have been companies, and almost everything about how a company plans assumes it always will be.

02
The chain

That assumption deserves a name, because the rest of this turns on it. Call it the headcount chain.

Because the unit of work is a human being, three things are chained to one another: output, the people who produce it, and the cost of employing them. Pull on one and the others follow. Want more output, hire more people, carry more cost. Need to cut cost, shed people, lose the output they were producing. There has never been a lever that moved one without moving the rest. For a hundred years, growing meant spending in lockstep and saving meant shrinking, because the thing in the middle was always a person.

Figure 1. The headcount chain. Output, people and cost move as one while the unit of work is a person. Agents introduce a unit of capacity that is not a person, and the links no longer hold.

The chain held for a plain reason. A person has a ceiling. There are only so many hours in a week and only so much one person can do inside them, so the one way to add real capacity was to add another body, and another body was another salary. No one chose to bind capacity to cost. It came free with building a company out of people.

It is fair to ask whether this ever really held, given how long companies have bought capacity they do not employ. Agencies, contractors, offshore teams, whole functions handed to a vendor. None of it broke the chain. Outsourcing moved people onto someone else’s payroll, often somewhere cheaper, but the work was still bought in blocks of human time. The price per unit changed. The unit did not. Software did not break it either, and this is where the honest version of the question lives, because the example everyone reaches for now is not a spreadsheet. It is the AI assistant.

A copilot does real cognitive work. It drafts the document, writes the code, sits in the meeting and takes the notes, and it can make one person sharply more productive than they were a year ago. So hasn’t the chain already broken? It has not, and the reason is the whole argument in miniature. A copilot keeps the human as the unit. The work still runs through a person who prompts it, judges it, and decides what to do with what comes back, so capacity is still capped by that person’s hours. Five engineers with copilots are five engineers. You plan them as five, you budget five, and to do far more you still, in the end, hire. The person became the most productive a person has ever been. The unit did not change. The copilot is the high-water mark of the headcount era, the best tool ever handed to the human unit, and it is still a tool the human unit holds.

03

What an agent changes

An agent is something new in the operating model: a unit of capacity that is not a person.

Set it beside the person and compare them on the things a plan actually cares about. How do you pay for it? By the task, the outcome, or the volume of work it does, not by the block of time it is available. How does it scale? From one job to ten thousand, in the time it takes to raise a limit, with no hiring and no ceiling at forty hours, because there is no person to tire. The consequence falls straight out of that. Capacity and cost are no longer chained. You can add a great deal of the first without adding much of the second, and without adding anyone. The link that held for a century comes apart.

There is a clean test for whether you are looking at a copilot or an agent, and it cuts through most of the confusion. To double a team’s output, must you roughly double the people? With a copilot, yes, because the person is still doing the work. With an agent, no. That move from yes to no is the chain breaking, and it has nothing to do with how clever the model is.

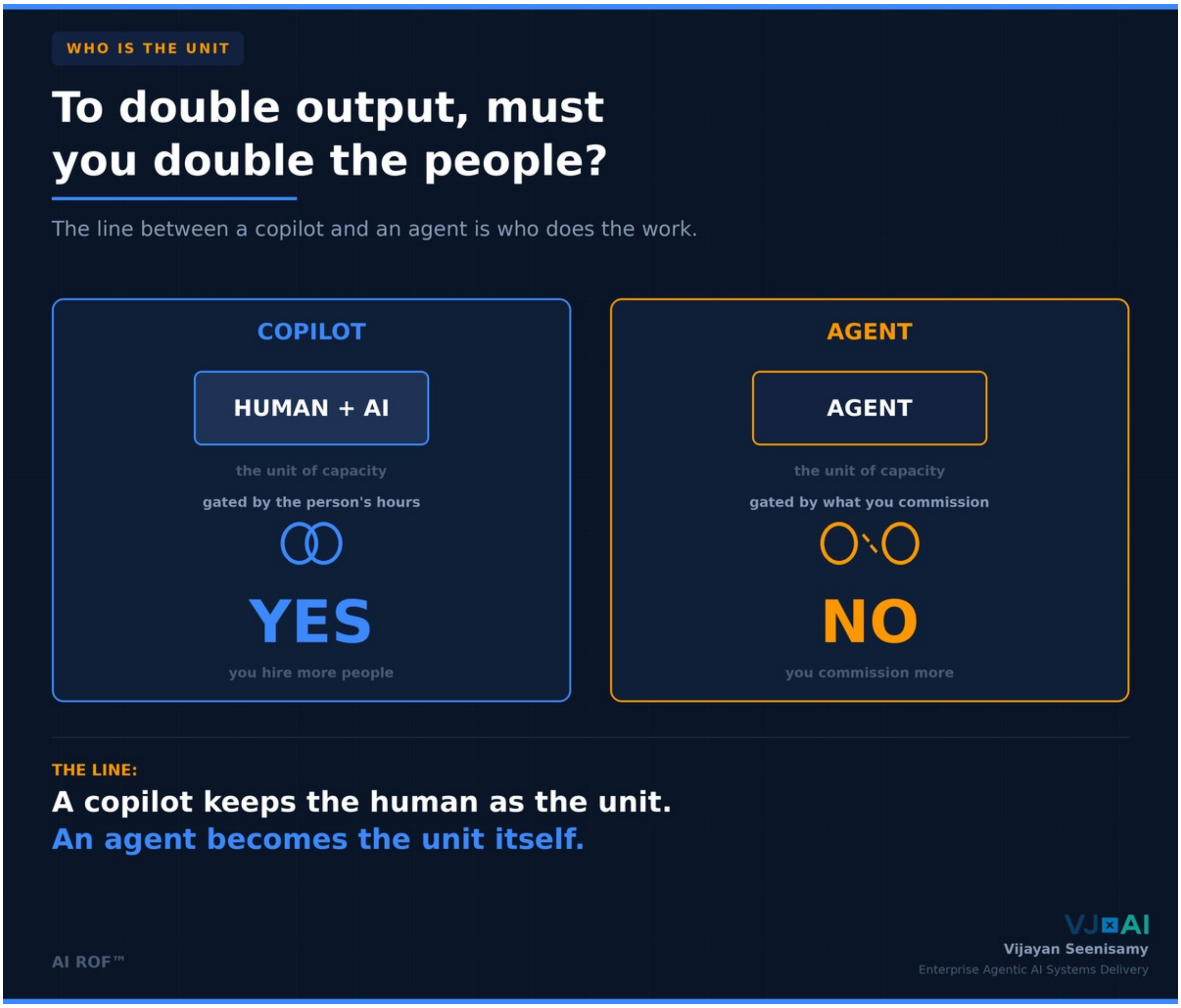

Figure 2. The litmus test. A copilot keeps the human as the unit of work, so doubling output still means hiring. An agent is the unit itself, so output scales by commissioning, not employing.

This is the shift economists have circled for decades without quite reaching. A company employs people, rather than buying everything it needs on the open market, because transacting in the open market is expensive, an argument that runs back to Ronald Coase and the question of where a firm's boundary should sit.[1] Agents move that boundary. For the first time, the judgement and coordination that used to require an employee can be bought in commissioned, on-demand units. You can already see it in the numbers. When Klarna put an AI assistant into its customer service in early 2024, it was handling two-thirds of the company's service chats inside a month, work Klarna put at the equivalent of seven hundred full-time agents, and headcount fell as the assistant scaled.[2] Capacity went up while the payroll came down, which is precisely the move the chain was never meant to allow.

04

The instrument breaks

Now the part that matters, and the part almost no one is looking at.

Finance cannot see capacity directly. Capacity is abstract, hard to count, easy to argue about, so finance plans the thing it can count instead, headcount, and lets headcount stand in for capacity. Every plan a leadership team builds runs on the same buried chain of reasoning: here is the output we want, that is this many people, that is this much money. The budget, underneath, is a headcount plan. The substitution worked for exactly one reason. The chain held. One person was one bounded lump of capacity, so counting people was a fair way to measure what a company could do.

Break the chain and the count stops meaning anything. When five people carry the output that used to take fifty, the number five tells you nothing about what that team can produce. Headcount and capacity have come apart, and because the headcount plan is the master instrument finance forecasts and funds and steers by, finance is now steering by an instrument it can no longer trust. It still returns a number. The number no longer means what everyone assumes it means.

The instrument fails even when the number never moves. Headcount does not have to fall. If thirty people, having rebuilt how they work around agents, now produce double what they did last year, the line still reads thirty and has stopped predicting anything. The reassurance you hear, that companies are not actually shedding staff, misses what is happening. No one is claiming headcount falls. The claim is that headcount stops measuring capacity, and that can happen while the number sits exactly where it always was.

The natural move, when a proxy drifts, is to re-rate it. Accept that each person now carries more, raise the output-per-head assumption, keep planning by headcount with a bigger multiplier. For a while that works, and it is what good planners are doing right now. It works as long as a human is still doing the work, tools in hand, because then capacity is still attached to people and you can keep counting them. The multiplier holds because the chain holds. It fails the moment capacity stops being attached to a head at all. When the output is coming from agents you commission rather than people you employ, there is no per-person number left to re-rate, because the thing doing the work is not a person. You cannot raise output-per-head when a growing share of the output has no head behind it. That is the line between a workforce that got more productive and a planning instrument that has lost the thing it measures.

Two scenes make it real. A CFO sits down to plan next year the way she always has, working from output to people to cost. One of her teams delivered last year's results with thirty people and is on track to deliver double this year with the same thirty, because they rebuilt their work around agents and never filed a hiring request. The line in front of her reads thirty. The model she has built on top of it is wrong, and she has no instrument that tells her what that team can actually do. Her dial reads thirty, and thirty has stopped meaning anything.

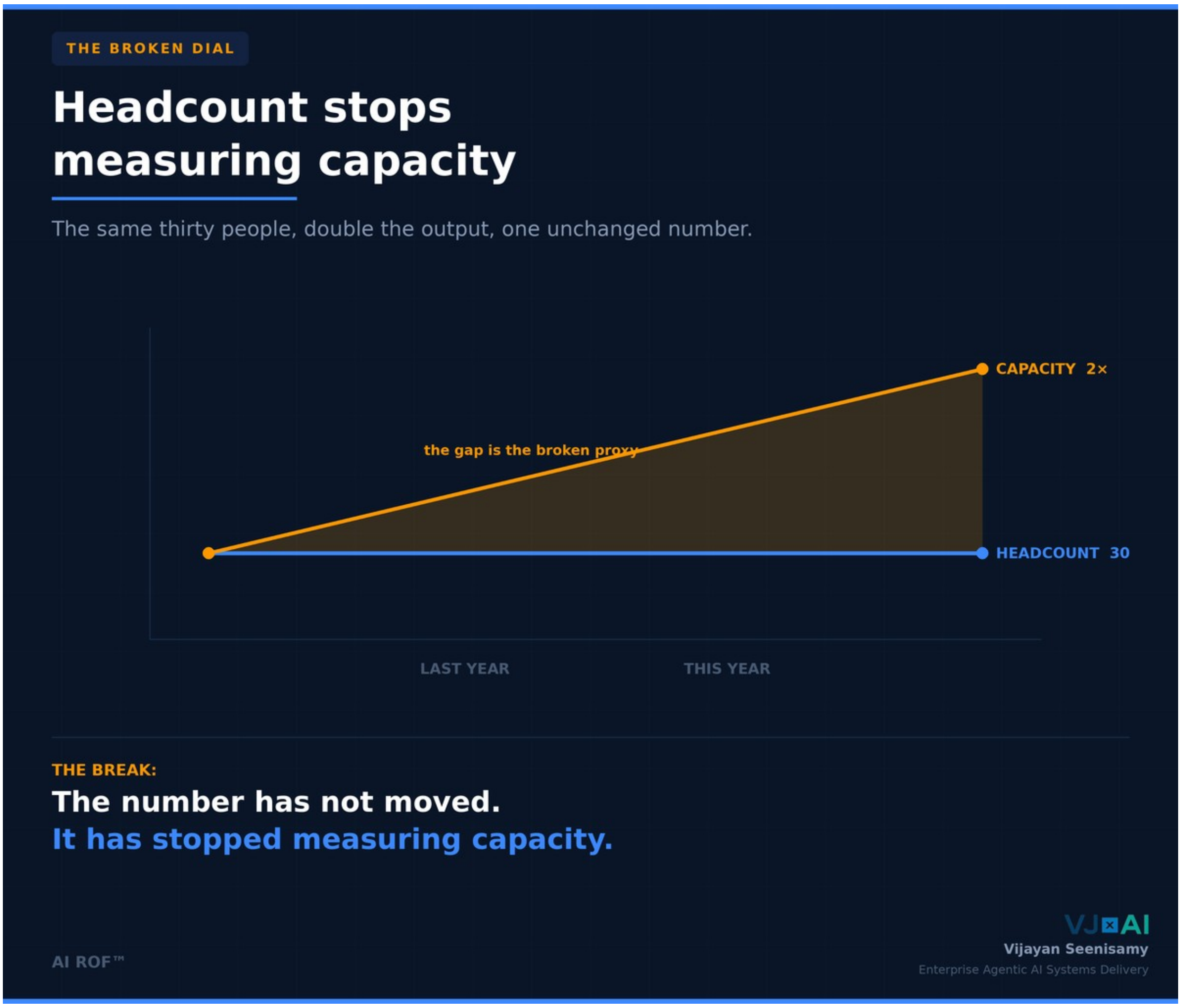

Figure 3. The dial breaks without moving. Headcount holds at thirty while capacity doubles, and the number finance plans with stops measuring the thing it stood for.

The other scene is a lever every executive has pulled. When costs need holding, you reach for headcount, a freeze, a cap. It worked because of the chain: freeze hiring and you froze capacity and cost together, since they moved as one. But when the capacity is coming from agents on a separate, variable line, the freeze grips nothing. Capacity climbs, the agent bill climbs with it, and not one new name appears on the payroll. The lever is still bolted to the wall. It no longer connects to anything.

You can see the instrument straining already in the companies furthest along. Some are paying for agents out of the headcount line because there is nowhere else to put them, which is finance trying to run a non-human unit through a human-shaped instrument and finding it does not fit. The crossing is still early. For the company that has not reached it, headcount still plans the year well enough. In the early movers the dial is already drifting, and the direction is not in doubt.

05

The cost comes back

So far this sounds like unambiguous good news. The chain that bound output to cost has snapped, capacity is suddenly cheap and almost unlimited, and the job is to lean in. That reading is where companies get hurt.

Start with the cost structure, which inverts. Cost moves from mostly fixed to mostly variable, and capacity from scarce to abundant, the exact opposite of the world the financial controls were built for. Those controls were designed to manage waste, paying for people and kit you were not fully using. They were never built for runaway consumption, a bill that grows with every call and has no natural ceiling, and the approval gates that guarded the old world do not watch for it.

Then the harder thing, the one that names this section. The chain does not break cleanly. It re-forms. To get reliable work out of a system that is probabilistic rather than deterministic, you wrap it in oversight: review, retries, a human kept in the loop, the rework when it gets something wrong. Every layer adds cost back. The expense you thought you had removed, the human, walks back in through a side door as the price of making the agent trustworthy enough to use. The chain re-forms link by link, and it is easy to miss, because none of the new cost shows up as headcount.

There is a point where the cost that walked back in passes the cost of the person it replaced. Past it you cross into negative unit economics: an agent task that costs more than the human it was built to undercut, capacity that looked free until you counted the failed runs, the reviews, and the tokens burned on retries, and then turned out to cost more than the salary you cut. This is not the edge case it sounds like. Go back to Klarna. The same company that let headcount fall as its assistant scaled said, a year on, that it had cut too far, that quality on the hard conversations had slipped, and it began hiring people back for the work that needed judgement.[3] The assistant kept the high-volume tier. The work that did not fit it returned to humans. That is the chain re-forming, in public, on the most-cited deployment there is.

Figure 4. The chain re-forms. Oversight, review and rework attach cost back to agent output, and past the crossover an agent task costs more than the human it replaced.

So the break and the danger are the same event seen from two sides. The chain can come apart, which is the opportunity, and it can snap back harder than before, which is the trap. A board that hears only the first half commissions capacity it cannot control and meets the second half on the invoice.

06

The visible aftermath

Once the planning instrument goes, the visible parts of the operating model follow, and they are worth less time here, because this is the ground everyone else is already working.

The org chart loses its logic. It was a way of arranging fixed-capacity people into spans a manager could hold, and an agent does not sit in a span. It works across the whole business at once. The boxes still show where the humans sit. They no longer show how the work moves. Management shifts with it, away from running people, the motivating and the reviewing, toward commissioning and supervising capability, deciding what to stand up and what to retire. You do not develop an agent’s career.

Accountability moves too, which is the part drawing most of the attention right now. When work is done by non-human units that act across functions and change after they are deployed, the question of who answers for them loses its easy answer. There is a financial version of that question, who owns the cost and the economics of a given capability, and it belongs in the next section. There is a legal and ethical version, who answers when an autonomous system causes harm, and it is being worked over thoroughly by people closer to it than I am. All of it is downstream. It is the visible weather. The planning break is the pressure system underneath.

07

What a board builds

So what do you steer by, once the dial has stopped working?

Start by being exact about what was lost. That single number was doing two jobs at once, and doing them so cheaply that no one noticed there were two. It measured capacity, and it controlled cost, and it could do both with one figure only because the chain fused them. Pull the chain out and the two jobs separate, which means one number can no longer carry both. You need a small set of instruments, each picking up one job the headcount number used to do for nothing.

You need to measure capacity directly, in units of output by capability, instead of inferring it from a headcount that no longer tracks it. Ask what a team can deliver and the answer should be a quantity of work, not a count of bodies, and the fact that almost no company can give that number today is the whole problem in miniature. Cost has to attach to outcomes rather than salaries, because outcomes are where it now lives, and a cost-per-outcome figure earns its place twice: the moment it climbs past the human it replaced, you are watching the economics go negative in real time, a quarter before the financials would show it. Where the hiring lever once did the work of two, you now need two controls, one on how much capacity you are commissioning, another on whether the variable bill is still inside its economics. The budget itself has to be able to stop, with consumption ceilings and limits that pull capacity back on their own when a line is crossed, because an annual sign-off protects nothing against a bill that moves every day. And someone has to own each commissioned capability the way a manager once owned a team and a budget, a named person answerable for its volume, its cost, and its economics.

Figure 5. Five instruments in place of one dial. Capacity measured directly, cost attached to outcomes, two controls where one lever stood, a budget that can stop, and a named owner for every commissioned capability.

I have said what these instruments are and why a board needs them, and stopped short of how to build them. That restraint is deliberate. The work of this paper is to let you see the problem clearly and to show that a coherent answer exists. Building the instruments is the next piece of work, and it is real engineering, not a slide. The seeing comes first, because a board that has not understood what broke will buy the wrong fix, and there is no shortage of wrong fixes being sold.

If you want a place to start on Monday, start where the chain is already breaking. Find the one team whose output has clearly run ahead of its headcount, put a single honest measure of what it produces beside the headcount you are still planning it with, and watch the gap. Then watch what your existing controls do with that gap: the freeze that no longer touches the agent spend, the budget line straining to hold a cost it was never shaped for. That one exercise tells you whether the shift has reached you, and it teaches the new way of steering on a small, legible patch of the business before you ever try to run the whole thing on it. The companies that come through this well will not be the ones that flipped a switch. They will be the ones that learned the new instruments while the old dial still mostly worked, so they were fluent by the time it stopped.

08

The chain is already breaking

I have written all of this in the present tense, and I should be straight about where we actually are. The crossing is still early. For the company that has not reached it, the chain holds and the budget built on it still runs the year. This is a beginning, visible in the early movers, the businesses already paying for capacity they do not employ and watching their old dials drift.

You can also watch it being priced. In June 2026 Accenture beat on earnings, widened its margins, and still lost nearly a fifth of its value in a single session, its worst day on record, after it trimmed its growth outlook and its bookings softened.[4] Accenture is the purest case of the headcount chain there is, a firm whose product is, in the end, its people, so the market could price the break in a single morning. Inside a company where headcount is only one instrument among many, the same slip makes no sound. It shows up later, when the plan stops holding.

This is why it is worth naming while it is still forming. A name lets a leadership team see the shift coming and build the new instruments before the bill and the blindness arrive together, instead of meeting all of it for the first time on an invoice no one can explain and building the controls in the middle of a crisis. Naming a thing early is how you get to act before you are forced to.

The economists gave us the theory of why a firm's boundary moves when the cost of transacting changes. The vendors gave us the pitch, capacity on demand, growth without the payroll. What no one has built is the discipline in between, the practical account of what breaks in how a company plans and steers itself once capacity stops arriving in human-shaped units, and what to run it on instead. That is the work ahead, and it is work I intend to keep doing in the open.

So here is the question worth sitting with, about your own company rather than the market in the abstract. The chain under your operating model, the one tying what you can do to how many people you employ, is it still holding? Or in the corner of the business that has run furthest ahead, has it already begun to give? Go and look at the instrument you plan with, and ask whether your headcount still measures your capacity. The honest answer is where everything else begins.

Notes and sources

1 Coase, R. H., “The Nature of the Firm”, Economica, Vol. 4, No. 16, 1937.

2 Klarna, “Klarna AI assistant handles two-thirds of customer service chats in its first month”, company press release, February 2024. Klarna reported 2.3 million conversations in the first month, equivalent to the work of roughly 700 full-time agents.

3 Public statements by Klarna CEO Sebastian Siemiatkowski, 2025, as reported by Bloomberg and Fast Company: the company acknowledged over-cutting, cited quality on complex cases, and resumed hiring human agents alongside the assistant in a hybrid model.

4 Accenture fiscal Q3 2026 results, announced 18 June 2026: earnings ahead of consensus with expanded operating margin, full-year revenue growth guidance trimmed to 3–4 per cent, new bookings of US$19.3 billion, down 2 per cent year on year. The shares fell 17.97 per cent on the day, the largest single-day decline on record for the stock, per Bloomberg market reporting.

About the author

Vijayan Seenisamy is the author of The Pilot Trap: The Category Error Behind Enterprise AI Failure and The AI Delivery Manager Blueprint, and the creator of the AI Role Operating Framework (AI ROF™). He works on Enterprise Agentic AI Delivery: the discipline of taking AI agents from pilot to reliable production at enterprise scale. His research, articles and concept library are published at aideliverydiscipline.com.

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