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Klarna's AI-First Strategy and Its Reversal - From Layoffs to Rehiring: A Case of the AI Productivity Paradox

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Abstract. This case examines the growing trend of replacing human labour with artificial intelligence (AI) in recent years. Between 2022 and 2025, Swedish fintech firm, Klarna reduced its workforce while simultaneously doubling quarterly revenue. An OpenAI-powered assistant absorbed much of its customer service work. Yet the story was not one of unqualified triumph. Klarna's May 2025 admission that it had "over pivoted" on AI, led to the re-hiring of human agents after quality declined thereby raising questions about the limits of full automation and opening a wider inquiry into the AI Productivity Paradox: the gap between firm-level efficiency gains and the broader societal distribution of those gains. The case is designed for use in courses on Technology and Society, Human Resource Management, Future of Work, Advanced Issues in Human Resource Management, and Financial Services.

Keywords: AI productivity paradox, artificial intelligence, automation, fintech, labour substitution, generative AI, organisational redesign.

Introduction: The Bold Bet

Sebastian Siemiatkowski, Klarna's co-founder and chief executive officer (CEO), told Bloomberg in December 2024: "I think what we've done internally hasn't been reported as widely. We stopped hiring about a year ago, so we were 4,500, and now we're 3,500. We have a natural attrition like every tech company. People stay about five years, so 20% leave every year. By not hiring, we're simply shrinking, right?" (Edmonds, 2024). Klarna endured the 2022 value decline (from $45.6 billion to $6.7 billion), managed regulatory scrutiny in 45 locations, and was poised for a 2025 New York Stock Exchange (NYSE) initial public offering (IPO). Siemiatkowski positioned AI as the tool for margin increase that investors wanted. In the same interview, Siemiatkowski explained the rationale. Some of the gains from AI would be passed on to employees by increasing the pace at which their salaries rose, and in his view AI could already do all of the jobs done by humans (Bloomberg, 2024; Edmonds, 2024).

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The mechanism was attrition, not redundancy. Klarna did not hold a mass layoff event. It did not issue redundancy notices or conduct town halls about restructuring. Workers left in the ordinary course, moving to new opportunities, retiring, changing careers, and were not replaced (Munis, 2026). The effect, over 24 months, was a workforce reduction from 5,500 to below 3,000: a fall of approximately 40%. No single dramatic moment, just a slow, structural hollowing-out of roles that AI had made redundant (Wee, 2024). It had become one of the first companies in Europe to introduce ChatGPT Enterprise into the workflow of all employees in 2023, providing the technology access for everyone, including communications, legal, marketing, and engineering departments (Wee, 2024). The AI era at Klarna had begun not with a press release but with a login credential issued to 5,000 members of staff. This approach softened the reputational blow. Klarna was not, in any formal sense, conducting layoffs. But the practical outcome was identical: functions that had previously required hundreds of human beings no longer did (Munis, 2026). The customer services department was the most striking example of this, though by no means the only one.

Company Background

Klarna came into existence in 2005 in Stockholm, Sweden, and its aim was to create a simplified online payment system. It was the first company to introduce a buy now pay later payment method through which customers were able to pay for their goods in interest-free instalments. In 2023, it had operations in more than 45 countries, catering to over 150 million consumers and processing payments for more than 790,000 merchants.

Table 1: Klarna Company Profile

Company Profile	Details
Founded	2005, Stockholm, Sweden
Business Model	Buy Now, Pay Later (BNPL) — consumer credit at point of sale
Peak Valuation	$45.6 billion (June 2021); revalued to $6.7 billion (July 2022)
IPO	New York Stock Exchange, September 2025
Active Consumers (Q3 2025)	114 million (up 32% year-on-year)
Merchants (2025)	Over 790,000 across 26 countries
Q3 2025 Revenue	$903 million (up 26% year-on-year)
AI Partner	OpenAI (ChatGPT Enterprise; customer service AI assistant)

Sources: Klarna Q3 2025 Earnings Report; Computer Weekly (Nov 2025); CX Dive (Nov 2025)