

Designing AI-Enabled Pay for Performance for Enhanced Fairness

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Bachelor of Science Betriebswirtschaftslehre

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Purpose/Motivation:

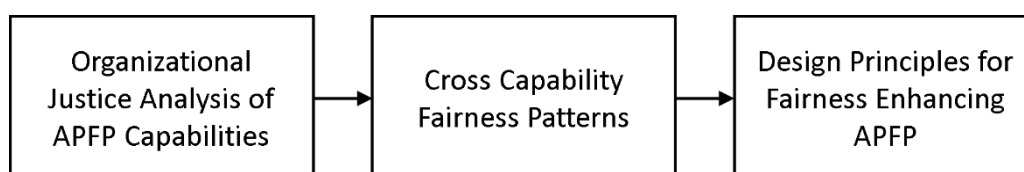
Companies are increasingly integrating artificial intelligence (AI) into compensation decisions and pay for performance systems (Korn Ferry, 2025; Marler, 2024). While emerging research has begun to conceptualize how AI can reshape pay for performance through capabilities such as real-time adaptability, predictive capability, customization, automated algorithmic recommending, and measurement sophistication (Nyberg et al., 2026), the fairness implications of these developments remain insufficiently understood. This is particularly relevant because AI-enabled pay for performance can influence not only how employee performance is assessed, but also how these assessments are translated into pay. This thesis therefore examines how AI-enabled pay for performance can be designed to enhance employees' perceived fairness.

Theories/Hypotheses:

This conceptual thesis draws on organizational justice theory to analyze perceived fairness as a multidimensional construct consisting of distributive, procedural, informational, and interpersonal justice (Colquitt, 2001). These justice dimensions provide the theoretical lens for examining whether AI-enabled pay for performance systems are perceived as fair in terms of pay outcomes, decision procedures, explanations, and interpersonal treatment. Building on Nyberg et al.'s (2026) framework, the thesis analyzes five differentiating capabilities of AI-enabled pay for performance: real-time adaptability, predictive capability, customization, automated algorithmic recommending, and measurement sophistication. Since the thesis is conceptual, no empirical hypotheses are formulated. Instead, the analysis derives recurring fairness patterns across these capabilities and translates them into design principles for fairness-enhancing AI-enabled pay for performance systems.

Approach/Methodology:

Analytical Approach of the Thesis



Note. Each rectangle represents one of the thesis's three main analytical chapters.

This thesis is based on a conceptual, literature-based analysis. After clarifying the key constructs of AI-enabled pay for performance and perceived fairness, the five AI-enabled pay for performance capabilities are examined through the four dimensions of organizational justice. The capability-specific analysis is then synthesized across capabilities to identify recurring fairness-shaping patterns. Finally, these patterns are translated into design principles that indicate how AI-enabled pay for performance systems can be implemented in ways more likely to support employees' perceived fairness.

Findings:

The analysis suggests that AI-enabled pay for performance capabilities are not inherently fairness-enhancing or fairness-reducing. Instead, their fairness implications depend on how they are designed and enacted in organizational practice. Five recurring fairness patterns are identified: legibility and reconstructability of pay logic, accuracy and bias control, participation and control, respectful and humanized pay enactment, and advance notice and course correction. Based on these patterns, the thesis proposes that AI-enabled pay for performance is more likely to be perceived as fair when employees can understand how pay decisions are generated, when pay-relevant inputs are accurate and bias-controlled, when employees have meaningful opportunities to review and challenge pay-relevant data or recommendations, when pay decisions are communicated respectfully, and when feedback is provided early enough to allow course correction before final pay outcomes are determined.

Research Limitations:

The thesis is conceptual and does not empirically test the proposed fairness patterns or design principles. Consequently, no conclusions can be drawn regarding causal effects, effect sizes, or the relative importance of individual fairness patterns. In addition, the literature on AI-enabled pay for performance is still emerging, which means that the analysis relies partly on adjacent research streams, including AI in HRM, algorithmic management, people analytics, and organizational justice research. Finally, the thesis remains relatively context-general and does not systematically differentiate between job types, organizational settings, or cultural contexts.

Research Implications:

This thesis contributes to the emerging literature on AI-enabled pay for performance by extending the discussion of fairness beyond a primarily distributive or equity-based perspective. By applying organizational justice theory, it shows that employees' fairness perceptions are shaped not only by pay outcomes, but also by the procedures, explanations,

and interpersonal treatment surrounding AI-enabled compensation decisions (Colquitt, 2001; Nyberg et al., 2026). The thesis further contributes by introducing cross-capability fairness patterns as an analytical layer between individual AI capabilities and practical system design.

Practical Implications:

Organizations should not treat AI-enabled pay for performance as a purely technical or efficiency-oriented compensation tool. Instead, implementation should be guided by fairness-oriented design choices. In practice, this means making pay logic understandable, auditing pay-relevant data and models for accuracy and bias, establishing review and appeal mechanisms, ensuring respectful human communication of sensitive pay decisions, and providing timely feedback that allows employees to adjust their behavior before pay outcomes are finalized. These principles can help organizations reduce the risk that AI-enabled pay systems are experienced as opaque, biased, unchallengeable, or depersonalized.

Contribution:

This thesis contributes to the emerging literature on AI-enabled pay for performance in two main ways. First, it extends existing APFP research by conceptualizing fairness not primarily as a distributive or equity-based concern, but as a multidimensional organizational justice phenomenon shaped by pay outcomes, procedures, explanations, and interpersonal treatment (Colquitt, 2001; Marler, 2024; Nyberg et al., 2026). Second, it moves beyond a purely capability-specific view by identifying cross-capability fairness patterns (Nyberg et al., 2026) that cut across multiple APFP capabilities and justice dimensions. By translating these patterns into design principles, the thesis explains how AI-enabled pay for performance can be designed in ways more likely to enhance employees' perceived fairness.

Paper type: conceptual

Further readings:

Nyberg, A. J., Abdulsalam, D., Cragun, O., & Arumugam, V. (2026). Algorithm-based pay-for-performance (APFP) systems: Paradoxes in artificial intelligence's influence on pay-for-performance theories. *Human Resource Management Review*, 36(1), 101119. <https://doi.org/10.1016/j.hrmr.2025.101119>

Colquitt, J. A. (2001). On the dimensionality of organizational justice: A construct validation of a measure. *Journal of Applied Psychology*, 86(3), 386–400. <https://doi.org/10.1037/0021-9010.86.3.386>

Cohen-Charash, Y., & Spector, P. E. (2001). The role of justice in organizations: A meta-analysis. *Organizational Behavior and Human Decision Processes*, 86(2), 278–321. <https://doi.org/10.1006/obhd.2001.2958>