DOI: https://doi.org/10.4038/jhrmp.v11i1.75

The Role of Perceived Fairness of Algorithms on Shaping Psychological Well-Being: Propositions and Future Research Agenda

H. M. A. U. Dayabandara[1] and Samantha Rathnayake[2]
[1]Lecturer (Probationary), Department of Human Resource Management
University of Sri Jayewardenepura, Sri Lanka
[2]Senior Faculty/Lecturer, Postgraduate Institute of Management
University of Sri Jayewardenepura, Sri Lanka
[1]anuradhadayabandara@sjp.ac.lk, [2]samantha@pim.sjp.ac.lk

Abstract: With the growth of technology, there is a growing demand for decision-making through algorithmic platforms. However, such decisions would create negative individual outcomes such as perceived unfairness and lower psychological well-being. The purpose of this study is to fill an existing research gap by proposing a new model to examine the impact of perceived fairness of algorithms on psychological well-being, with the moderating role of technology transparency. The current study was conducted by reviewing 26 articles related to psychological well-being, perceived fairness of algorithms and technology transparency. Based on the review, a conceptual model is proposed with two propositions that future researchers can empirically validate. Accordingly, this study provides two theoretical implications. Firstly, it reviews the existing literature on algorithmic decision-making and psychological well-being. Secondly, it contributes to the Theory of Cognitive Appraisal by defining the ways of deriving perceptions among individuals. The paper shows directions of future research and emphasises the need for empirical testing within the given model. The analysis helps to shed light on the ethical adoption of artificial intelligence in business practices.

Keywords*: Psychological Well-being, Perceived Fairness of Algorithms, Technology Transparency*

Introduction

The rapid advancement of technology has led to the widespread adoption of decision-making through algorithms across almost all the functions of organisations. Due to the fast, precise and logical flow of decisions, the use of algorithms has been popularised in the modern world (Starke et al., 2022). As a result, Artificial Intelligence (AI), data analytics, and machine learning are prominently used by organisations in day-to-day as well as strategic-level decision-making. Even though there are considerable justifications for efficiency and objectivity of algorithmic decision making, on the other hand, growing evidence suggests that these systems can lead to unfair or discriminatory outcomes (Decker et al., 2025; Suresh et al., 2025; Wilhelm et al., 2025). As a result, an argument has emerged in the literature as well as in practice on the fairness of algorithmic decision-making.

Perceived fairness of algorithms is the perception of individuals that algorithmic systems such as Artificial Intelligence (AI), data analytics, machine learning, blockchain, etc., are free from biases, favours and deliver outcomes with equitable and justifiable outcomes. Perceived fairness of algorithms is considered one of the four principles of trustworthy Artificial Intelligence (AI) by the OECD (Starke et al., 2022). Algorithmic decision-making is said to be free from biases due to no or limited human intervention (Lee, 2018).

However, due to less human intervention, these systems can cause unfairness in the decision-making process (Barocas & Selbst, 2016 as cited in Starke et al., 2022; Richardson et al., 2019). Even though Algorithmic decision-making is free from human intervention, these systems learn from historical data in which humans actively engaged. Thus, these systems would not consider minority groups (Eubanks, 2018), make discriminations based on the historical data patterns (Veale & Binns, 2017), do not consider personalisation (Starke et al, 2022), etc. As a result, the concept of perceived fairness of algorithms has obtained considerable attention in the literature as well as in practice.

Even though Algorithmic decision-making provides substantial benefits to organisations, it has failed to consider human aspects into consideration. They do not consider moral values, ethical practices, legal frameworks, etc. (Kordzadeh & Ghasemaghaei, 2022). Wang et al. (2020) explained that perceived fairness is a significant factor in algorithmic decision-making. When the algorithmic decisions are unfair, it can generate significant negative outcomes for employees, such as increased stress levels (Robbins et al., 2012), low organisational commitment (Brockneret al., 1992), etc., which can reduce the psychological well-being (Lee & Kawachi, 2019). Thus, these evidences from the extant literature shows the necessity of addressing the well-being of employees is critical since it can further create organisational, team and individual level negative outcomes. However, Shin (2020) explained that transparency in the technology can influence the perceived fairness of decisions in AI systems which can be considered as a potential moderator of the relationship between perceived fariness of algorithms and psychological well-being of employees. As a result, it is significant to examine the role of technology transparency within the relationship between perceived fairness of algorithms and psychological well-being. Thus, the purpose of this study is to provide a future research agenda and propositions on the impact of perceived fairness of algorithms on psychological well-being, with a moderating role of technology transparency.

Based on the research problem, the study provides two research questions as (i) what is the impact of perceived fairness of algorithms on psychological well-being? and (ii) does technology transparency moderate the relationship between perceived fairness of algorithms and psychological well-being? Based on the research questions, two research objectives were developed as (i) to examine the impact of perceived fairness of algorithms on psychological well-being, (ii) to examine whether technology transparency moderates the relationship between perceived fairness of algorithms and psychological well-being.

Literature Review

Psychological Well-being

The extant literature on well-being has been discussed through different contexts, ranging from mental health to the social life of individuals. Agarwal (2021) proposes it as a multidimensional domain which covers a widened areas such as mental health, state of life, social life, happiness, quality of life, etc. Thereby, well-being is categorised into three commonly accepted categories as physical, mental and social well-being (Grant et al., 2007; WHO, 1946). Thus, psychological well-being can be considered as a crucial category amongst the three dimensions of well-being, which is associated with the mental health of individuals. Psychological well-being can be further categorised and discussed in different ways. According to Ryff (2017), previous studies conceptualised

psychological well-being under two dimensions as hedonic and eudemonic well-being. Eudemonic well-being is the feeling of purpose and belongingness of an individual, which defines the satisfaction of oneself and one's existence. On the other hand, hedonic well-being is related to subjective well-being, where individuals focus on maximising happiness while minimising pain in life (Cowen, 1991). Thus, psychological well-being is more related to the eudemonic perspective of well-being.

Studies relating to psychological well-being have examined various factors which can affect the well-being of employees. The study conducted by Abolnasser et al. (2023) by surveying hotel employees in Saudi Arabia examined that the transformational leadership style has a direct association with psychological well-being. The extant literature on employee engagement and psychological well-being suggests that there is a positive association among two variables (Abolnasser et al., 2023; Kim & Jang, 2022). Further, the study conducted by Irshad et al. (2021) examined transformational leadership as a factor which can positively impact the psychological well-being of employees. On the other hand, the study of Emmanuel & Odusanya (2015) examined job satisfaction as another factor which has a positive impact on psychological well-being. Likewise, extant literature examined HRM practices (Pierzecka et al., 2024), work conditions (Simard & Lamarche, 2023), diversity (Jaiswal & Dyaram, 2020), etc. are also having positive impact on psychological well-being in work settings.

Well-being has gained scholarly as well as managerial attention due to its crucial organisational and individual outcomes. Organisations which foster a higher degree of psychological well-being tend to gain various positive outcomes. When organisations give attention to enhancing the well-being of employees, it can generate positive outcomes such as organisational citizenship behaviour (Mousa et al., 2020), improved job performance (Kundi et al., 2021) and higher levels of customer satisfaction (Sharma et al., 2017), etc. Kinowska and Sienkiewicz (2022) highlighted the necessity of fostering well-being to perform better and generate positive outcomes for the organisations. Studies examined the detrimental effects of well-being if not managed well, such as increased employee intention to leave, burnout of employees, job dissatisfaction (Mangas et al., 2022), etc. These studies show the necessity of improving the state of well-being among employees in the workplace.

Perceived fairness of algorithms

The concept of fairness arises in the main domain of organisational justice. However, there are different conceptualisations by different scholars in the existing literature. Perceived fairness is the degree of perceptions on fair interactions, procedures and processes in the workplace (Greenberg, 1987). It is a subjective assessment about the fairness of information, outcomes and procedures of the organisation (Tong et al., 2023). In organisational justice, perceived fairness has been elaborated under three main dimensions as procedural justice, distributive justice and interactional justice (Colquitt et al., 2023). Procedural justice can be explained as the perceptions of fairness about the processes that are used for the decision making (Adamovic, 2023 as cited in Gong, 2025). Distributive justice is the perception of fairness about the outcomes and/or resource allocation (Narayanan et al., 2024 as cited in Gong, 2025). Interactional justice is about the perceived fairness of communication of the implementation processes (Ho, 2024 as cited in Gong, 2025). Thus, perceived

fairness of algorithms can be conceptualised as the perceptions of the fairness on each process, resource allocation and communication processes associated with algorithmic platforms such as Artificial Intelligence (AI), machine learning, data analytics, etc.

Antecedents of perceived fairness can be discussed at individual, organizational and systematic levels. Mustafa et al. (2023) examined distributive and procedural justice among emotionally intelligent employees. Suifan et al. (2022) further examined that when there is a safe environment for the expression of opinions, the perceived fairness in decision-making is generally high. Fatima et al. (2020) provided antecedents at organizational level by examining that the behaviour of the authentic leaders can significantly enhance the perceived fairness of employees. Similarly, Kebede and Wang (2022) examined that proper and transparent communication can lead towards a sense of fairness among employees. At systematic levels, perceived fairness can be discussed by means such as transparency (Robert et al., 2020), workplace policies (Pinho & Colston, 2024) and institutional frameworks (Mengstie, 2020). Even though perceived fairness can be influenced at three levels, organizational and systemic levels can make a huge impact on the employees and should be managed by the organisation itself.

The extant literature has examined both positive and negative outcomes of perceived fairness. According to the study of Suifan et al. (2022), when the perceived fairness of the employees is high in the workplace, the intention to leave among the employees is low. Further, Kebede and Wang (2022) examined that when there are positive perceptions about the fairness, the perceived organisational support of the employees can also be enhanced. Further, Zhang & Lyu (2021) examined organizational citizenship behaviour can be enhanced when employees feel a sense of fairness of the decisions taken by the management. Similar to the positive outcomes, there are negative outcomes as well if Organisations failed to foster positive fairness perceptions. Mengstie (2020) examined that there will be high employee turnover if there is low perceived fairness among employees regarding the decisions of the management. Further, there will be high emotional exhaustion (Hu et al., 2022), a reduction in trust and cohesion among team members (Liu et al., 2020), etc., when there is low perceived fairness of employees. Thus, these finding shows that perceived fairness has a critical role in the workplace to enhance organisational as well as individual outcomes.

Technology Transparency

With the advancement and popularity of data-driven and algorithm-based decisions, scholarly attention towards technology transparency has increased. Eiband et al. (2018) highlighted that transparency in the technology is the degree of understanding of how and why a system behaves in a particular manner. This understanding should be embedded with clarity about the logic for the decisions, accountability structures, and data sources used (Binns et al., 2021). Ananny & Crawford (2020) highlight that technology transparency is not just about disclosing but designing the whole system with the deliberate intention of fair decisions at each stage of the process. Thus, technology transparency can be defined as the degree of understanding and accessibility of the decisions made using algorithms in an organisation.

Organisations using algorithm-based decisions should often comply with technology transparency due to various reasons. One such major reason is the General Data Protection Regulation

(GDPR) in most of the countries. It mandates exposing the rationale behind most of the decisions. From an ethical perspective, as well as higher transparency is required to maintain the trustworthiness of the decisions (Shin, 2021). On the other hand, technology feasibility also ensures transparency in the technology (Lipton, 2018). In the era of algorithm-based decisions, there is a high necessity to maintain the transparency of those decisions to maintain trust towards such decisions.

Cognitive Appraisal Theory

Cognitive appraisal theory suggests that individual emotions are linked with how such individuals interpret and evaluate an event rather than the responses of such events (Lazarus & Folkman, 1984). This theory suggests that emotional responses depend on the subjective evaluation of events rather than their direct impact. The theory assumes that individuals view situations in reference to their own objectives, values and welfare, and this is what leads to the existence of emotions. The theory suggests two kinds of appraisals as primary appraisal and secondary appraisal. Primary appraisal is how an individual perceives the relevance of an event to him or her, and whether the event is a threat or a chance. The secondary appraisal, in the next stage where such a person evaluates how it can be handled or how they can live with the situation (Watson & Spence, 2007). Thus, this theory is about how individual perceived things rather than the real situations.

In this study, the impact of perceived fairness of algorithms on psychological well-being will be viewed through the lens of Cognitive Appraisal Theory. It explains the psychological response of employees to the use of algorithmic decision-making systems. When the employees feel the algorithm-based decisions are fair and transparent, they will be more likely to accept the system as non-threatening and controllable. Thus, the psychological well-being will be promoted with the organisational setting. On the other hand, if the algorithmic decisions are perceived as something to be feared, unfair and dehumanising, it becomes assessed as a violator of autonomy and fairness, which promotes stress and reduced well-being. Therefore, in determining the psychological impact of algorithmic decision making, the perceptions of employees based on their thought evaluation of its fairness and transparency are of paramount importance as this forms a crucial process that connects the psychological effects of algorithmic decision making.

Method

According to Jaakkola (2020), there are four potential templates for conceptual papers as Theory Synthesis, Theory Adaptation, Typology, and Model. Since the present study proposes a conceptual model with three variables, this study falls into the *"model"* category as per the above classification. In order to build this framework, an extensive literature review was conducted. In order to synthesise an overall understanding of perceived fairness of algorithms, psychological well-being and technology transparency, the authors reviewed existing literature relating to the above-mentioned domains. The literature searching and selection was conducted followed by Preferred Reporting Items for Systematic reviews and Meta-Analyses (PRISMA) guidelines.

Based on PRISMA framework (Figure 01), initially 83 articles were found through five data bases; ScienceDirect, Google Scholar, Emerald Insight, Taylor and Francis and Wiley Online of which 18 articles were removed since they are duplicated. Through the initial screening

of articles 13 papers were excluded. Based on the inclusion criteria (i.e., open access empirical studies conducted using primary data, published during the period of 2021 and 2026 in a peer reviewed journal in English language), 22 articles were removed and 26 papers were considered for the final review of the study. Thereafter, these articles were analysed to identify possible gaps in the literature. Based on the literature review, a conceptual model was proposed as depicted in Figure 02. This conceptual model explores two propositions which can be explored in future studies.

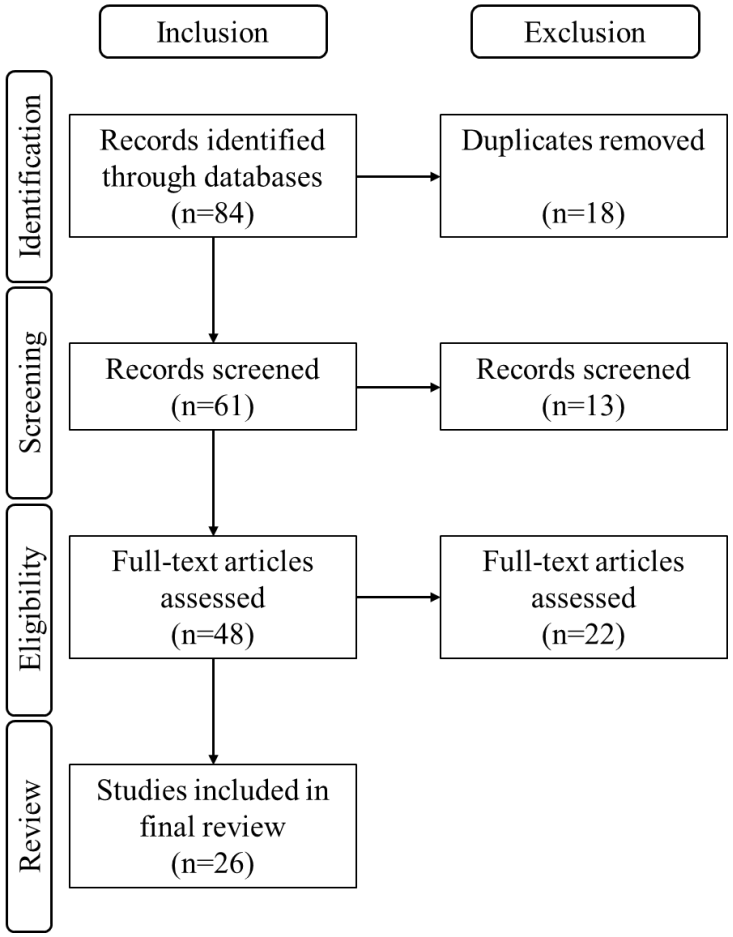

Figure 01: PRISMA-flow Diagram
***Source**: Authors Compilation, 2026*

Conceptual Model and Propositions

Perceived Fairness of Algorithms and Psychological Well-being

The extant literature has some findings relating to the perceived fairness of algorithms and their impact on psychological well-being. Duggan et al. (2020) highlighted that algorithmic management practices are bound with limited human intervention in decision-making. Thus, it can reduce the interpersonal and empathetic aspects of people management. This can create six types of burdens as emotional, mental, bias, manipulation, privacy and social, among the employees (Park et al., 2021). When such employees feel any one of these six types of burdens, their psychological well-being will be affected. Thus, this finding shows that the perceived fairness of algorithms has a negative impact on the psychological well-being of employees. On the other hand, algorithm-based decisions are often separated from human intervention and also do not consider human features or personalise from one to another. As a result, the decision-making process is often hidden from the employees, leading towards an imbalance in power between the management and the employees' biases (Veen et al., 2020). This depersonalization can make people feel powerless and helpless, which disturbs their psychological peace. This argument is also supported by Kinowska and Sienkiewicz (2022), who examined how algorithmic decisions are influencing the psychological well-being of individuals in a negative manner. Thus, based on the above findings in the extant literature, the first proposition is developed as follows.

P_1 - Perceived fairness of algorithms negatively impacts on psychological well-being

Role of Technology Transparency

The negative perceptions regarding the fairness of algorithms can be reduced if there is transparency in the technology used. The existing literature has considered the role of technology transparency in different domains. The study of Starke et al. (2022) examined that, when the process information of the algorithmic decisions is exposed to the individuals and is freely available, individuals can enhance their perceptions regarding the fairness of such decisions. The authors further emphasised that transparency is a buffer towards the negative perceptions of fairness in algorithmic decision-making. Decker et al. (2025) argued that, when the public is engaged in a core transparency mechanism in the algorithmic decision-making policies, the fairness perceptions regarding such decisions can be enhanced. Thus, based on these findings, the final proposition of the study is developed as follows.

P_2 – Technology Transparency moderates the relationship between Perceived fairness of algorithms and psychological well-being

Proposed Conceptual Model

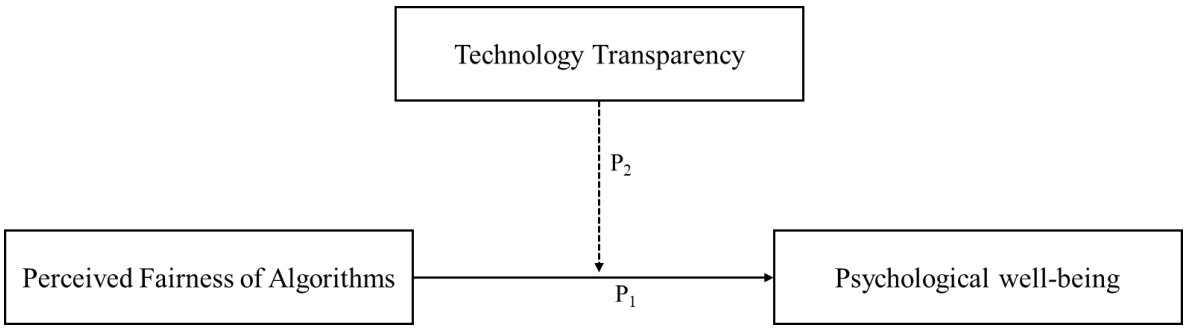

Figure 02: Conceptual Model
***Source**: Authors Compilation, 2026*

The working definitions of the variables are as follows.

Psychological Well-being: *"A state of well-being in which each individual copes with the daily stresses of life, works productively and efficiently, and contributes to society"* (Yiğit & Çakmak, 2024, p.43).

Perceived fairness of Algorithms: "*The extent to which the employees perceive workplace, interactions, procedures and processes be fair in nature"* (Greenberg, 1987, p.12).

Technology transparency: "*The requirement that the users can understand how a decision/prediction is made by the AI system."* (Shin, 2020, p.547)

Discussion and Implications

Algorithmic decision-making is becoming popular and prominent in the workplace due to the ease of use and improved accuracy. Even though it delivers many positive outcomes to the organisation, if the employees perceive that those decisions are not fair and unbiased, they can foster negative individual outcomes such as psychological well-being (Veen et al., 2020). These individual negative outcomes can outweigh the positive organisational outcomes. However, when there is transparency in the technology, such negative outcomes can be minimised. Thus, Organisations should consider the transparency of the technology being used when applying decisions using algorithms such as data analytics, machine learning, AI, etc.

This paper contributes to the emerging literature of algorithmic decision making by exploring the impact towards the psychological well-being of the employees. This study addresses the Theory of Cognitive Appraisal in two approaches. The first approach is by explaining how lower psychological well-being is derived from the perceived fairness of algorithms. Thus, this study proposes that the psychological response of the employees is not merely derived from algorithmic decisions of the organisation but is based on their perceptions regarding such decisions. As a second approach, the study contributes to the Social Cognitive Theory by explaining how transparency acts as a buffering effect in the event of low or negative perceptions regarding a decision.

This study provides some significant managerial implications as well. It offers some valuable insights for the decision makers of the organisation, especially for the HR professionals in activities such as recruitment, selection, hiring, compensation management, disciplinary management, promotions, etc. The study provides useful implications to the managers by understanding the role of perceived fairness and technology transparency in crucial employee-related decisions in the Organisations. By managing these factors, the decision makers would be able to take effective decisions without compromising the ethical and human-centric work values as well in the rising phase of technology advancement.

Future Research Directions

The study proposes future research directions based on the proposed conceptual model. The ultimate purpose of a country is to improve the standard of living of its population, which means the well-being enjoyed by people (Opatha, 2009). Hence, Organisations should individually pay attention towards enhancing the well-being of the individuals by means of physical, psychological and social aspects. With the advancement of technology, most organisational decisions are taken through algorithms. With this trend, most of the business practices, such as human resources (HR), are becoming popular, which emphasises the scholarly need to examine their positive and negative outcomes at each individual and organisational level. Even though many studies focus on the organisational level, studies relating to individual outcomes are underexplored.

Thus, this concept paper proposes a new model to examine the direct relationship between the perceived fairness of algorithms and individual psychological well-being, with the moderating role of technological transparency.

First, a broader set of empirical studies with variations of industry settings and job types, especially in humanistic settings dealing with a lot of nuances (e.g., healthcare, education, and creative industries), where the rigidity of algorithms might become particularly problematic regarding issues of fairness, should test this conceptual model. The longitudinal and experimental design may help in revealing causal effects as well as the dynamics in time between algorithmic decision-making exposure, fairness perceptions, and outcomes related to well-being, i.e., burnout, emotional exhaustion, or job-related stress.

Secondly, this should be applied in research analysis on the criteria of the types of algorithmic systems (i.e. predictive analytics or algorithms based on AI systems in performance appraisals) and the degree of human oversight. Algorithmic decision-making systems are not all equally invasive and non-transparent, and collaborative research to assess the impact of various set-ups on perceptions of justice and employee outcomes could be carried out.

Third, the importance of individual differences should be paid more attention to. As an example, algorithmic literacy, trust propensity, cultural values, and psychological capital, among others, can mediate the perception of fairness in algorithmic surroundings. Inclusion of such moderators would provide more individualised information and guide how interventions should be focused. Lastly, it may be possible to incorporate cross-cultural views in future research work. Based on cross-cultural comparison, the

model may have certain caveats associated with collectivist and individualist cultures, so the model under consideration should be tested in other cultures.

Overall, as algorithmic decision-making is developing further, empirical investigation will be required to prove the legitimacy of the conceptual frameworks, such as the one suggested in the given paper. This will not only improve theoretical knowledge but also lead to ethical and employee-related implementation of algorithm systems in HRM.

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