

Consumer Perception of Ethical Use of AI in Marketing and its Impact on Brand Loyalty

Khushmeet Saluja, Saksham Jain, Anshika Jain, Tanuj Chaudhary, Anusha Priya
Indus Business School (IIEBM), Pune

Abstract: *Artificial Intelligence (AI) is now widely used in marketing to improve customer experience, provide personalized services, and increase business efficiency. From chat bots and recommendation systems to targeted advertisements, AI has transformed the way brands communicate with consumers. However, alongside these benefits, serious ethical concerns have emerged, especially related to data privacy, transparency, fairness, and manipulation.*

This research paper focuses on understanding how consumers perceive the ethical use of AI in marketing and how this perception influences their trust and loyalty toward a brand. A primary survey was conducted with 78 respondents, predominantly from the 18–24 age group, yielding quantifiable insights into consumer attitudes. The study found that 69.2% of respondents were very aware of AI in marketing, 34.6% identified misuse of personal data as their top ethical concern, and 78.2% indicated they would remain loyal to brands practicing ethical AI. Trust was found to be a significant mediating variable, with 70.5% of respondents saying ethical AI practices moderately or very strongly influenced their brand trust.

The findings highlight that ethical AI is not merely a regulatory compliance issue but a strategic business imperative. Brands that are transparent, data-protective, and non-manipulative are more likely to build lasting consumer relationships in the digital age...

Keywords: Artificial Intelligence, Ethical AI, Marketing, Consumer Perception, Brand Loyalty, Data Privacy, Trust, Transparency

I. INTRODUCTION

In today's digital era, Artificial Intelligence (AI) has become an important part of marketing strategies. Companies use AI to understand customer behavior, predict future needs, personalize communication, and automate customer services. Tools like chatbots, personalized product recommendations, voice assistants, and targeted advertisements have made marketing faster, smarter, and more effective.

However, the increasing use of AI has also raised serious ethical concerns. Consumers are becoming more aware of how their personal data is collected and used. Issues such as data breaches, unauthorized data sharing, surveillance, and algorithmic bias have created fear and mistrust among customers. Many people worry about losing control over their personal information and being manipulated by intelligent systems.

Because of this, ethical use of AI has become a crucial factor in shaping consumer perception. When brands use AI in a transparent, fair, and responsible manner, consumers feel respected and valued. This creates trust, which is the foundation of strong brand loyalty. Loyal customers not only make repeat purchases but also recommend the brand to others and build long-term relationships.

This research paper aims to study how consumers perceive ethical AI practices in marketing and how these perceptions influence their trust and loyalty toward brands. The paper integrates both secondary literature review and primary survey data collected from 78 respondents to derive robust and actionable insights.



II. BACKGROUND OF THE STUDY

In recent years, Artificial Intelligence has become an integral part of modern marketing practices. With the rapid growth of digital platforms, e-commerce, and social media, companies are increasingly using AI-based tools to understand customer behavior, personalize communication, automate services, and improve overall customer experience. Technologies such as chatbots, recommendation engines, predictive analytics, and targeted advertising have changed how brands interact with consumers and deliver value.

While AI has brought significant benefits in terms of efficiency, accuracy, and customer engagement, it has also raised several ethical concerns. Consumers today are more aware of issues related to data privacy, security, surveillance, and misuse of personal information. Incidents of data breaches, unauthorized data sharing, and algorithmic bias have increased public concern and scepticism toward AI-driven marketing practices.

In this changing environment, ethical use of AI has emerged as a critical factor influencing consumer trust and perception. Ethical AI in marketing involves transparency in data usage, protection of consumer privacy, fairness in automated decision-making, and responsible communication. When consumers feel that a brand respects their rights and uses technology responsibly, they are more likely to develop trust, emotional attachment, and long-term loyalty.

Brand loyalty plays a vital role in determining a company's long-term success. Loyal customers not only make repeat purchases but also act as brand advocates by recommending products and services to others. In a competitive digital marketplace, where consumers have many alternatives, trust and ethical behavior have become strong differentiators. Therefore, understanding how consumers perceive the ethical use of AI in marketing and how this perception impacts their loyalty is both timely and important.

III. STATEMENT OF THE PROBLEM

The rapid adoption of Artificial Intelligence in marketing has significantly transformed how businesses interact with consumers by offering personalized experiences, automated services, and data-driven decision-making. While these advancements have improved efficiency and customer engagement, they have also introduced serious ethical challenges related to data privacy, transparency, algorithmic bias, and consumer manipulation.

Many organizations collect and process large volumes of personal data using AI technologies, often without clear communication or informed consent. This has led to growing consumer concerns about misuse of personal information, lack of control, and invasion of privacy. Additionally, the opaque nature of AI algorithms makes it difficult for consumers to understand how decisions affecting them are made, which further increases mistrust.

Due to these concerns, consumer trust in AI-driven marketing practices is increasingly at risk. Since trust is a fundamental factor in building strong brand relationships, unethical or irresponsible use of AI can negatively impact brand perception and customer loyalty. Despite the growing importance of ethical AI, there is limited empirical understanding of how consumers perceive ethical AI practices in marketing and how these perceptions influence their loyalty toward brands.

Therefore, the central problem addressed in this study is to examine the impact of consumer perception of ethical AI use in marketing on brand loyalty. The study seeks to understand the ethical factors that shape trust and determine how responsible AI practices can help organizations build sustainable customer relationships in a highly competitive digital environment.

IV. OBJECTIVES OF THE STUDY

4.1 Primary Objectives

To critically examine how consumer perception of the ethical use of AI in marketing influences brand loyalty.

To analyse the role of ethical AI practices in building long-term consumer trust and sustainable brand relationships.

4.2 Secondary Objectives

To study the level of consumer awareness regarding the use of AI in marketing activities.



- To identify major ethical concerns of consumers related to data privacy, transparency, algorithmic bias, and manipulation.
- To evaluate the impact of transparency and data protection practices on consumer confidence in AI-driven marketing.
- To examine how fairness and accountability in AI systems affect consumer attitudes toward brands.
- To assess the role of trust as a mediating factor between ethical AI practices and brand loyalty.
- To explore consumer expectations from brands regarding responsible and human-centered use of AI technologies.
- To analyse the influence of ethical AI practices on customer satisfaction, engagement, and repeat purchase intention.
- To provide actionable recommendations for marketers to implement ethical, transparent, and customer-friendly AI strategies.

V. REVIEW OF LITERATURE

The growing application of Artificial Intelligence in marketing has attracted significant attention from researchers, practitioners, and policymakers. Several studies have explored the benefits, challenges, and ethical implications of AI-driven marketing practices, particularly focusing on consumer trust, perception, and brand loyalty.

5.1 AI in Marketing: Benefits and Growth

Davenport et al. (2020) emphasize that AI will reshape the future of marketing by enabling firms to deliver highly personalized customer experiences, improve service efficiency, and enhance customer satisfaction. AI-based personalization improves customer engagement and purchase intention by offering relevant content, timely recommendations, and seamless interactions. Huang and Rust (2021) argue that AI-driven services go beyond task automation and create emotional value for customers, reinforcing brand attachment.

5.2 Data Privacy as a Core Ethical Concern

Martin and Murphy (2017) emphasize that data privacy is one of the most critical ethical issues in AI marketing. Research findings indicate that consumers are increasingly worried about how their personal data is collected, stored, and shared. Malhotra et al. (2004) developed the Internet Users' Information Privacy Concerns (IUIPC) scale, demonstrating that privacy concerns significantly affect trust and willingness to share data. The General Data Protection Regulation (GDPR) by the European Union (2016) codified these concerns legally, mandating transparency in data collection and usage.

When consumers feel their data is being used without their knowledge or consent, their trust in the brand decreases significantly. On the other hand, brands that clearly communicate their data policies and provide privacy controls tend to gain higher customer trust and satisfaction (Aguirre et al., 2015).

5.3 Transparency and Algorithmic Fairness

Pasquale (2015) coined the concept of the 'black box' problem — the opacity of AI systems that makes it impossible for consumers to understand how decisions are made. O'Neil (2016) extended this to demonstrate how biased algorithms can perpetuate discrimination, particularly in targeted advertising. The European Commission's Ethics Guidelines for Trustworthy AI (2019) proposed key requirements including transparency, non-discrimination, and accountability as pillars of ethical AI.

Floridi et al. (2018) proposed the AI4People ethical framework, which includes principles of beneficence, non-maleficence, autonomy, justice, and explicability. These principles directly apply to marketing contexts, where AI must serve consumer interests rather than manipulate them.



5.4 Trust as a Mediating Variable

Morgan and Hunt (1994) established the commitment-trust theory of relationship marketing, demonstrating that trust is central to long-term brand relationships. Reichheld and Scheffer (2000) argued that in e-commerce environments, loyalty is primarily built on trust. When consumers trust a brand, they are more likely to make repeat purchases, share positive word-of-mouth, and resist competitive overtures.

5.5 Brand Loyalty in the AI Era

Lemon and Verhoef (2016) studied the customer journey and found that consistent, trustworthy brand experiences across touchpoints drive loyalty. Bleier and Eisenbeiss (2015) showed that while personalized online advertising can improve effectiveness, it can also trigger privacy concerns that undermine trust if not managed carefully. This tension — between the value of personalization and the risk of perceived intrusion — is the central paradox that ethical AI seeks to resolve.

Rust (2020) argued that the future of marketing belongs to brands that can harness AI while maintaining human values at the core of their customer relationships. Porter and Kramer (2006) emphasized that linking competitive advantage with corporate social responsibility — including responsible technology use — creates sustainable value for both businesses and consumers.

VI. RESEARCH METHODOLOGY

6.1 Research Design

This study adopts a descriptive and analytical research design. It combines secondary research (review of academic literature, industry reports, and ethical guidelines) with primary research (a structured questionnaire survey) to gain a comprehensive understanding of consumer perceptions of ethical AI in marketing.

6.2 Population and Sample

The target population for this study is consumers who actively use digital platforms and social media, and who may have been exposed to AI-driven marketing tools such as personalized recommendations, chatbots, and targeted advertisements. A sample of 78 valid respondents was collected using a structured online questionnaire distributed through digital channels.

Age Group	Number of Respondents	Percentage
Under 18	2	2.6%
18–24	68	87.2%
25–34	4	5.1%
35–44	2	2.6%
45–54	2	2.6%
Total	78	100%

Table 1: Sample Composition by Age Group

6.3 Data Collection

Primary data was collected through a structured self-administered questionnaire via Google Forms. The questionnaire was designed to capture consumer awareness of AI in marketing, ethical concerns, trust levels, loyalty intentions, and preferred brand behaviors. The survey was distributed between April 2025 and included 16 questions covering demographic details, Likert-scale items, multiple-choice questions, and open-ended opinion questions.



6.4 Variables

The study examines the following key variables:

Independent Variable: Consumer perception of ethical AI use (transparency, data privacy, fairness, non-manipulation)

Mediating Variable: Consumer trust in brands

Dependent Variable: Brand loyalty (repeat purchase intention, willingness to recommend)

6.5 Data Analysis

The collected data was analyzed using frequency analysis and percentage distribution. Responses were tabulated, and key patterns were identified across dimensions of awareness, ethical concern, trust, loyalty, and comfort with AI marketing. The analysis uses descriptive statistics to summarize findings and cross-tabulation to identify relationships between variables.

6.6 Ethical Considerations

All survey participants were voluntary and anonymous. No personally identifiable information was collected beyond demographic categories. Data has been analyzed and presented in aggregate form only.

VII. DATA ANALYSIS AND RESULTS

This section presents the findings of the primary survey conducted with 78 respondents. The results are organized by key research dimensions: AI awareness, ethical concerns, trust, brand loyalty, comfort levels, and consumer expectations.

7.1 Consumer Awareness of AI in Marketing

Respondents were asked about their prior awareness of AI use in marketing activities. The results demonstrate a high level of awareness among the surveyed population.

Awareness Level	Respondents (n)	Percentage
Yes, very aware	54	69.2%
Somewhat aware	16	20.5%
Heard about it but not sure	8	10.3%
Total	78	100%

Table 2: Consumer Awareness of AI in Marketing (N=78)

Key Finding: An overwhelming 69.2% of respondents are very aware of AI use in marketing, and an additional 20.5% are somewhat aware, bringing cumulative awareness to 89.7%. Only 10.3% were uncertain about how AI operates in marketing contexts. This indicates a digitally literate consumer base that is well-positioned to form informed perceptions about ethical AI.

7.2 Top Ethical Concerns About AI in Marketing

Respondents were asked to identify their most significant ethical concern related to AI in marketing. The distribution reveals a clear hierarchy of concerns:

Ethical Concern	Respondents (n)	Percentage
Misuse of personal data	27	34.6%



Manipulative advertising	20	25.6%
Lack of transparency about how AI works	16	20.5%
Over-personalization invading privacy	11	14.1%
Bias or unfair targeting	4	5.1%
Total	78	100%

Table 3: Consumer Ethical Concerns About AI Marketing (N=78)

Key Finding: Misuse of personal data is the dominant ethical concern, identified by 34.6% of respondents. When combined with over-personalization (14.1%), data-related concerns account for nearly half (48.7%) of all responses. Manipulative advertising (25.6%) and lack of transparency (20.5%) are the second and third most pressing concerns respectively, while algorithmic bias affects 5.1%. This confirms that data governance and transparent communication are the most critical areas for brands to address.

7.3 Influence of Ethical AI on Consumer Trust

Respondents were asked how much ethical AI practices influence their trust in a brand:

Trust Influence Level	Respondents (n)	Percentage
Very strongly	14	17.9%
Moderately	43	55.1%
Slightly	14	17.9%
Not much	5	6.4%
Not at all	1	1.3%
No response	1	1.3%
Total	78	100%

Table 4: Influence of Ethical AI Practices on Consumer Trust (N=78)

Key Finding: A combined 73.0% of respondents report that ethical AI practices influence their brand trust moderately or very strongly. Only 7.7% indicate minimal or no influence. This strongly validates the mediating role of trust in the ethical AI-brand loyalty relationship, consistent with Morgan and Hunt's (1994) commitment-trust theory.

7.4 Brand Loyalty Toward Ethical AI Brands

Respondents were asked whether they would remain loyal to a brand that uses AI responsibly and ethically:

Loyalty Intention	Respondents (n)	Percentage
Definitely yes	15	19.2%
Probably yes	46	59.0%
Not sure	13	16.7%
Probably no	4	5.1%



Total	78	100%
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Table 5: Brand Loyalty Intention Toward Ethical AI Brands (N=78)

Key Finding: An impressive 78.2% of respondents expressed positive loyalty intentions (19.2% definitely + 59.0% probably) toward brands that use AI ethically. Only 5.1% indicated they would probably not remain loyal. This is a strong affirmation that ethical AI is a commercially viable strategy for fostering brand loyalty.

7.5 Consumer Comfort with AI in Marketing

Comfort Level	Respondents (n)	Percentage
Very comfortable	21	26.9%
Somewhat comfortable	25	32.1%
Neutral	24	30.8%
Somewhat uncomfortable	8	10.3%
Total	78	100%

Table 6: Consumer Comfort with AI in Marketing (N=78)

Key Finding: 59.0% of respondents are comfortable or very comfortable with AI in marketing, while 30.8% hold a neutral stance. Only 10.3% are somewhat uncomfortable, suggesting that AI marketing acceptance is high but still requires continued trust-building. The large neutral segment represents a significant opportunity for brands to convert undecided consumers through ethical practices.

7.6 Consumer Response to AI Misuse

Respondents were asked what action they would take if they discovered a company misuses AI or personal data:

Planned Action	Respondents (n)	Percentage
Stop purchasing from that brand	25	32.1%
Complain or report the issue	24	30.8%
Reduce purchases	20	25.6%
Ignore it	8	10.3%
No response	1	1.3%
Total	78	100%

Table 7: Consumer Action Upon Discovery of AI Misuse (N=78)

Key Finding: A combined 88.5% of respondents would take punitive action against a brand caught misusing AI — 32.1% would stop purchasing entirely, 30.8% would report the issue, and 25.6% would reduce their purchases. Only 10.3% would ignore the issue. This underscores the catastrophic commercial risk of ethical AI failures.



7.7 Consumer Expectations: What Companies Should Do

Expected Company Action	Respondents (n)	Percentage
Allow users to control data permissions	26	33.3%
Be transparent about AI use	22	28.2%
Protect consumer data strongly	19	24.4%
Avoid manipulative marketing practices	6	7.7%
Clearly label AI-generated content	5	6.4%
Total	78	100%

Table 8: Consumer Expectations from Brands on Ethical AI (N=78)

Key Finding: The top three consumer expectations — data control (33.3%), transparency (28.2%), and data protection (24.4%) — together account for 85.9% of responses. Consumers primarily desire agency over their own data and honest communication from brands. This provides a clear strategic roadmap for ethical AI implementation.

VIII. DISCUSSION OF FINDINGS

The findings of this study provide strong empirical support for the hypothesis that consumer perception of ethical AI use in marketing positively influences brand trust, which in turn drives brand loyalty. The following discussion synthesizes the survey results with existing literature to derive meaningful insights.

8.1 High Awareness Demands Higher Accountability

The finding that 89.7% of respondents are aware of AI in marketing (Table 2) suggests that the era of consumers being unknowingly profiled is effectively over. Aware consumers are critical consumers. As Davenport et al. (2020) noted, AI's ability to reshape marketing is directly tied to consumer acceptance, which requires demonstrated ethical commitment. Brands can no longer assume passive acceptance of AI practices; they must proactively demonstrate responsibility.

8.2 Data Misuse and Manipulation Are the Gravest Risks

The fact that 60.2% of concerns relate to data misuse (34.6%) or manipulative advertising (25.6%) directly validates the findings of Martin and Murphy (2017) and O'Neil (2016). The Ponemon Institute's (2022) Cost of a Data Breach Report documented that breaches cost companies an average of \$4.35 million — but the reputational damage from consumer trust erosion is arguably more severe. With 88.5% of respondents indicating they would actively penalize a brand for AI misuse (Table 7), the financial case for ethical AI is undeniable.

8.3 Trust is the Bridge Between Ethics and Loyalty

The finding that 73.0% of respondents report ethical AI moderately or very strongly influencing their trust (Table 4) provides direct empirical support for Morgan and Hunt's (1994) commitment-trust theory in a digital AI context. Trust functions as the mediating variable: ethical practices build trust, and trust drives loyalty. This is consistent with Reichheld and Schefter (2000), who demonstrated that e-loyalty depends fundamentally on trust rather than price or features.



8.4 Ethical AI Is a Commercial Advantage

The 78.2% positive loyalty intention toward ethical AI brands (Table 5) directly translates into competitive commercial advantage. In an environment where Rust (2020) predicts that marketing will become increasingly reliant on AI, brands that establish ethical credibility early will create sustainable differentiation. The 30.8% neutral segment in comfort levels (Table 6) represents a large addressable audience that can be won over through transparent, accountable AI practices.

8.5 Consumer Agency Is the New Currency

The top expectation — allowing users to control data permissions (33.3%) — reflects a fundamental shift in the consumer-brand power dynamic. Informed by GDPR principles and growing awareness of data rights, consumers expect to be partners in data decisions, not passive subjects. Brands that implement meaningful consent mechanisms, opt-out options, and data transparency dashboards will differentiate themselves in the marketplace. This aligns with Floridi et al.'s (2018) principle of autonomy in the AI4People ethical framework.

8.6 Qualitative Insights from Open-Ended Responses

Several respondents provided substantive open-ended comments that enrich the quantitative findings. Representative voices include:

"Brands should use AI to provide helpful recommendations, better customer service, and relevant information — instead of only focusing on sales." (Respondent, 18–24)

"I think the brands must prioritize transparency by disclosing AI-generated content, ensure data privacy with strict consent, and implement regular bias audits." (Respondent, 25–34)

"AI should help customers make better choices, not manipulate them with extreme personalization or psychological targeting." (Respondent, 18–24)

"Brands should use AI responsibly by being transparent, protecting user data, and avoiding misleading content." (Respondent, 25–34)

These responses consistently emphasize the same themes: transparency, consumer empowerment, and value-creation over manipulation — reinforcing the quantitative findings and providing a qualitative texture to consumer expectations.

IX. CONCLUSION

This study set out to examine how consumer perception of ethical AI use in marketing influences brand loyalty. Through a combination of secondary literature review and primary survey data from 78 respondents, the research has arrived at clear, evidence-based conclusions.

First, consumers are highly aware of AI in marketing (89.7%), making ethical practices a matter of public scrutiny rather than internal policy. Second, data misuse (34.6%) and manipulative advertising (25.6%) are the primary ethical concerns, representing the greatest risk areas for brands. Third, ethical AI practices significantly influence consumer trust (73.0% moderate-to-strong influence), which in turn drives brand loyalty (78.2% positive loyalty intention). Fourth, consumers overwhelmingly prefer brands that empower them through data control (33.3%), transparency (28.2%), and strong data protection (24.4%).

The study confirms that trust serves as the critical mediating variable between ethical AI practices and brand loyalty. Brands that build trust through responsible AI use gain not merely compliance but genuine consumer commitment — repeat purchases, positive word-of-mouth, and resilience against competitive disruption.

In conclusion, ethical AI in marketing is not a constraint on commercial performance — it is a driver of it. In an era of digital vigilance, the brands that will win are those that treat their consumers not as data points to be optimized but as partners to be respected. Ethical AI is the foundation of the next generation of brand loyalty.



X. RECOMMENDATIONS

Based on the findings of this research, the following recommendations are offered to marketers, brand managers, and organizations deploying AI in their marketing operations:

10.1 Establish Radical Transparency

Brands should clearly communicate when and how AI is being used in their marketing activities. This includes labeling AI-generated recommendations, disclosing the data used for personalization, and explaining how algorithmic decisions are made. Transparency is the single most actionable step brands can take to build consumer trust.

10.2 Implement Robust Data Governance

Organizations must invest in data minimization, strong encryption, access controls, and regular security audits. Consumers should be informed of what data is collected and how long it is retained. GDPR-compliant practices — even in markets where they are not legally mandated — signal credibility and respect.

10.3 Empower Consumer Data Control

The top consumer expectation (33.3%) is the ability to control data permissions. Brands should implement user-friendly privacy dashboards, easy opt-out mechanisms for AI profiling, and clear consent frameworks. Empowering consumers to manage their own data reduces perceived manipulation and increases trust.

10.4 Conduct Regular AI Bias Audits

Brands should establish internal or third-party audits of their AI marketing systems to identify and address algorithmic bias. Unfair targeting — whether by age, gender, income, or other factors — is both an ethical failure and a reputational risk. Fairness should be a design principle, not an afterthought.

10.5 Focus AI on Value Creation, Not Manipulation

AI should be deployed to genuinely improve the consumer experience — better recommendations, faster service, more relevant information — rather than to exploit psychological vulnerabilities or maximize engagement at any cost. As one respondent noted, AI should help consumers make better choices, not manipulate their decisions.

10.6 Build Ethics Into Brand Identity

Ethical AI should be communicated as part of the brand's core values and identity, not merely as a compliance statement. Brands like Apple (privacy as a feature), Patagonia (transparency in supply chain), and Microsoft (Responsible AI principles) demonstrate that ethical positioning creates genuine differentiation and consumer preference.

XI. LIMITATIONS AND FUTURE RESEARCH

11.1 Limitations of the Study

The sample is predominantly composed of 18–24-year-old respondents (87.2%), limiting the generalizability of findings to older demographic groups who may have different perceptions and behaviors.

The study relies on self-reported data, which may be subject to social desirability bias — respondents may answer how they believe they should feel rather than how they actually behave.

The survey was conducted online, potentially excluding consumers who are less digitally engaged and may have different perspectives on AI in marketing.

The study is cross-sectional in nature, capturing a snapshot of consumer perceptions at a specific point in time. Longitudinal studies could reveal how perceptions evolve as AI technology and regulations develop.



The geographical scope is limited, with respondents predominantly from urban India. Cross-cultural comparative studies would yield broader insights.

11.2 Directions for Future Research

Future studies should expand the sample to include older demographic groups (35+) and cross-cultural populations to test whether the relationship between ethical AI perception and brand loyalty holds across different markets.

Longitudinal research tracking the same consumers over time could reveal causal relationships more robustly than cross-sectional analysis.

Experimental research designs — presenting consumers with hypothetical AI scenarios — could test how specific ethical interventions (e.g., adding a transparency label) change loyalty intentions.

Future research could investigate industry-specific differences: does ethical AI matter more in financial services vs. e-commerce vs. healthcare marketing?

The role of AI regulation (e.g., EU AI Act) on consumer trust and brand loyalty presents a rich area for policy-oriented research.

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