

Chapter 13

Data Privacy, Ethics, and the Role of AI in Customer Relationship Management

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ABSTRACT

AI integration in CRM systems has transformed customer interactions, offering personalized experiences and improving service efficiency. However, it raises concerns about data privacy and ethics, especially as AI handles sensitive consumer data. Compliance with privacy regulations like GDPR and CCPA is essential. Ethical issues include algorithmic bias, data ownership, transparency, and informed consent. Businesses must adopt privacy-by-design principles, ensure fairness in AI models, and prioritize transparency in data practices. Clear communication and explicit consent are crucial. By adopting ethical AI frameworks, conducting audits, and ensuring data security, businesses can build trust, mitigate risks, and align with legal and ethical standards, positioning themselves as responsible leaders in the digital age.

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1. INTRODUCTION

The rapid growth of artificial intelligence (AI) has significantly transformed various industries, particularly customer relationship management (CRM) (Sharma et al., 2024). Today, CRM systems are no longer just digital databases that store customer interactions; they have evolved into sophisticated platforms that analyze customer behavior, predict preferences, and automate personalized engagement. AI-powered CRM systems allow businesses to harness large volumes of customer data to gain valuable insights and enhance the customer experience through tailored recommendations and automated services (Gurung et al., 2022). However, the increased use of AI in CRM also raises serious concerns regarding data protection, ethical considerations, and legal compliance. Data privacy has become a significant concern as AI-powered CRM systems collect and manage large volumes of consumer data, including personal identifiers, behavioral data, and transactional records (Sharma et al., 2024). The growing use of machine learning algorithms and predictive analytics has heightened worries about data breaches, unauthorized access, and unethical data exploitation (Kumar et al., 2024). As businesses strive to gain a better understanding of customer behavior, the risks associated with data security and privacy violations have also increased (Dawoodbhoj et al., 2021). With regulations like the General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA) setting strict data protection standards, organizations must navigate a complex compliance landscape while upholding ethical data practices (Roth et al., 2021). Ethical considerations in AI-driven customer relationship management extend beyond mere regulatory compliance. The application of artificial intelligence algorithms to analyze customer interactions and predict consumer preferences raises important questions regarding bias, fairness, and transparency (Stein et al., 2020). Many AI models operate as “black boxes,” meaning their decision-making processes are not easily understood. This lack of transparency creates ethical dilemmas concerning accountability and potential bias (Beres et al., 2021). For instance, biased algorithms could unintentionally favour certain consumer groups over others, leading to unfair treatment and possible reputational harm for organizations. It is essential to ensure algorithmic transparency and the ethical deployment of AI to maintain customer trust and prevent discriminatory practices (Palta & Kumar, 2024).

The increasing use of AI in Customer Relationship Management raises important issues regarding informed consent and user autonomy. Traditional CRM systems required explicit permission for data collection, while AI-driven approaches often involve continuous data aggregation and real-time processing (Palta & Kumar, 2025). This can make it difficult for customers to understand how their information is being used. Many individuals are unaware of the extent to which their personal data is utilized for targeted marketing, dynamic pricing, or automated decision-making

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