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MORALITY BEFORE KNOWLEDGE

Institutional governance and regulatory quality in building trust in pawnshop services

Muhammad Syahrudin[1,*], Wiwit Pawitri[2], Rheishi Alma Nazarani Sanusi[2]
[1] *Student of The Economic Doctoral Program, Faculty of Economics, Parahyangan Catholic University, Bandung 40141, Indonesia;*
[2] *Accounting Study Program, STIE Gema Widya Bangsa, Bandung 40162, Indonesia.*
*Correspondence: syahrudin.ssh@gmail.com

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ABSTRACT
Background: The rapid expansion of pawnshop services within emerging financial systems has increased their socio-economic importance and institutional relevance. However, existing financial trust literature remains predominantly bank-centric and continues to conceptualize trust primarily through customer satisfaction, service quality, and interpersonal interaction. Such approaches remain insufficient for explaining trust formation in collateral-based financial services characterized by custodial dependency, asymmetric vulnerability, and institutional exposure. This study aims to conceptualize institutional trust in pawnshop services as an outcome of governance–regulation alignment within alternative financial systems. **Methods:** This study adopts a conceptual theory-building design using an abductive reasoning approach. Drawing upon institutional theory, governance theory, and regulatory credibility theory, the study develops an integrative conceptual framework through iterative theoretical synthesis and analytical refinement. **Findings:** The study argues that institutional trust in pawnshop services does not emerge solely from individual perceptions of service quality, but from the institutional coherence between governance quality and regulatory credibility. The study introduces custodial vulnerability as a distinct conceptual construct describing the ethical, relational, and institutional exposure experienced by consumers in collateral-based financial transactions. The findings further indicate that transparent governance practices, procedural fairness, accountability mechanisms, and credible regulatory oversight collectively strengthen institutional legitimacy and public trust. **Conclusion:** This study reconceptualizes trust in pawnshop services as an emergent institutional outcome rather than merely an interpersonal or psychological perception. The proposed framework highlights the importance of governance–regulation alignment as a structural foundation of sustainable institutional trust within alternative financial services. **Novelty/Originality of this Study:** This study offers two primary conceptual contributions by introducing custodial vulnerability as a novel construct within collateral-based finance and by positioning governance–regulation alignment as the structural basis of institutional trust formation in pawnshop services.

KEYWORDS: institutional governance; pawnshop services; public trust; regulatory quality.

1. Introduction

Within contemporary financial inclusion frameworks, pawnshop services have increasingly gained institutional relevance, particularly in contexts where formal banking access remains limited and financial vulnerability is structurally embedded within large segments of society (Beck & Cull, 2020; Martinez-Peria, et al., 2015). The growing dependence on collateral-based short-term financing reflects broader socio-economic conditions characterized by economic uncertainty, informal employment, and liquidity

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constraints among lower- and middle-income populations. As a result, pawnshop services are no longer peripheral financial actors, but increasingly constitute an important component of alternative financial systems.

This transformation is empirically observable in the rapid institutional expansion of the pawnshop industry. According to data from the Indonesian Financial Services Authority (OJK), the number of fully licensed pawnshop companies increased significantly between 2024 and 2025, accompanied by substantial growth in industry assets and financing activities (OJK, 2025). Such developments indicate not only increasing market formalization, but also the growing integration of pawnshop services into household financial management and local economic activity. However, alongside this expansion emerges a parallel increase in systemic governance risks, including asset mis valuation, weak custodial practices, insufficient customer protection, and inadequate institutional oversight. Consequently, the sustainability of pawnshop services increasingly depends not merely on operational efficiency, but on the institutional credibility through which public trust is constructed and maintained.

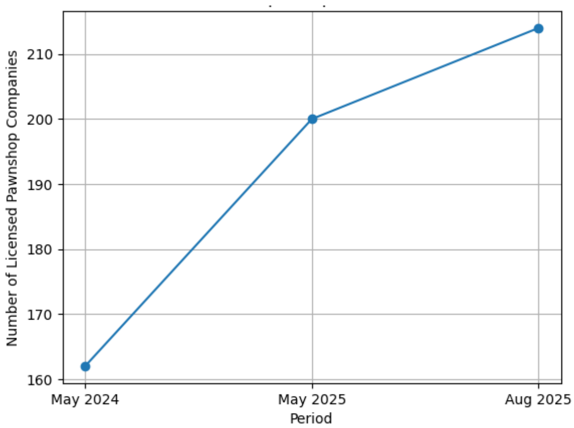

Fig. 1. Growth of licensed pawnshop companies in Indonesia
(OJK, 2025)

Additional indicators further demonstrate the increasing scale of the pawnshop industry. OJK data show that industry assets and financing activities experienced substantial growth during the same period, reflecting the increasing integration of pawnshop services into broader local economic and household financial systems (OJK, 2025). While this expansion strengthens the strategic relevance of pawnshop institutions within alternative financial ecosystems, it simultaneously amplifies institutional risks associated with governance failures, including inadequate appraisal procedures, weak asset custody mechanisms, and limited consumer protection practices. As the sector becomes more systemically significant, trust-related failures can no longer be understood as isolated operational issues, but increasingly as broader institutional concerns.

The growing socio-economic significance of pawnshop services has also intensified scholarly attention toward their institutional implications, particularly regarding governance, legitimacy, and consumer trust (Blind, 2007; Palmisano & Sacchi, 2024; Verhoest, et al., 2024). Despite this growing relevance, existing financial trust literature remains predominantly bank-centric and continues to conceptualize trust primarily as an outcome of customer satisfaction, service quality, technological usability, or interpersonal interactions (Morgan & Hunt, 1994; Palmisano & Sacchi, 2024). While these approaches provide valuable insights into consumer experience, they remain insufficient for explaining trust formation in collateral-based financial systems where consumers experience heightened dependency, asymmetric power relations, and custodial exposure over valuable assets.

Pawnshop transactions involve a distinctive institutional condition in which clients temporarily relinquish control over possessions that may possess not only financial value, but also emotional and social significance. Under such conditions, trust extends beyond perceptions of service convenience or transactional satisfaction. Rather, trust becomes deeply connected to institutional fairness, ethical asset custody, transparent valuation procedures, and the credibility of governance and regulatory systems. Existing trust theories, however, have only limited engagement with these dimensions, particularly within alternative financial institutions characterized by custodial dependency and institutional vulnerability.

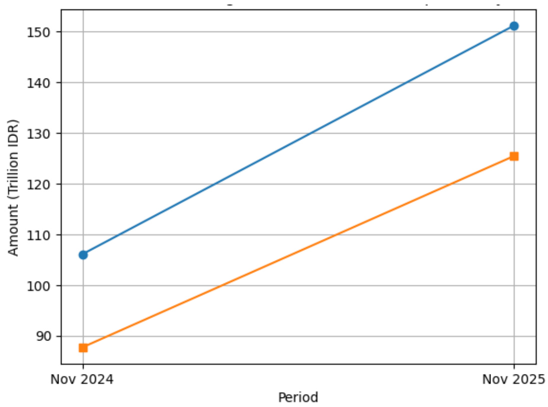

Fig. 2. Growth of assets and financing in Indonesia's pawnshop industry (OJK, 2025)

Simultaneously, contemporary institutional scholarship increasingly conceptualizes trust as an institutional rather than purely interpersonal phenomenon. Recent studies argue that trust emerges from perceptions of fairness, competence, accountability, and integrity embedded within governance structures and regulatory systems (Charron & Rothstein, 2021; Rothstein & Eek, 2021; Verhoest, et al., 2024). Similarly, governance scholarship emphasizes the role of transparency, procedural fairness, accountability, and grievance mechanisms as institutional signals through which legitimacy is constructed (Aguilera et al., 2018; Clarke, 2022). Regulatory quality literature further highlights the importance of credible regulatory enforcement and institutional consistency in shaping public confidence and institutional legitimacy (Cuadrado-Ballesteros, Ríos, et al., 2023; Kaufmann & Kraay, 2020; OECD, 2021). Nevertheless, these three streams of scholarship largely remain analytically fragmented and insufficiently integrated within the context of alternative financial services such as pawnshops.

This fragmentation reveals a broader theoretical gap. Governance studies primarily focus on organizational performance and internal control systems, regulatory scholarship concentrates on institutional design and enforcement, while trust literature remains heavily oriented toward individual perceptions and service evaluation. What remains underdeveloped is an integrated institutional explanation of how governance structures and regulatory quality interact to produce or undermine public trust in collateral-based financial services characterized by custodial dependency and asymmetric vulnerability. This study addresses this gap by developing a conceptual framework that reconceptualizes trust in pawnshop services as an emergent institutional outcome resulting from the alignment between governance quality and regulatory credibility. Drawing upon institutional theory, governance theory, and regulatory credibility theory (Bitektine & Haack, 2015; Scott, 2008; Suchman, 1995), this study argues that sustainable institutional trust is not merely derived from organizational performance or individual perceptions, but structurally constituted through coherence between governance practices and regulatory systems.

This study offers three primary contributions. First, it extends governance and institutional trust scholarship into the underexplored domain of pawnshop services, thereby challenging the dominance of bank-centric perspectives within financial institution research. Second, the study introduces the concept of custodial vulnerability as a distinct theoretical construct explaining the ethical, relational, and institutional exposure experienced by collateral-based financial consumers. Third, the study proposes governance–regulation alignment as a structural foundation for institutional trust, thereby contributing to broader discussions on institutional legitimacy, governance coherence, and sustainable trust formation within alternative financial systems.

2. Methods

2.1 Research design

This study adopts a conceptual research design with a theory-building orientation rather than empirical theory testing. Conceptual research is increasingly recognized as a legitimate scholarly approach for developing new theoretical explanations and synthesizing fragmented streams of literature into a coherent analytical framework (Jaakkola, 2020; Snyder, 2019). Rather than relying on primary empirical data collection and statistical testing, conceptual research emphasizes theoretical integration, analytical refinement and the development of explanatory propositions capable of guiding future empirical inquiry.

The present study considers public trust in pawnshop services as a complex institutional phenomenon that remains insufficiently theorized within existing governance, regulation, and financial trust literature. Although pawnshop institutions have gained increasing relevance within contemporary financial systems, particularly in emerging economies, existing studies continue to examine trust predominantly through micro-level dimensions such as customer satisfaction, perceived service quality, and technological convenience. Such approaches remain limited in explaining institutional trust formation within collateral-based financial services characterized by custodial dependency, asymmetric power relations, and heightened consumer vulnerability.

Accordingly, a conceptual theory-building approach is considered appropriate because it enables the development of a broader institutional explanation regarding how governance quality and regulatory credibility interact to shape trust formation in pawnshop services. As argued by Alvesson & Sandberg (2011), conceptual scholarship becomes particularly valuable when dominant theoretical perspectives contain blind spots or fail to adequately explain emerging institutional phenomena. In this context, pawnshop services represent an analytically underdeveloped area within institutional trust scholarship despite their growing socio-economic significance.

2.2 Theoretical foundations and analytical strategy

The conceptual framework developed in this study is grounded in three interconnected theoretical traditions: institutional theory, governance theory, and regulatory credibility theory.-First, institutional theory provides the foundational perspective for understanding trust as a socially constructed institutional outcome shaped by legitimacy, institutional coherence, and organizational credibility (Bitektine & Haack, 2015; Scott, 2008). From this perspective, public trust emerges not solely from interpersonal interactions, but from broader institutional arrangements that shape perceptions of fairness, reliability, and legitimacy.

Second, governance theory contributes an analytical understanding of transparency, accountability, procedural fairness, and ethical oversight as institutional mechanisms that communicate legitimacy to stakeholders (Aguilera et al., 2018; Clarke, 2022). Within contexts characterized by information asymmetry and consumer vulnerability, governance mechanisms operate not only as managerial control systems, but also as symbolic signals through which institutional trustworthiness is evaluated. Third, regulatory credibility theory emphasizes the role of regulatory consistency, enforcement capability, and institutional oversight in constructing public confidence and sectoral legitimacy (Kaufmann & Kraay, 2020; Nicholls & Huybrechts, 2016). In highly vulnerable financial environments such as pawnshop services, regulatory quality functions as an external assurance mechanism that shapes consumer perceptions regarding institutional protection and organizational accountability.

Rather than treating these theoretical perspectives as isolated analytical domains, this study integrates them into a unified institutional explanation of trust formation in pawnshop services. This integration enables the study to explain how governance practices and regulatory systems jointly shape institutional legitimacy and public trust within collateral-based financial environments. The analytical strategy employed in this study follows an abductive reasoning approach, which is widely recognized in conceptual theory-building research (Dubois & Gadde, 2002; Timmermans & Tavory, 2012). Abductive reasoning involves iterative movement between empirical phenomena and theoretical interpretation in order to identify conceptual inconsistencies, theoretical blind spots, and opportunities for analytical refinement. Through this abductive process, the study identifies limitations within dominant trust frameworks that primarily conceptualize trust through service quality and customer satisfaction dimensions. When applied to pawnshop services, such assumptions become insufficient because they overlook institutional dependency, custodial exposure, and governance-regulation dynamics. This analytical process ultimately leads to the development of two primary conceptual contributions: the notion of custodial vulnerability and the proposition of governance–regulation alignment as the structural basis of institutional trust.

2.3 Conceptual development process

The development of the conceptual framework was conducted through several iterative stages following established guidelines for conceptual research proposed by Gilson & Goldberg (2015) and (Jaakkola, 2020). The first stage involved a problem-oriented literature review covering institutional governance, regulatory quality, institutional trust, legitimacy, and alternative financial institutions. Following Snyder (2019), the review was not intended to provide exhaustive bibliographic coverage, but rather to identify dominant assumptions, theoretical fragmentation, and conceptual blind spots within existing scholarship. The second stage involved a process of conceptual problematization aimed at critically evaluating the limitations of prevailing trust theories in explaining pawnshop services. In line with Alvesson & Sandberg (2011), this stage focused on questioning established assumptions that primarily associate trust with customer experience and interpersonal service interaction.

The third stage consisted of conceptual refinement and construct development. During this phase, the study reconceptualized trust as an institutional outcome and introduced custodial vulnerability as a distinct analytical construct explaining the ethical and relational dependency embedded within collateral-based finance. The fourth stage involved conceptual integration, where governance quality, regulatory credibility, custodial vulnerability, and institutional trust were synthesized into a unified conceptual framework. Consistent with Whetten (1989), this stage focused on clarifying the conceptual elements of the framework, specifying the relationships among constructs, and explaining the underlying rationale connecting governance–regulation alignment with sustainable institutional trust formation.

2.4 Analytical rigor and theoretical contribution

Because this study is conceptual rather than empirical, rigor is established through theoretical coherence, analytical consistency, and conceptual clarity rather than statistical validation. Following Jaakkola (2020) and Cornelissen (2017), the rigor of this study is demonstrated through four primary dimensions. First, the study maintains conceptual clarity through explicit construct definitions and consistent analytical terminology. The concepts of institutional trust, governance quality, regulatory credibility, and custodial vulnerability are clearly differentiated while remaining theoretically interconnected.

Second, the study emphasizes internal coherence by ensuring that all theoretical arguments remain logically integrated within a unified explanatory framework. Each conceptual proposition builds upon preceding arguments in order to avoid theoretical fragmentation and maintain analytical consistency. Third, the study demonstrates theoretical originality through the introduction of custodial vulnerability and the reconceptualization of trust as an emergent property of governance–regulation alignment. Rather than merely relabeling existing concepts, the framework seeks to establish new analytical relationships capable of extending institutional trust scholarship into the context of alternative financial services. Fourth, the study maintains analytical relevance by grounding conceptual development within the empirically observable expansion of pawnshop services and the institutional challenges accompanying their growth. This ensures that the proposed framework remains connected to contemporary institutional realities rather than becoming purely abstract theorization.

3. Results and Discussion

3.1 Reframing trust as an institutional outcome

Existing financial trust literature predominantly conceptualizes trust as an outcome of customer satisfaction, perceived service quality, technological convenience, or interpersonal interaction between consumers and financial service providers (Morgan & Hunt, 1994; Palmisano & Sacchi, 2024). Such approaches are particularly dominant within banking and digital financial service research, where trust is often interpreted through psychological perceptions of reliability, usability, and transactional efficiency. While these perspectives remain valuable for understanding consumer behavior, they provide limited explanatory capacity in institutional environments characterized by collateral dependency, asymmetric vulnerability, and custodial exposure.

In pawnshop services, trust extends beyond conventional transactional relationships because customers temporarily surrender control over assets that frequently possess not only economic value, but also personal, emotional, and symbolic significance. Under such institutional conditions, trust cannot be adequately understood solely through satisfaction-based or service-oriented frameworks. Instead, trust becomes structurally linked to perceptions of institutional fairness, governance integrity, ethical asset management, and regulatory protection. This study therefore reconceptualizes trust as an emergent institutional outcome produced through the interaction between governance quality and regulatory credibility. From an institutional perspective, trust is not merely an individual psychological state, but a socially constructed perception of institutional legitimacy embedded within governance structures, accountability systems, and regulatory arrangements (Rothstein & Eek, 2021; Scott, 2008). Consequently, institutional trust in pawnshop services depends on the extent to which governance mechanisms and regulatory systems collectively communicate organizational reliability, procedural fairness, and custodial responsibility.

This reconceptualization extends existing trust scholarship in two important ways. First, it shifts analytical focus from micro-level customer perception toward macro-level institutional arrangements. Second, it positions trust as a structurally produced institutional condition rather than a purely interpersonal outcome of service interaction. Within collateral-based financial systems, institutional trust becomes inseparable from governance coherence, regulatory legitimacy, and consumer protection credibility.

3.2 Custodial vulnerability and the distinctiveness of pawnshop trust

One of the primary conceptual contributions of this study is the introduction of custodial vulnerability as a distinct theoretical construct within collateral-based financial services. Custodial vulnerability refers to the condition in which financial consumers experience institutional dependency and heightened exposure resulting from the temporary transfer of control over pledged assets to financial institutions (Broekhoff et al., 2024; Palmisano & Sacchi, 2024). Unlike conventional borrowing arrangements, pawnshop transactions require customers to surrender physical possession of valuable assets as collateral for short-term financing. This arrangement creates a unique institutional relationship characterized not only by financial dependency, but also by emotional insecurity, perceived asset risk, and asymmetric institutional power. In many cases, pledged assets possess symbolic, sentimental, or culturally embedded significance beyond their market value, thereby intensifying consumer vulnerability during custodial transfer.

The concept of custodial vulnerability differs from existing notions such as information asymmetry within principal-agent theory. Information asymmetry primarily concerns unequal access to information between contracting parties, whereas custodial vulnerability emphasizes the ethical, relational, and institutional exposure experienced by consumers when control over personally valuable assets is temporarily delegated to institutional actors. Accordingly, custodial vulnerability encompasses broader dimensions of institutional trustworthiness, including appraisal transparency, custodial ethics, asset protection reliability, and procedural accountability. This distinction is theoretically important because conventional trust theories often fail to explain why governance failures in collateral-based financial systems can generate disproportionately severe legitimacy crises. Within pawnshop services, governance breakdowns involving asset mismanagement, valuation disputes, or custodial negligence may directly undermine institutional legitimacy because consumers perceive such failures not merely as operational inefficiencies, but as violations of institutional responsibility and ethical stewardship.

Consequently, custodial vulnerability functions as a central institutional condition through which governance quality and regulatory credibility become critically important in shaping public trust. The greater the perceived custodial vulnerability, the greater the institutional demand for transparent governance systems, credible regulation, and enforceable consumer protection mechanisms. Custodial vulnerability has a socio-cultural dimension that has been largely neglected in financial trust studies. In many developing economies, items pawned in shops are more than the money that can be made from them. These items can represent personal identity, family legacy, social class, or be an item that has memories attached to it. Items that are Tokens of memory that are heirlooms, family valuables, or items that have cultural value to a family or society, can have value that cannot be captured by a market. Therefore, the pawned items create a financial, psychological, and social vulnerability. In these circumstances consumers will estimate an entity's trust with respect to the entity's willingness to deal with the item personally, socially, and psychologically in its custody.

From this viewpoint, custodial vulnerability is a financial, psychological, social, and symbolic vulnerability. In the pawnshop context, a pledged item is a personal, cultural, and social memory, and financial security. Therefore, a governance failure in a pawn shop is not a financial loss, but a loss of trust, fairness, and legitimacy. In addition, custodial vulnerability perpetuates many asymmetries inherent to financial transactions. Consumers are often unable to evaluate the storage, valuation, control, and risk frameworks implemented by the institutions. This absence of information reinforces the dependence on the integrity of the organization and the sufficiency of the regulatory framework. In this case, trust becomes the stand in for the lack of information, allowing the consumer to transact with the organization, even if the consumer does not know how the institution will act. The stronger the custodial vulnerability, the greater the uncertainty, and the greater the governance transparency, regulatory confidence, and custodial trust.

Consequently, custodial vulnerability extends the existing trust scholarship by combining the traditionally narrow definitions of financial risk with the non-economic factors. It explains that institutional trust may also derive from the perceptions of ethical custodianship and trust in the management of the assets. This is especially critical for the alternative financial institutions where the organization may achieve legitimacy not just from the financial outcome, but from the fulfillment of the service to protect the assets of the vulnerable consumers.

3.3 Governance as symbolic infrastructure of legitimacy

Governance within financial institutions is commonly understood as a managerial mechanism designed to ensure accountability, transparency, organizational control, and operational effectiveness (Aguilera et al., 2018; Clarke, 2022; Filatotchev, Jackson, et al., 2013). However, within pawnshop services, governance performs a broader institutional function extending beyond administrative coordination and risk management. This study argues that governance operates as symbolic institutional infrastructure through which institutional legitimacy and trustworthiness are communicated to consumers. Governance mechanisms such as transparent appraisal procedures, complaint resolution systems, ethical custodial standards, internal monitoring processes, and disclosure practices function not only as operational controls, but also as symbolic indicators of institutional reliability and fairness (Pierre & Peters, 2020; Verhoest, Latusek, et al., 2024).

Within contexts characterized by custodial vulnerability, consumers frequently possess limited capacity to independently evaluate institutional integrity or asset security. Consequently, governance mechanisms become interpretive signals through which institutional trustworthiness is inferred. Transparent governance practices reduce uncertainty, strengthen perceptions of procedural fairness, and communicate institutional accountability, thereby contributing to the formation of public trust (Aparicio-Pérez et al., 2025; Suchman, 1995). Beyond their functional role, governance mechanisms offer an important signaling role within institutional environments marked by uncertainty and instability. In pawnshop services, customers rarely have the means to evaluate the integrity of the organiza- tion and the security of the asset protection systems and internal control mechanisms. Thus, practices of governance such as transparent standards and procedures of valuation, documented custody, grievance processes, and independent boards become important signals to consumers for inferring reliability. The effectiveness of governance, then, lies in its ability to communicate institutional trust and ethical assurance.

The connection between governance and trust can be addressed through the concept of procedural justice. In studies concerning the legitimacy of an institution, evidence consistently suggests that the fairness, clarity, and consistency of a decision-making process results in greater trust of the institution. When considering pawnshop services, procedural justice becomes more critical. Consumers tend to be at a permanent structural disadvantage to the institution. They often do not have adequate bargaining power, are in a state of financial desperation, and may not possess the ability to assess the process and the quality of the collateral appraisal. Given these circumstances, institutional trust is contingent upon consumers' perceptions of procedural fairness concerning the appraisal of value, the terms of the contracts, the resolution of disputes, and the policies on the redemption of assets. Governance frameworks that allow organizations to be consistent and fair in procedural matters contribute not only to the efficacy of the organization but also to the establishment of the organization's legitimacy.

Trust in financial systems that rely on collateral is fragile, and the failure of governance can significantly impact the control of collateral that is, for many consumers, valuable and irreplaceable. The loss of assets, valuation disputes, the loss of trust, and the damage of the custody of assets can cause institution confidence to collapse and result in irreparable reputational damage. For these reasons, functional governance frameworks must not only proactively secure trust, but also incorporate the capacity to restore trust post-governance failure. Post-governance failure transparent procedural justice complemented by a systems-based accountability of investigation, trust-centered compensation frameworks, and complaint resolution systems have the potential to restore trust and establish the legitimacy of the institution.

Governance must not only be seen as a mechanism for the exercise of control over a system of organizations. It must also be seen as a process of producing legitimacy in which the organizational relations of the system are continuously maintained and strengthened. In the case of the services of pawnshop, the quality of governance shapes the consumers' perception of the company's intentions, the justice of the institution, and the reliability of its custodial promises. Therefore, governance is the principal means by which the alternative financial organization changes structural insecurity into a form of sustainable institutional trust.

This symbolic dimension of governance is particularly important within alternative financial services where institutional legitimacy may remain socially fragile. Unlike large banking institutions that often benefit from established reputational capital and systemic legitimacy, pawnshop services may face heightened public skepticism associated with historical perceptions of exploitative lending or informal financial practices. Under such conditions, governance quality becomes central not only for organizational efficiency, but also for institutional legitimacy construction. Furthermore, governance failures within pawnshop services may generate consequences extending beyond immediate operational disruption. Weak accountability systems, unethical appraisal practices or insufficient custodial procedures may undermine institutional credibility and amplify public perceptions of vulnerability and exploitation. Therefore, governance quality functions simultaneously as an operational necessity and a legitimacy-producing institutional mechanism within collateral-based financial systems.

3.4 Regulatory quality as field-level trust architecture

In addition to internal governance mechanisms, institutional trust in pawnshop services is strongly influenced by the credibility of external regulatory systems. Regulatory quality refers to the extent to which regulatory institutions demonstrate consistency, enforcement capacity, procedural fairness, and institutional effectiveness in overseeing financial activities (Kaufmann & Kraay, 2020; OECD, 2021). Within collateral-based financial environments, regulatory systems perform an essential legitimizing function because consumers often rely on external institutional oversight to compensate for limited bargaining power and informational disadvantage. Effective regulation signals that institutional misconduct can be monitored, consumer rights protected, and governance failures sanctioned through credible enforcement mechanisms. The importance of regulatory credibility becomes particularly visible in contexts where financial consumers face heightened custodial vulnerability. Under such conditions, public trust depends not only on the integrity of individual pawnshop institutions, but also on confidence in broader regulatory systems capable of ensuring procedural fairness and institutional accountability across the sector (Christensen & Lægreid, 2020; Cuadrado-Ballesteros, Ríos, et al., 2023).

Regulatory quality is particularly important for many of the alternative financial sectors since consumers often do not have the means to defend themselves from the misconduct of these institutions. Unlike large corporate clients or sophisticated investors, many clients of pawnshops have a limited understanding of the law, very little access to formal mechanisms for the resolution of disputes, and a weak bargaining position. For these clients, regulation is not only a legal framework that guides conduct in the market, but also a protective mechanism that mitigates the imbalance of the structure of the market. Regulation of this type helps create confidence in consumers, that the market is designed in a way to ensure that institutional power is constrained by rules that are created externally and can be enforced.

The role that regulation plays in this case in increasing confidence of consumers is even more important in those cases where a custodial service is being provided. Since pawnshops assume control over customer assets, regulatory systems need to address concerns that go beyond the usual financial risk. Regulation needs to provide certainty in the systems of collateral valuation and custody, as well as the mechanisms of asset redemption, and consumer disclosures and disputes. When certainty in these constructs is provided, consumers are more likely to view institutional trust and predictability positively.

Additionally, the quality of regulation affects how trust is constructed in the system by creating stability throughout an industry. Without sufficient regulation, there may be divergence of practice among service providers, resulting in service quality and consumer protection uncertainty. Regulatory frameworks create a baseline for norming concerning ethics, the extent of transparency, and accountability of the system. Consequently, trust comes to reside in not just the individual entities but in the system as a whole. Because of this, consumers consider the trust of institutions at the level of the system of regulation as well as at the level of the individual organization.

An even more important consideration is the enforcement of regulations. The existence of regulations, in and of themselves, does not guarantee public confidence if the means of enforcement are perceived to be weak, inconsistent, or subject to external pressure. Trust in an institution is closely tied to the belief that the relevant regulatory authority has the capacity and will to both identify violations and impose and sustain consequences. Hence, enforcement is an important part of regulatory trust. Where there is a lack of enforcement, regulatory frameworks can be little more than an arrangement in form only, while protection for consumers is illusory. On the other hand, enforcement that is consistent, of good quality, and is sustained, creates a positive impact on the accountability of institutions and confidence in both the regulators and the entities regulated.

Seeing things through an institutional lens, we can interpret regulatory quality as a category of trust architecture at the level of fields, establishing conditions for the sustained legitimacy of an organization. Governance mechanisms allow organizations to signal trust. However, regulation shapes the environment within which organizational trustworthiness can be credibly signaled. In terms of pawnshop services, where custodial vulnerability and information asymmetry are pronounced, consumer trust is enhanced when both Organizational Governance and Regulatory Oversight are perceived to be operating effectively and in concert. This illustrates that regulatory quality should be appreciated as a building block of sustainable institutional trust, as opposed to merely a compliance mechanism.

This study further argues that regulatory quality influences institutional trust through both direct and indirect mechanisms. Directly, regulation establishes enforceable standards concerning valuation procedures, collateral management, consumer protection, and operational transparency. Indirectly, credible regulation enhances institutional legitimacy by signaling that governance practices operate within a monitored and accountable institutional environment.

However, regulatory presence alone does not automatically generate trust. Weak enforcement, inconsistent supervision, regulatory capture, or fragmented oversight structures may undermine institutional credibility despite the formal existence of regulatory frameworks. Consequently, institutional trust depends not merely on regulatory formalization, but on the perceived effectiveness and legitimacy of regulatory institutions themselves. Within rapidly expanding pawnshop industries, regulatory quality therefore becomes increasingly important as a stabilizing institutional mechanism capable of mitigating governance risks, reducing consumer vulnerability, and sustaining long-term institutional legitimacy.

3.5 Governance–regulation alignment as the structural basis of trust

This study proposes governance–regulation alignment as the central structural mechanism through which institutional trust emerges within pawnshop services. Governance–regulation alignment refers to the degree of coherence between internal governance practices and external regulatory expectations in producing institutional legitimacy, accountability, and consumer protection. Existing scholarship frequently examines governance quality and regulatory effectiveness as analytically separate domains. Governance studies primarily focus on internal organizational arrangements, while regulatory scholarship concentrates on state oversight and institutional enforcement. This separation creates analytical fragmentation and limits understanding regarding how trust is institutionally produced within highly vulnerable financial environments.

The present study argues that institutional trust does not emerge independently from governance or regulation alone, but rather from their mutual alignment and institutional coherence. Effective governance without credible regulation may fail to generate public confidence because institutional accountability remains externally uncertain. Conversely, strong regulatory systems without transparent governance practices may fail to establish operational legitimacy at the organizational level (Blind, 2007; Verhoest, Latusek, et al., 2024). Under conditions of custodial vulnerability, consumers evaluate trustworthiness through both organizational behavior and institutional oversight simultaneously. Transparent valuation systems, ethical custodial procedures, and accountable complaint mechanisms become more credible when reinforced by effective regulatory supervision. Similarly, regulatory legitimacy becomes more visible when translated into consistent governance practices at the institutional level (Verhoest et al., 2024). Accordingly, governance–regulation alignment functions as a structural basis of sustainable institutional trust because it integrates internal accountability with external legitimacy mechanisms. This alignment reduces uncertainty, mitigates perceived vulnerability, and strengthens institutional confidence within collateral-based financial systems. The conceptual framework proposed in this study positions governance quality and regulatory credibility as interconnected institutional mechanisms shaping trust formation both directly and indirectly through the management of custodial vulnerability. In this framework, custodial vulnerability operates as a contextual institutional condition that intensifies the importance of governance coherence and regulatory legitimacy in determining public trust outcomes.

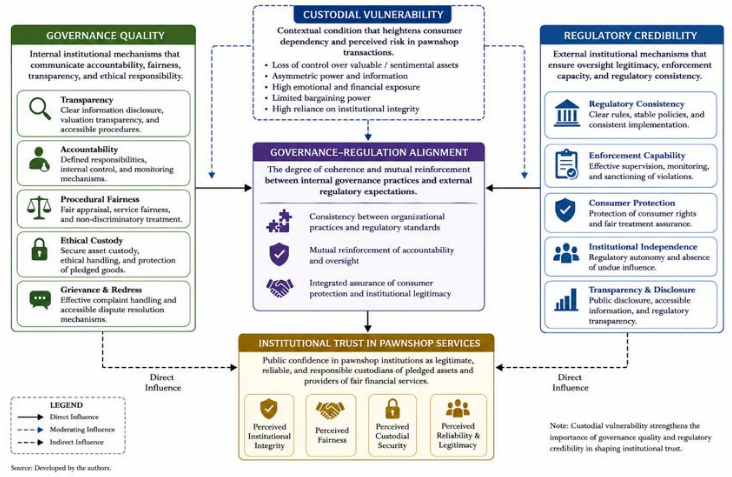

Fig. 3. Conceptual framework of governance–regulation alignment and institutional trust in pawnshop services

3.6 Theoretical contributions and implications for future research

The conceptual framework developed in this study contributes to institutional trust scholarship in several important ways. First, it extends governance and trust literature into the relatively underexplored context of pawnshop services and collateral-based financial systems. Existing financial trust scholarship remains predominantly focused on banking institutions and digital financial platforms, leaving alternative financial institutions comparatively undertheorized. Second, the study introduces custodial vulnerability as a distinct conceptual construct capable of explaining institutional dependency and ethical exposure within collateral-based finance. This construct expands conventional trust frameworks by emphasizing that institutional trust may emerge not only from service quality or informational transparency, but also from perceptions of custodial responsibility and institutional stewardship.

Third, the study contributes to institutional theory by reconceptualizing trust as an emergent property of governance–regulation alignment rather than a purely interpersonal or organizational phenomenon. This perspective highlights the importance of institutional coherence in shaping legitimacy and public confidence within vulnerable financial environments. Apart from its primary focus on pawnshop services, this study's framework adds dimension to the theoretical dialogues on the trust institution. In contemporary scholarship on trust, some have framed trust as a construct formed at the individual level through some form of social interaction, assessment of the quality of service, or the reputation of the organization. These frameworks have their place, however, they are unable to sufficiently account for the formation of trust in situations where consumers place reliance on institutional and external mechanisms of control and oversight. By focusing on the alignment of governance and regulation, this study attempts to shift the focus from the individual to the institutional frameworks within which trust can be created and maintained.

This study makes a further contribution to the literature on governance by extending the understanding of governance beyond its traditional function as a control mechanism within an organization. In a number of studies on governance, the focus has been on the outcomes of governance in the context of performance, accountability, and risk management. The present study contends that governance has a role in sustaining legitimacy. In this sense, governance is not only a managerial function but also a means through which a signaling system of trust, justice, and integrity is established. The idea of custodial vulnerability evolves the understanding of consumer vulnerability in the context of pawnshop services. Prior studies have centered on informational imbalances, the consumer's financial literacy, and bargaining power asymmetries. These factors are relevant and important. However, the pawnshop context shows a new type of vulnerability in the context of financial services, particularly in the context of a temporary relinquishment of control over valuable personal property. Thus, custodial vulnerability expands the analytical framework of financial trust and offers ethical custodianship, custodial duty, and the dependency on symbolic assets and venture capital as critical constructs in the discussion on the legitimacy of organizations.

The framework also advances the understanding of alternative financial services. Most studies focusing on the trust given to financial institutions analyze banks, insurance, and the new, emerging digital financial services. In contrast, the pawnshop and collateral-based financial services have received little attention, even though they are becoming increasingly important to the financial inclusion of many customers. As these services are the focus of this research, it extends trust to the services of pawnshops and shows that trust can be constructed even in financial services that operate on different business models and consumer vulnerabilities.

Finally, with regard to institutional theory, the idea of governance–regulation alignment offers the potential of cross-level coherence. Rather than analyzing governance and regulation in isolation, the framework posits that integrated trust entails the alignment and cooperative reinforcement of internal organizational processes with external institutional scrutiny. This view is consistent with newer strands of institutional theory that focus on the interplay of legitimacy, accountability, and institutional effectiveness. Therefore, the framework offers a platform for the advancement of theory with regard to how various institutional arrangements affect the construction of trust in differing organizational settings.

Beyond theoretical contributions, the framework also carries broader institutional and policy implications. As pawnshop industries continue to expand within emerging financial systems, institutional sustainability increasingly depends on governance credibility and effective regulatory oversight. Policymakers and financial regulators therefore need to strengthen appraisal transparency, custodial accountability standards, complaint resolution systems, and consumer protection mechanisms in order to sustain public trust and institutional legitimacy.

Future research may test the framework in various contexts to refine it. This may include empirical research. For example, the interplay of governance quality, regulatory credibility, and custodial vulnerability in building institutional trust may be the focus of empirical quantitative work. There is plenty of room for trust-building research that examines the impact of custodial vulnerability and the interplay of governance reforms and regulatory changes on the trust of constituents during institutional crises. It may also include research on the impact of global governance and regulatory systems on different legal and financial systems. This may help identify more of the institutional conditions that refine the framework and show the impact of governance-regulation interplay on diverse system environments.

Table 1 Theoretical synthesis of the conceptual framework

Theoretical tradition	Core assumptions	Key constructs	Relevance to pawnshop services	Contribution to the proposed framework
Institutional Theory	Trust and legitimacy are socially constructed through institutional arrangements, norms, and organizational credibility.	Institutional legitimacy, institutional trust, organizational credibility, institutional coherence.	Pawnshop institutions require public legitimacy because consumers depend on institutional integrity in collateral-based transactions.	Provides the foundational perspective for reconceptualizing trust as an institutional outcome rather than merely an interpersonal perception.
Governance Theory	Governance mechanisms communicate accountability, fairness, transparency, and ethical responsibility to stakeholders.	Transparency, accountability, procedural fairness, ethical custody, grievance mechanisms.	Governance quality influences consumer perceptions regarding asset protection, valuation fairness, and institutional responsibility.	Explains how internal governance mechanisms function as symbolic institutional infrastructure shaping trust formation.
Regulatory Credibility Theory	Public trust depends on the credibility, consistency, and enforcement capacity of regulatory institutions.	Regulatory quality, enforcement capability, consumer protection, institutional oversight, regulatory consistency.	Consumers rely on external regulatory systems to reduce institutional uncertainty and custodial risk.	Explains how external regulatory legitimacy reinforces institutional trust and governance credibility.
Custodial Vulnerability Perspective	Consumers experience institutional dependency and vulnerability when relinquishing control over pledged assets.	Custodial exposure, asymmetric vulnerability, emotional asset dependency, perceived institutional risk.	Pawnshop transactions involve temporary surrender of valuable and sometimes emotionally significant assets.	Introduces custodial vulnerability as a novel construct explaining why governance and regulation become central to trust formation.
Governance–Regulation Alignment Framework	Institutional trust emerges through coherence between governance practices and regulatory systems.	Governance-regulation alignment, institutional coherence, legitimacy reinforcement, integrated accountability.	Trust in pawnshop services depends on both internal governance quality and external regulatory credibility simultaneously.	Serves as the study's central theoretical proposition explaining institutional trust formation in collateral-based financial systems.

Future research may also extend the custodial vulnerability framework to include additional contexts beyond pawnshop services. Vulnerability may also be present where there is a temporary transfer of ownership of an asset that requires custodial or fiduciary service, for example, in digital asset custodial services or cooperative finance. Research in these areas may help further conceptualize custodial vulnerability in the context of institutional trust. The framework additionally suggests that governance reforms within alternative financial services should not focus solely on operational efficiency, but also on symbolic legitimacy construction. Institutional trust within collateral-based financial systems is shaped not only by organizational performance, but also by perceptions of ethical stewardship, institutional fairness, and regulatory protection.

4. Conclusions

This study develops a conceptual framework explaining institutional trust formation in pawnshop services through the alignment between governance quality and regulatory credibility. Departing from conventional financial trust literature that predominantly emphasizes customer satisfaction, service quality, and interpersonal interaction, this study argues that trust within collateral-based financial systems is fundamentally institutional in nature. In pawnshop services, trust is shaped not only by transactional experience, but also by perceptions of institutional legitimacy, custodial responsibility, governance integrity, and regulatory protection. The study offers three primary conceptual contributions. First, it extends institutional trust and governance scholarship into the relatively underexplored context of pawnshop services, thereby challenging the dominance of bank-centric perspectives within financial institution research. Second, the study introduces custodial vulnerability as a distinct conceptual construct describing the ethical, relational, and institutional exposure experienced by consumers when temporarily surrendering control over pledged assets. Unlike conventional notions of information asymmetry, custodial vulnerability emphasizes the broader institutional dependency and perceived risk embedded within collateral-based finance. Third, the study proposes governance–regulation alignment as a structural foundation of institutional trust, arguing that sustainable trust emerges through coherence between internal governance practices and external regulatory systems.

The study also contributes to broader institutional theory discussions by repositioning trust as an emergent institutional outcome rather than merely an individual psychological perception. Through the integration of institutional theory, governance theory, and regulatory credibility theory, the framework demonstrates how institutional legitimacy is constructed through accountability, transparency, procedural fairness, and credible regulatory oversight. Consequently, governance quality and regulatory effectiveness should not be understood as isolated institutional mechanisms, but as mutually reinforcing structures that shape public trust within vulnerable financial environments. Beyond theoretical implications, the study also carries practical relevance for policymakers, regulators, and pawnshop institutions. As pawnshop industries continue to expand within emerging financial systems, institutional sustainability increasingly depends on governance credibility and effective regulatory supervision. Strengthening appraisal transparency, ethical custodial standards, grievance resolution systems, consumer protection mechanisms, and regulatory enforcement capacity therefore becomes essential for maintaining institutional legitimacy and public confidence in collateral-based financial services.

Nevertheless, this study remains a purely conceptual inquiry and therefore contains several limitations. The framework has not yet been empirically validated, and the proposed relationships among governance quality, regulatory credibility, custodial vulnerability, and institutional trust remain theoretical propositions requiring future empirical examination. In addition, the study primarily focuses on pawnshop services within emerging financial contexts and may not fully capture institutional variations across different regulatory environments and financial systems. Future research may therefore extend this framework through empirical operationalization and comparative institutional analysis. Quantitative studies could develop measurement scales for custodial vulnerability, governance credibility, and institutional trust within collateral-based financial services. Comparative cross-country research may also examine how different regulatory regimes shape trust formation in pawnshop industries across varying institutional contexts. Furthermore, mixed-methods approaches involving institutional case studies, consumer interviews, and governance analysis may provide deeper understanding regarding how governance–regulation alignment influences public trust and institutional legitimacy in alternative financial systems.

Overall, this study argues that institutional trust in pawnshop services cannot be adequately understood through conventional customer satisfaction frameworks alone. Rather, trust emerges through institutional coherence between governance structures, regulatory systems, and custodial responsibility within financially vulnerable environments. By introducing custodial vulnerability and governance–regulation alignment as central analytical constructs, this study contributes to the development of a broader institutional understanding of trust formation in alternative financial services.

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Biographies of Authors

Muhammad Syahrudin, A doctoral student in economics at Parahyangan Catholic University in Bandung, the author is also a lecturer in the accounting program at STIE Gema Widya Bangsa. The author actively writes in the field of economics, particularly accounting, auditing, and management.

- Email: syahrudin.ssh@gmail.com
- ORCID: https://orcid.org/0009-0008-1142-5131
- Web of Science ResearcherID: N/A
- Scopus Author: N/A
- Homepage: N/A

Wiwit Pawitri, Accounting lecturer at STIE Gema Widya Bangsa in Bandung.

- Email: wiwitpawitri.kampus@gmail.com
- ORCID: https://orcid.org/0009-0009-1441-6705
- Web of Science ResearcherID: N/A
- Scopus Author: N/A
- Homepage: N/A

Rheishi Alma Nazarani Sanusi, Accounting undergraduate student at STIE Gema Widya Bangsa in Bandung

- Email: rheishialma@gmail.com
- ORCID: N/A
- Web of Science ResearcherID: N/A
- Scopus Author: N/A
- Homepage: N/A