How does corporate financialization affect operational risk in textile firms? Evidence from China

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ABSTRACT – REZUMAT

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Against the backdrop of a widening divergence between the virtual and real economies, coupled with the increasingly pronounced trend of financialization among traditional manufacturing enterprises, China's textile industry, a vital pillar of the national economy and a core export-oriented sector, has witnessed a significant shift in resources toward financial activities. This trend may reshape the landscape of its operational risks. This study examines the impact of financialization on operational risk in China's textile industry using listed firms from 2007 to 2024 as the sample. We find a significant positive correlation between corporate financialization and operational risk, which becomes more pronounced when the level of managerial myopia is higher. A series of robustness tests, such as using instrumental variables and propensity score matching, consistently support the baseline findings. Further analysis indicates that financialization affects operational risk through two channels: crowding out physical capital investment and increasing corporate opacity. Finally, we find that internal control quality and media coverage help mitigate the positive impact of financialization on operational risk. This study enriches the existing literature on the risk drivers and operational mechanisms in traditional manufacturing. It provides empirical support for textile enterprises to balance financial activities with core business development, and for regulatory bodies to optimise corporate governance and industrial policies.

Keywords: *textile industry firms, corporate financialization, operational risk, managerial myopia, corporate governance*

Cum influențează financiarizarea corporativă riscul operațional în cadrul întreprinderilor din sectorul textil? Date din China

Pe fondul unei divergențe tot mai mari între economia virtuală și cea reală, coroborată cu tendința din ce în ce mai pronunțată de financiarizare în rândul întreprinderilor tradiționale din sectorul de producție, industria textilă din China, un pilon vital al economiei naționale și un sector cheie orientat către export, a înregistrat o reorientare semnificativă a resurselor către activități financiare. Această tendință ar putea remodela peisajul riscurilor operaționale din acest sector. Prezentul studiu examinează impactul financiarizării asupra riscului operațional în industria textilă din China, utilizând ca eșantion întreprinderile cotate la bursă din perioada 2007–2024. S-a constatat o corelație pozitivă semnificativă între financiarizarea corporativă și riscul operațional, care devine mai pronunțată atunci când nivelul de miopie managerială este mai ridicat. O serie de teste de robustețe, precum utilizarea variabilelor instrumentale și potrivirea scorului de propensiune, susține în mod consecvent concluziile de bază. Analiza suplimentară indică faptul că financiarizarea afectează riscul operațional prin două canale: înlocuirea investițiilor în capital fizic și creșterea opacității corporative. În final, se constată contribuția calității controlului intern și a acoperirii mediatice la atenuarea impactului pozitiv al financiarizării asupra riscului operațional. Acest studiu îmbogățește literatura de specialitate existentă privind factorii de risc și mecanismele operaționale din sectorul de producție tradițional. Acesta oferă dovezi empirice care ajută întreprinderile din sectorul textil să găsească un echilibru între activitățile financiare și dezvoltarea activității principale, iar organismele de reglementare să optimizeze guvernanța corporativă și politicile industriale.

Cuvinte-cheie*: întreprinderi din industria textilă, financiarizare corporativă, risc operational, miopie managerială, guvernanță corporativă*

INTRODUCTION

As a traditional pillar industry and vital civilian sector of China's national economy, the textile industry plays an irreplaceable strategic role in securing employment, stabilising exports, and meeting consumer demand. Since the reform and opening-up, leveraging its labour cost advantages and comprehensive industrial chain capabilities, China's textile sector has gradually emerged as the world's largest producer, consumer, and exporter of textiles. Data from the China National Textile and Apparel Council indicates that in recent years, China's textile industry output has consistently accounted for over 30% of the global total, while its exports represent more than 25% of the world's textile and apparel trade. As the only country with a complete textile industrial chain, China occupies a central position within the global textile industry chain and supply chain system. However, in recent years, the internal and external development environment for China's textile industry

has undergone profound changes, with bottlenecks in traditional development models becoming increasingly apparent. Internationally, the rise of trade protectionism and unilateralism, coupled with factors such as Sino-US trade friction and the restructuring of regional trade agreements, has significantly increased uncertainties in textile export markets [1]. Since 2020, the global COVID-19 pandemic has further exacerbated risks of global supply chain disruptions and pressures from shrinking demand, leaving textile exporters confronting multiple challenges including order losses, rising logistics costs, and heightened exchange rate volatility. Internally, China's fading demographic dividend and persistently rising labour costs have gradually eroded the textile industry's traditional low-cost competitive advantage. Furthermore, domestic environmental policies have intensified pressure on energy-intensive and high-pollution textile enterprises to reduce energy consumption and emissions [2, 3], making industrial restructuring and upgrading increasingly urgent.

Against this backdrop, Chinese textile firms have undergone significant shifts in their business strategies and resource allocation approaches. One notable phenomenon is the continuous rise in corporate financialization. Corporate financialization is generally defined as the economic behaviour where firms allocate more of their funds, assets, and other resources to the financial sector rather than investing them in physical capital or core business development [4–7]. From a macro perspective, China's financial markets have experienced rapid development in recent years, with an expanding array of financial products and services. The average profit margin in the financial sector has significantly outpaced that of traditional manufacturing industries like textiles. This divergence in profitability between the financial and real sectors has created a strong "siphoning effect" on textile firms, incentivising them to redirect capital toward high-margin financial activities for short-term gains [8, 9]. At the micro level, textile firms face increasing operational pressures in their core businesses. Some firms, experiencing sluggish growth and declining profitability in their main operations, attempt to compensate for insufficient core business profits through financial investment returns to meet shareholders' short-term return demands. This ultimately fosters a tendency toward "decoupling from the real economy", significantly impacting corporate performance. As shown in figure 1, among ten representative manufacturing sectors in China from 2007 to 2024, the average financialization levels of firms in the three textile-related industries (textiles, garments, and chemical fibres) are significantly higher than those in other sectors. This demonstrates that corporate financialization has become an undeniable economic phenomenon.

In fact, the impact of corporate financialization on the development of the real economy remains a core concern for both academia and policymakers. Previous studies have shown that corporate financialization undermines productive investment and slows capital accumulation. For instance, several studies [10–12] utilised data from the United States, Europe, and China to find that corporate financialization significantly inhibits real investment.

Furthermore, scholars have demonstrated that corporate financialization weakens the incentive for manufacturing firms to invest in R&D [13] and harms firm long-term performance [7, 8]. Notably, as a vital component of China's real economy, the financialization of the textile industry poses critical implications for industrial security and economic stability, particularly in terms of its effects on corporate operational risks. Operational risk, one of the core risks firms

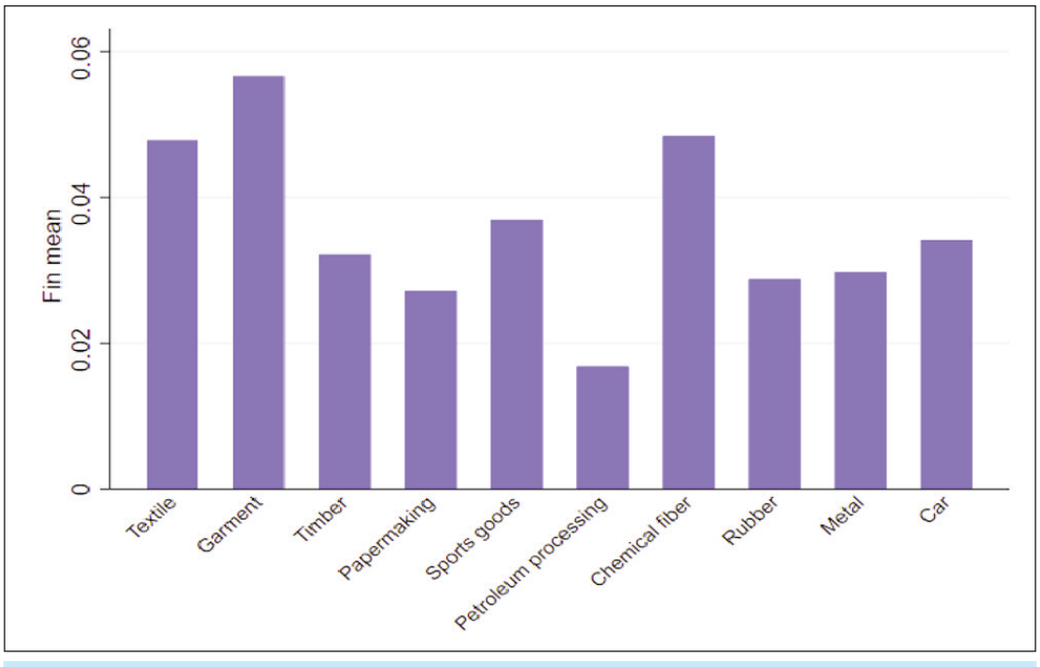


Fig. 1. Financialization levels across ten typical manufacturing industries

face, primarily refers to the possibility of instability or even financial distress arising from uncertainties in internal and external environments during daily production and operations [9]. Against the backdrop of structural imbalances between the real and virtual economies, corporate financialization may generate a "crowding-out effect". By diverting resources from physical capital investment [11], it increases the uncertainty of corporate returns, thereby amplifying operational risks. Furthermore, firms may use financial investments to embellish financial statements, exacerbating internal and external information opacity. This heightens the levels of "adverse selection" and "moral hazard", ultimately elevating the firm's operational risk profile.

To investigate how financialization affects operational risk in textile firms, we follow recent research [14–16] in measuring financialization levels using the proportion of financial assets relative to total assets. Concurrently, following Deng et al. [9], we use return volatility to gauge operational risk. Using data from Chinese textile industry listed firms from 2007 to 2024, we find that corporate financialization significantly and positively affects operational risk. This impact is also economically meaningful, as a one-standard-deviation increase in corporate financialization is associated with a 1.48% rise in operational risk. Subsequently, we conduct a cross-sectional analysis to examine conditions under which financialization may exert a greater influence. We find that when managers exhibit higher levels of myopia, corporate financialization exerts a greater impact on operational risk. This result confirms that financialization is driven by managerial myopia.

Second, we conduct a series of robustness tests to ensure the reliability of our baseline findings. To address potential reverse causality, we employ a two-stage least squares regression using the average financialization level of peer firms in the previous year as an instrumental variable. To address sample selection bias, we perform propensity score matching. We further consider industry cyclicality, test nonlinear relationships, and consider alternative explanations. None of these modifications altered our baseline findings.

Next, we seek to validate the underlying channels through which financialization affects operational risk in textile firms. Specifically, can financialization impact operational risk by crowding out physical capital investment and increasing corporate opacity? Following the recent research [17, 18], we construct a two-stage model. We find that corporate financialization negatively correlates with physical capital investment, while the portion of physical capital investment explained by corporate financialization negatively correlates with operational risk. This indicates physical capital investment serves as an intermediary channel. Furthermore, we find that corporate financialization positively correlates with corporate opacity, and the opacity induced by financialization positively correlates with operational risk, indicating that opacity also serves as an intermediary channel.

Finally, we aim to verify whether certain corporate governance mechanisms can generate supervisory effects that mitigate the positive impact of corporate financialization on operational risk. In this regard, we use internal controls as a proxy for internal governance mechanisms and media coverage as a proxy for external governance mechanisms. Empirical results indicate that when internal control quality is higher, or media coverage is more extensive, the positive effect of corporate financialization on operational risk is weakened. These findings provide empirical evidence supporting accelerated improvements in corporate governance systems to curb managerial myopia.

This study contributes to the literature in several ways. First, we expand research on the economic consequences of corporate financialization within specific industries. Previous studies have predominantly focused on listed companies as a whole, lacking targeted research on specific sectors, particularly traditional labour-intensive industries like textiles. The textile industry possesses unique characteristics, including a long industrial chain, high sensitivity to macroeconomic cycles, strong export orientation, and narrow profit margins. Consequently, the outcomes of financialization in this sector may differ significantly from other industries. By focusing on the textile industry, a traditional pillar industry, this study addresses the shortcomings of existing research that overlooks sector-specific features, providing an in-depth analysis of the unique impact of financialization on operational risk. Second, we provide new evidence regarding the drivers of corporate financialization. As the core decision-makers in resource allocation, management's tendency toward myopia may influence the degree of financialization, thereby moderating the relationship between financialization and operational risk. By examining this relationship through the lens of managerial myopia, an internal decision-making characteristic, this study helps reveal the micro-level motivations behind corporate financialization decisions and the boundary conditions of their consequences. Third, this study reveals the specific pathways through which financialization impacts operational risk in textile firms. By examining two channels, physical capital investment and corporate opacity, it clarifies the underlying mechanisms of financialization's influence on operational risk, providing theoretical foundations for targeted policy formulation. Fourth, existing research has insufficiently addressed how to mitigate the negative impact of corporate financialization on operational risk. This study examines the moderating effects of internal control quality and external media attention on the relationship between financialization and operational risk. It provides practical governance pathways to alleviate operational risks stemming from financialization in the textile industry and promote the sector's shift from virtual to real economy, offering significant policy implications.

The subsequent arrangement of this paper is as follows. The second section presents the hypothesis development; 3rd section outlines the research

design; 4th section reports the empirical findings; and 5th section concludes the study.

HYPOTHESIS DEVELOPMENT

Financialization and operational risk in textile firms

Corporate financialization signifies a significant shift in a firm's resource allocation, thereby exerting a substantial impact on the competitiveness of its core business and the transparency of its information. For textile firms, the effects of financialization on operational risk are primarily mediated through the following two mechanisms:

First, financialization in textile firms weakens core business competitiveness through a "crowding-out effect", thereby increasing operational risk. As a quintessential traditional manufacturing sector, the textile industry relies on tangible capital investments (such as upgrading advanced production equipment and expanding production lines) and enhancing supply chain efficiency for its core competitiveness. These require sustained, substantial capital and resource allocation from firms. However, when textile firms allocate more capital to financial activities, resources intended for physical capital investment are inevitably displaced. This leads to slower improvements in core business production capacity and delayed technological innovation, thereby weakening the firm's competitiveness in areas such as product quality and production costs [12, 13]. Against the backdrop of intensifying market competition and evolving consumer demands in the current textile industry, diminished core business competitiveness leaves enterprises more vulnerable to external shocks such as market demand fluctuations, rising raw material prices, and competitor pressures. This undermines the stability of core business revenue and profits while significantly elevating operational risks. For instance, if textile enterprises reduce investment in new spinning equipment, their production efficiency will struggle to improve. With rising labour costs, unit production costs will increase significantly. When market price competition arises, enterprises will lack room for price reductions, thereby facing risks of order loss and declining market share.

Second, financialization in textile firms elevates operational risk by increasing corporate opacity. Corporate transparency, defined as the adequacy, accuracy, and timeliness of financial, operational, and risk disclosures to external stakeholders, is crucial for mitigating information asymmetry and ensuring capital market efficiency [19–21]. For textile firms, financialization creates opportunities for management to engage in earnings management, masking underlying operational issues. When core business growth stagnates and profitability declines, companies may resort to financialization to manipulate earnings, embellishing financial statements to maintain short-term performance stability [16]. However, such earnings management distorts the firm's true profit structure. External stakeholders struggle to accurately discern the extent and motives of earnings management through disclosed information, potentially misinterpreting "financialization-supported short-term performance" as "long-term gains from enhanced core business competitiveness", leading to resource misallocation. When financial market conditions deteriorate, causing financial investment gains to vanish or even turn into losses, the company's true core business difficulties are exposed. At this point, investor confidence collapses, creditors tighten credit, and the company faces risks such as intensified financing constraints and plummeting stock prices, triggering an operational crisis. Furthermore, financialization exacerbates "adverse selection" and "moral hazard" under conditions of information asymmetry. Regarding adverse selection, reduced transparency makes it difficult for external stakeholders to assess the operational quality of textile enterprises. This prevents investors from accurately screening investment targets. High-quality firms may curb investments in their core business due to rising financing costs, while low-quality firms may secure financing based on false performance, further exacerbating resource misallocation within the industry. Regarding moral hazard, diminished transparency weakens external oversight's constraints on management. When external stakeholders cannot clearly monitor the efficiency and risk profile of financialised capital, management may divert such funds into high-risk speculative activities or use financialised operations to transfer corporate resources.

These behaviours significantly increase operational uncertainty and ultimately elevate business risk. Based on the above analysis, we propose the following hypothesis:

H1: Holding other variables constant, financialization positively impacts operational risk in textile firms.

Financialization of textile firms, managerial myopia, and operational risk

As the core decision-makers in corporate resource allocation, management's decision orientation and behavioural characteristics exert a critical influence on the degree of corporate financialization and its economic consequences. Against the backdrop of an increasingly inflated virtual economy, management's vision has become further short-term oriented, leading to managerial myopia [10]. Management myopia is typically defined as a decision-making tendency where executives excessively focus on short-term corporate performance while neglecting long-term developmental interests [22]. Within textile companies, management myopia significantly mediates the relationship between financialization and operational risk through the following mechanisms:

First, managerial myopia intensifies the degree of financialization within textile firms, thereby amplifying the positive impact of financialization on operational risk. Management with myopic tendencies prioritises achieving short-term performance gains during their tenure to satisfy shareholder demands for immediate returns, secure higher compensation incentives, or

avoid job threats stemming from poor short-term results [23]. For textile firms, core business development is characterised by long cycles and slow returns. In contrast, financial investments can generate short-term gains, rapidly boosting corporate profits and stock performance. Thus, when facing immediate market pressures, managers' investment horizons narrow further, leading them to prioritise short-term financial targets over activities that create long-term value [24, 25]. This excessive financialization driven by managerial myopia further intensifies the "crowding-out effect" on physical capital investment and R&D spending, undermining the stability of core operations and amplifying financialization's positive impact on operational risks.

Second, managerial myopia intensifies corporate opacity, thereby reinforcing the positive correlation between financialization and operational risk. Myopic management is more likely to conceal financialization-related losses through accounting manoeuvres, specifically, adjusting accounting policies or booking asset impairment provisions to hide losses when financial investments underperform [26]. This diminishes the transparency of corporate financial information. External stakeholders such as investors and creditors are unable to accurately identify the firm's true operational risks, thereby failing to take timely measures to help the firm address these risks. This ultimately leads to the further accumulation and amplification of operational risks. Based on the above analysis, we propose the second hypothesis:

H2: Holding other factors constant, the higher the degree of management myopia, the more significant the positive impact of financialization on operational risk for textile firms.

RESEARCH DESIGN

Sample selection

We select company data from China's A-share textile, apparel, and chemical fibre industries for the period 2007–2024 as our primary sample, as these three sectors are most closely linked to the textile industry. We select the A-share market because it constitutes the main body of China's capital market, featuring substantial market capitalisation and high liquidity, ensuring data richness and stability. Subsequently, we exclude samples subject to special exclusion due to losses and those with missing key variables. Ultimately, we obtain 1,205 observations.

The required data for this study are sourced from the China Stock Market and Accounting Research Database. To mitigate the interference of extreme values on our findings, we apply trimmed tailing to firm-level continuous variables at the upper and lower 1% percentiles.

Variables

Operational risk

Operational risk can essentially be attributed to the possibility of returns deviating from expectations. Following Deng et al. [9], we use the volatility of returns to measure operational risk. The calculation formula is as follows:

$$Risk_{i,t} = \sqrt{\frac{1}{T-1}\sum_{t=1}^{T}(E_{i,t} - \frac{1}{T-1}\sum_{t=1}^{T}E_{i,t})^2} \quad |T = 4 \quad (1)$$

$$E_{i,t} = \frac{EBITDA_{i,t}}{A_{i,t-1}} \quad (2)$$

where $Risk_{i,t}$ denotes the operational risk of firm i in year t; $E_{i,t}$ represents the *EBITDA* margin of firm i in year t; and $A_{i,t-1}$ indicates the total assets of company i in year t–1. We calculate $Risk_{i,t}$ using the standard deviation of the rolling values of $E_{i,t}$ over the past four years (–4 years to –1 year). A higher $Risk_{i,t}$ indicates a greater level of operational risk for the company.

Corporate financialization

Following the majority of existing studies [27], we measure corporate financialization from an investment activity perspective by calculating the ratio of financial assets to total assets. This metric reasonably reflects the extent to which a company engages in financial activities [28]. In accordance with Chinese Accounting Standards and relevant literature practices, financial assets encompass: trading financial assets, available-for-sale financial assets, held-to-maturity investments, derivative financial assets, and loans and advances. Due to adjustments in the classification of financial assets under Chinese accounting standards in 2018, for the sample period from 2018 to 2024, financial assets comprise: trading financial assets, derivative financial assets, loans and advances, debt investments, other debt investments, other equity investments, and other non-current financial assets. Some studies also argue that corporate financialization is reflected in the increased contribution of financial investment returns to a firm's overall profitability [4]. Therefore, in our robustness checks, we also use the proportion of financial returns as another proxy for corporate financialization.

Moreover, some studies measure financialization from an asset–liability correlation perspective [29, 30]; however, this measurement approach primarily targets lending-like activities (such as entrusted loans and shadow banking operations), but mainstream forms of financialization, such as passive allocations to stocks, funds, and wealth management products, are not included, so we excluded this measure.

Baseline model

Following recent research [31, 32], we construct the following multiple regression model to validate the impact of financialization on operational risk in textile firms:

$$Risk_{i,t} = \alpha_0 + \alpha_1 Fin_{i,t} + \alpha_2 Size_{i,t} + \alpha_3 Age_{i,t} + \alpha_4 Roa_{i,t} + \\ + \alpha_5 Lev_{i,t} + \alpha_6 Growth_{i,t} + \alpha_7 Insiti_{i,t} + \alpha_8 Manage_{i,t} + \\ + \alpha_9 Board_{i,t} + \alpha_{10} Indep_{i,t} + Firm + Year + \varepsilon_{i,t} \quad (3)$$

where *Risk* represents the firm's operational risk, while *Fin* indicates the level of corporate financialization. Subsequent variables are operational and corporate governance-level controls, including: Firm

size (*Size*) typically influences resource reserve capacity, risk resilience, and information disclosure quality. In the textile industry, larger enterprises often possess more comprehensive industrial chain layouts and stronger cash flow, granting them greater buffering capacity against market volatility and rising raw material prices. This may mitigate operational risks, leading us to anticipate a negative coefficient. Following Deng et al. [9], firm size is measured using the natural logarithm of total assets. Firm age (*Age*) reflects operational experience, industry accumulation, and institutional maturity. Longer-established textile firms typically cultivate stable customer bases, supply chain systems, and internal management models, enhancing core business stability. However, they may also face challenges like equipment obsolescence and slow technological iteration, potentially elevating operational risk levels. Therefore, its coefficient remains uncertain. Following established research conventions, we measure firm age using the natural logarithm of the difference between the observation year and the year of establishment. Profitability (*ROA*) directly reflects the health of a firm's core business operations. Higher profitability in textile enterprises indicates more robust cash flow from core operations, potentially reducing reliance on financial investments and making operational risks more manageable. Conversely, enterprises with weaker profitability may be more inclined to compensate for profit gaps through financialization, thereby amplifying risks. Profitability is represented by *ROA*. Debt-to-Asset Ratio (*Lev*): This ratio reflects a firm's financial leverage and debt burden. As a traditional manufacturing sector with extended capital turnover cycles, excessive debt ratios in the textile industry may increase interest expenses and repayment pressures. When significant funds are tied up in financial activities, this can easily trigger liquidity risks, thereby amplifying operational risks. The debt ratio is measured by dividing total liabilities by total assets. Growth capacity (*Growth*) reflects a firm's market expansion potential and core business development trajectory. Textile enterprises with strong growth capacity typically focus on core activities like capacity expansion and market development, exhibiting relatively lower financialization and more controllable operational risks. Conversely, high-growth enterprises may face greater agency issues, making their coefficients uncertain. Following Su and Liu [13], growth is measured by the revenue growth rate. Institutional ownership (*Insiti*). As professional external shareholders, institutional investors possess stronger oversight capabilities and information interpretation skills. For textile enterprises, higher institutional ownership strengthens oversight constraints on management, potentially curbing excessive financialization driven by short-term interests and thereby influencing operational risk. We anticipate a negative coefficient for this factor. Management ownership (*Manage*). Management ownership constitutes a vital component of incentive mechanisms, directly influencing managerial decision-making orientation. Higher management ownership aligns interests with long-term corporate development, potentially reducing short-term financialization speculation. Thus, we anticipate a negative coefficient. Board size (*Board*) reflects a firm's decision-making efficiency and oversight capacity. For textile enterprises, a moderate board size facilitates integration of diverse perspectives, enhances decision-making rationality, and curbs irrational financialization. However, excessive size may lead to inefficient decision-making and weakened oversight, potentially exacerbating risks. Therefore, its coefficient remains uncertain.

Following Fang and Ju [27], board size is measured by the natural logarithm of the number of board members. Independent director ratio (*Indep*). As a core force in external governance, independent directors possess professional oversight capabilities and independence, effectively constraining managerial opportunistic behaviour. We expect its coefficient to be negative. Following Xu and Xuan [8], the independent director ratio is measured by the number of independent directors divided by the total number of board members.

EMPIRICAL RESULTS

Descriptive statistics

We report the descriptive statistics for the variables in table 1. The maximum value of *Risk* at 2.547 indicates that some firms exhibit relatively high levels of operational risk. The mean and median of *Fin* are 0.053 and 0.006, respectively, suggesting a right-skewed distribution of financialization levels among firms. The maximum value of *Fin* is 0.685, indicating that some companies have a relatively high proportion of financial assets. The mean values of *Insiti*, *Manage*, *Board*, and *Indep* are 0.415, 0.093, 2.251, and 0.372, respectively, suggesting that institutional investors, management, the board of directors, and independent directors hold significant positions in listed textile firms. The values of other variables all fall within reasonable ranges.

Financialization and operational risk in textile firms

We report the results of baseline regression tests in table 2. Following Ju et al., we employ a stepwise approach to add control variables and find that the coefficient for Fin remains consistently and significantly positive, indicating that corporate financialization elevates operational risk levels. This coefficient also holds economic significance, as we find that each standard deviation increase in corporate financialization correlates with a 1.48% rise (0.151×0.098) in operational risk levels. This result provides empirical evidence that resource allocation changes driven by financialization translate into heightened risk exposure.

Regarding control variables, we find that the coefficients for *Size*, *Roa*, *Manage*, *Board*, and *Indep* are negative, while the coefficients for *Age*, *Lev*, *Growth*, and *Insiti* are positive. Notably, the coefficient for

Table 1

DESCRIPTIVE STATISTICS FOR VARIABLES						
Variable	**N**	**Mean**	**Sd**	**Min**	**Median**	**Max**
Risk	1205	0.059	0.158	0.003	0.031	2.547
Fin	1205	0.053	0.098	0	0.006	0.685
Size	1205	21.99	1.112	19.406	21.927	26.422
Age	1205	2.963	0.293	1.946	2.996	3.638
Roa	1205	0.023	0.069	–0.627	0.025	0.218
Lev	1205	0.431	0.190	0.047	0.414	0.930
Growth	1205	0.210	0.808	–0.937	0.090	9.880
Insiti	1205	0.415	0.212	0.001	0.422	0.933
Manage	1205	0.093	0.164	0	0.001	0.695
Board	1205	2.251	0.163	1.792	2.303	2.773
Indep	1205	0.372	0.054	0.250	0.333	0.600

Insiti indicates that institutional ownership increases a firm's operational risk. This may stem from the fact that institutional investors in China are typically short-term in nature, preferring short-term trading. Consequently, they may lack the willingness and capacity for oversight [33], thereby failing to mitigate operational risks arising from financialization.

Table 2

THE BASELINE REGRESSION RESULTS			
Coefficient	**(1)**	**(2)**	**(3)**
	Risk	***Risk***	***Risk***
Fin	0.121***	0.151***	0.151***
	(3.529)	(3.696)	(3.704)
Size	–0.021	–0.036**	–0.047**
	(–1.545)	(–2.188)	(–2.290)
Age	0.219*	0.197	0.272*
	(1.663)	(1.560)	(1.715)
Roa	–0.032	0.025	–0.008
	(–0.667)	(0.505)	(–0.164)
Lev		0.102***	0.104***
		(2.744)	(2.793)
Growth		0.008**	0.008*
		(2.071)	(1.901)
Insiti			0.165**
			(2.428)
Manage			–0.010
			(–0.240)
Board			–0.029
			(–0.477)
Indep			–0.076
			(–0.577)
Constant	–0.139	0.220	0.249
	(–0.617)	(1.128)	(1.031)
Firm effects	Yes	Yes	Yes
Year effects	Yes	Yes	Yes
N	1205	1205	1205
Adj.R2	0.205	0.208	0.214

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

Financialization of textile firms, managerial myopia, and operational risk

To investigate how managerial myopia mediates the relationship between corporate financialization and operational risk, we divide the sample into two groups based on the median level of managerial myopia and conduct separate regressions. Generally, the "Management Discussion and Analysis" (MD&A) can largely reflect managers' perceptions and efforts toward the firm [34]. To this end, following Yu et al. [25], we measure managerial myopia by identifying a set of words indicative of myopia and calculating the proportion of their frequency relative to the total word frequency in the "Management Discussion and Analysis".

Table 3 reports the test results. We find that when managerial myopia is high, the coefficient for Fin is significantly positive; however, this phenomenon is not observed when managerial myopia is low. More importantly, the coefficients for the two groups pass the difference test. This result indicates that managerial myopia is a key factor driving corporate financialization.

Table 3

THE RESULTS OF THE MANAGERIAL MYOPIA EXAMINATION		
Managerial myopia	**(1)**	**(2)**
	High	**Low**
	Risk	*Risk*
Fin	0.279**	0.073
	(2.403)	(2.090)
Controls & Constant	Yes	Yes
Firm effects	Yes	Yes
Year effects	Yes	Yes
N	752	453
Adj. R2	0.401	0.134
Difference test (1) = (2)	0.206** (P-value = 0.020)	

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

Robustness tests

Instrumental variable test

To overcome the issue of reverse causality between corporate financialization and operational risk, we employ an instrumental variable approach. We select the average financialization level (L.*IV*) of other firms in the same industry during the previous year as the instrumental variable for two primary reasons: First, strong evidence indicates that a firm's financial investment decisions are significantly influenced by the behaviour of other firms in the same industry [35]. Management may follow industry trends to avoid falling behind competitors or to gain short-term market recognition. Consequently, the previous year's average financialization level within the industry is highly correlated with a firm's financialization level in the current year. Furthermore, regarding exogeneity, no evidence has yet been found indicating a clear relationship between the previous year's average industry financialization level and a specific firm's operational risk in the current year. Therefore, this instrumental variable is reasonable.

Column (1) of table 4 shows that L.*IV* is significantly positively correlated with *Fin*, indicating that the instrument satisfies the correlation requirement. Column (2) reveals that when L.*IV* is included in the baseline regression, its coefficient is insignificant, thus meeting the exogeneity requirement. More importantly, as shown in Column (3), when we perform two-stage least squares (2SLS) based on this instrumental variable, the coefficient for *Fin* remains significantly positive. This result indicates that the baseline findings possess a degree of robustness.

Propensity score matching

Firms with differing levels of financialization may exhibit fundamental differences, suggesting that factors driving operational risk could stem from characteristics other than financialization levels. To mitigate this sample selection bias, we performed propensity score matching. Specifically, we divided companies into two groups based on the median financialization level, defining those above the median as the treatment group (*Treat* = 1). Subsequently, using the control variables specified earlier, we employed one-to-one nearest neighbour matching to identify control groups within the remaining sample that were characteristic-wise similar to the treatment group. Finally, we incorporated the matched samples into the baseline model. As shown in column (1) of table 5, the coefficient for *Fin* is significantly positive, indicating that the baseline conclusion remains unchanged after accounting for sample selection bias.

Consideration of the industry cyclicality

Research indicates that industry development is significantly influenced by macroeconomic cycles, as monetary and industrial policies vary across different periods [36]. For the textile industry, macroeconomic indicators such as China's economic growth rate and changes in household disposable income directly impact domestic demand for textiles. During economic upturns, robust consumer demand leads to increased textile orders; conversely, during downturns, weak domestic demand may push the industry into an adjustment phase. Furthermore, prices of textile raw materials (e.g., cotton, polyester) may exhibit cyclical fluctuations influenced by factors such as planting area, weather, oil prices, and policy interventions. Concurrently, firms adjust raw material inventories based on price expectations, creating a "restocking-deleveraging" cycle that amplifies the impact of price volatility on production.

To control for these macro factors, we further incorporated an "industry × year" fixed effect into the baseline model. As shown in Column (2) of table 5, our conclusions remain largely unchanged.

Test nonlinear relationships

The relationship between corporate financialization and operational risk may not be purely linear. To verify this, we added a quadratic term for financialization (*Fin_s*) to the baseline regression. As shown in column (3) of table 5, the quadratic term is significantly negative. However, upon examining the financialization levels at extreme points, we find only 20 samples

Table 4

ROBUSTNESS TESTS 1			
Coefficient	**(1)**	**(2)**	**(3)**
	Fin	***Risk***	***Risk***
Fin		0.201***	0.407***
		(4.092)	(5.420)
L.*IV*	0.516***	–0.106	
	(2.877)	(–0.275)	
Constant & Controls	Yes	Yes	Yes
Firm effects	Yes	Yes	Yes
Year effects	Yes	Yes	Yes
N	1205	1205	1205
Adj.R2	0.205	0.208	/
LM statistic	9.030		
Wald F statistic	12.191		

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

Table 5

ROBUSTNESS TESTS 2			
Coefficient	**(1)**	**(2)**	**(3)**
	Risk	***Risk***	***Risk***
Fin	0.170**	0.164***	0.316***
	(2.437)	(3.345)	(2.975)
Fin_s			–0.380*
			(–1.943)
Constant & Controls	Yes	Yes	Yes
Firm effects	Yes	Yes	Yes
Year effects	Yes	Yes	Yes
N	620	1205	1205
Adj.R2	0.146	0.222	0.214

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

exceed this threshold. Additionally, the Utest command yields a P-value significantly greater than 0.1. Consequently, this result does not effectively support the existence of a nonlinear relationship.

Consider alternative interpretations

Our findings may also be subject to an alternative interpretation: firms with higher operational risks in their core businesses may allocate more financial assets to diversify related risks. In other words, elevated operational risk levels may be the cause rather than the consequence of financialization. Following this logic, when operational risk levels are low, we would not observe a positive correlation between financialization and operational risk. Conversely, when operational risk levels are high, we would observe such a positive correlation.

To test this, we divided the sample into two groups based on the median level of operating risk and conducted separate regressions. As shown in table 6, we find that financialization increases operating risk levels in both samples. This result rejects the alternative explanation.

Table 6

ROBUSTNESS TESTS 3		
Operational risk	**(1)**	**(2)**
	High	**Low**
	Risk	***Risk***
Fin	0.125**	0.006**
	(1.999)	(2.038)
Controls & Constant	Yes	Yes
Firm effects	Yes	Yes
Year effects	Yes	Yes
N	602	603
Adj. R2	0.499	0.177

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

Replace core variables

We further ensure the robustness of our conclusions by replacing key variables. Previous research indicates that the proportion of corporate finance channel returns also serves as a crucial metric for measuring corporate financialization. This is because corporate financialization reveals the contribution of financial investment returns to a firm's overall profitability [4]. To address this, we calculated the proportion of corporate financial returns and defined it as *Fin_Profit*, computed as: (Investment income + Fair value change income – Income from investments in associates and joint ventures) / Operating profit. As shown in table 7, column (1), we find *Fin_Profit* to be significantly positive, indicating that our conclusions remain robust when considering the proportion of financial returns as a proxy variable.

Additionally, for operating risk, we calculated the difference between the maximum and minimum rolling-period tax-adjusted EBITDA as another proxy, defined as *Risk*2. As shown in table 7, column (2), *Fin* remains significantly positive.

Table 7

ROBUSTNESS TESTS 4		
Coefficient	**(1)**	**(2)**
	Risk	***Risk2***
Fin_Profit		0.569***
		(2.887)
Fin	0.001*	
	(1.892)	
Controls & Constant	Yes	Yes
Firm effects	Yes	Yes
Year effects	Yes	Yes
N	1205	1205
Adj. R2	0.210	0.127

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

Impact channels

The preceding discussion has confirmed that financialization in the textile industry exerts a positive influence on operational risk. However, the specific channels through which this impact occurs remain unclear. The hypothesis section suggests that, on one hand, when textile firms allocate more resources to financial investments, this inevitably crowds out real investments, ultimately weakening core business competitiveness and increasing operational risk. On the other hand, financialization also heightens corporate opacity, leading to resource misallocation and increased levels of adverse selection and moral hazard, factors that similarly elevate operational risk. To test whether financialization affects operational risk through these two channels, "crowding out real capital investment" and "increasing corporate opacity", we follow Ju et al. [16] in constructing the following two-stage model:

$$Capital(Opacity)_{l,t} = \beta_0 + \beta_1 Fin_{l,t} + \beta_3 Controls + \\ + Firm + Year + \varepsilon_{l,t} \quad (4)$$

$$Risk_{l,t} = \gamma_0 + \gamma_1 Capital(Opacity)_hat_{l,t} + \gamma_3 Controls + \\ + Firm + Year + \varepsilon_{l,t} \quad (5)$$

In formula 4, *Capital* represents physical capital investment, calculated as: (Net fixed assets + Net construction in progress + Construction materials) / Total assets. *Opacity* denotes corporate opacity, measured by the modified Jones Index. In equation 5, *Capital* (*Opacity*)*_hat* is a predicted value representing the portion of *Capital*(*Opacity*) explained by *Fin*. If physical capital investment (corporate opacity) serves as a channel through which corporate financialization affects operational risk, we should observe statistically significant coefficients for both *Fin* and *Capital*(*Opacity*)*_hat*.

Table 8 reports the test results for the physical capital investment channel. Column (2) shows that the

Table 8

CHANNELS FOR PHYSICAL CAPITAL INVESTMENT			
Coefficient	**(1)**	**(2)**	**(3)**
	Baseline	**The first step**	**The second step**
	Fin	***Capital***	***Risk***
Fin	0.151***	–0.216***	
	(3.704)	(–5.416)	
Capital_hat			–0.699***
			(–3.704)
Constant & Controls	Yes	Yes	Yes
Firm effects	Yes	Yes	Yes
Year effects	Yes	Yes	Yes
N	1205	1205	1205
Adj.R2	0.214	0.819	0.214

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

Table 9

CHANNELS FOR CORPORATE OPACITY			
Coefficient	**(1)**	**(2)**	**(3)**
	Baseline	**The first step**	**The second step**
	Fin	***Opacity***	***Risk***
Fin	0.151***	–0.025***	
	(3.704)	(–2.929)	
Opacity_hat			–6.109***
			(–3.704)
Constant & Controls	Yes	Yes	Yes
Firm effects	Yes	Yes	Yes
Year effects	Yes	Yes	Yes
N	1205	1205	1205
Adj.R2	0.214	0.121	0.214

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

coefficient for *Fin* is significantly negative in the first stage, indicating that corporate financialization indeed crowds out physical capital investment. Column (3) reveals that the coefficient for *Capital*(*Opacity*)*_hat* is significantly negative in the second stage, suggesting that the portion of physical capital investment explained by corporate financialization is negatively correlated with operational risk. Following Chen et al. [18], we also test the regression coefficients. We find that the product of the coefficients from the first stage (0.216 × 0.699) aligns with the baseline regression (0.151). This result confirms that physical capital investment is indeed a channel through which corporate financialization influences operational risk.

Similarly, we report the results of testing the channel of corporate opacity in table 9. Column (2) shows that the coefficient for *Fin* is significantly positive in the first stage, indicating that corporate financialization indeed increases corporate opacity. Column (3) reveals that the coefficient for *Opacity_hat* is significantly positive in the second stage, suggesting that the portion of corporate opacity attributable to financialization is positively correlated with operational risk. We also observe that the product of the coefficients from the first and second stages (0.025 × 6.109) aligns with the baseline regression (0.151). This result indicates that corporate opacity constitutes an additional channel through which financialization influences operational risk.

Further discussion: consider internal and external governance mechanisms

The preceding discussion confirms that financialization in textile firms elevates operational risk levels, achieved by crowding out physical capital investment and increasing corporate opacity. Does any governance mechanism exist to mitigate the adverse effects of financialization? This section examines how internal controls and media coverage function as internal and external governance mechanisms to counteract the negative consequences of financialization.

Consider internal control

Since the enactment of the Sarbanes-Oxley Act, the importance of internal controls in corporate governance has garnered increasing attention and become a hot topic in academia. Internal control refers to a firm's establishment of systems and norms to ensure effective risk management and control, primarily encompassing elements such as internal environment, risk assessment, control activities, information and communication, and internal monitoring [37]. As a core institutional arrangement within textile firms' internal governance, high-quality internal control directly addresses the two primary transmission channels of financialization risk, resource misallocation and information failure, through multidimensional effects, thereby mitigating their positive influence on operational risk. From a decision-constraint perspective, internal controls enhance oversight of management by optimising governance structures (e.g., increasing independent director representation, establishing risk management committees). Coupled with a "core business-oriented" compensation system, this effectively curbs management incentives to divert funds excessively into financial sectors due to short-termism [38]. Particularly for the textile industry, characterised by "long tangible investment cycles and less obvious short-term returns", internal controls prevent management from diverting funds intended for raw material procurement or equipment upgrades to meet short-term profit targets. This approach curtails irrational decisions to "decouple from the real economy" at the source [39]. From a resource allocation perspective, internal controls establish the priority of physical capital investments through rigid budgetary controls and standardise financial investment decisions via multi-tiered approval processes. This safeguards funding for critical core investments such as production line upgrades and environmental

equipment retrofits. Regarding information rectification, internal controls strictly regulate classification standards and measurement methods for financial assets, preventing management from concealing financialization risks through accounting manipulation. while requiring detailed disclosure of financialization funding sources, uses, and risk exposures. This mitigates information asymmetry stemming from financial business complexity, enabling external stakeholders to accurately assess textile firms' core operations and financial asset risks. It prevents chain reactions like intensified financing constraints and market confidence collapse triggered by misjudged information [40]. Therefore, we argue that when a company possesses high-quality internal controls, the positive impact of financialization on operational risks is mitigated.

To validate the governance effect of internal controls, we divided the sample into two groups based on the median internal control score of listed companies and conducted grouped regression analysis. In this regard, we employ the Dibo Listed Company Internal Control Index to measure internal control quality. This index is based on the achievement level of the five major objectives of internal control and incorporates adjustments for internal control deficiencies, comprehensively reflecting the internal control quality of listed companies. As shown in table 10, we find that when internal control quality is high, corporate financialization no longer exerts a positive influence on operational risk, thereby demonstrating the robust governance effect of strong internal controls.

Table 10

RESULTS FOR INTERNAL CONTROL		
Internal control	**(1)**	**(2)**
	High	**Low**
	Risk	***Risk***
Fin	0.069	0.218***
	(1.180)	(3.103)
Controls & Constant	Yes	Yes
Firm effects	Yes	Yes
Year effects	Yes	Yes
N	677	528
Adj. R2	0.239	0.184
Difference test (1) = (2)	–0.149** (P-value = 0.020)	

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

Consider media coverage

In Western societies, the media is regarded as the "fourth estate", independent of the legislative, judicial, and executive branches [41]. It plays a crucial role in promoting public information dissemination, shaping public opinion, influencing capital market pricing, and constraining the actions of governments and regulatory bodies [42]. As a key force in corporate external governance, media reporting leverages its dual functions of information intermediation and oversight to mitigate risks arising from corporate financialization. At the information disclosure level, media professionals uncover hidden financialization practices within textile companies through investigative reporting and bridge information gaps for external stakeholders by interpreting financial data. Addressing common issues in textile financialization such as ambiguous fair value measurements and opaque hedge accounting, media can compare disclosure standards across industries and interview financial experts to compel companies to improve transparency. This reduces misjudgments stemming from information failures, such as helping banks accurately assess textile firms' debt-repayment capabilities and avoid misallocation of credit resources due to hidden financialization risks [43]. At the behavioural constraint level, media reporting creates effective checks on management through "reputational pressure". For instance, if a textile company faces cash shortages in its core business and employee layoffs due to financial investment losses, media exposure could trigger investor sell-offs, bank credit tightening, and erode overseas clients' confidence. As an export-dependent industry, the loss of international orders would directly exacerbate the core business crisis. This consequence would compel management to reallocate resources, reduce speculative financial investments, and redirect capital back to the main operations. Therefore, we argue that when a company receives high levels of media coverage, the positive impact of financialization on operational risk is diminished.

We measure media coverage using the total number of online and print media reports on the company during the year and perform grouped regression based on the median. As shown in table 11, we find that the positive impact of corporate financialization on operational risk is significantly weakened in samples with higher media coverage, thereby demonstrating the information effect of media coverage in constraining firms' short-term behaviour.

Table 11

RESULTS FOR INTERNAL CONTROL		
Media report	**(1)**	**(2)**
	High	**Low**
	Risk	***Risk***
Fin	0.070	0.219**
	(0.938)	(2.572)
Controls & Constant	Yes	Yes
Firm effects	Yes	Yes
Year effects	Yes	Yes
N	602	603
Adj. R2	0.499	0.177
Difference test (1) = (2)	–0.149** (P-value = 0.010)	

Note: ***, ** and * represent t-value significance at the 1%, 5% and 10% statistical levels, respectively.

CONCLUSIONS

This paper examines the impact mechanism and governance pathways of financialization on operational risk in China's textile industry, using a sample of three categories of textile-related listed firms on the A-share market from 2007 to 2024. We primarily draw the following conclusions:

First, we find a significant positive correlation between financialization and operational risk in textile firms. That is, when textile enterprises allocate more resources to financial activities, their operational risk levels increase significantly. This finding aligns closely with the industry's characteristics. As a traditional labour-intensive and export-oriented sector, the textile industry's core competitiveness relies on physical capital investment and the stability of its main business operations. Financialization not only diverts funds needed for core business development but also exacerbates earnings uncertainty and information asymmetry due to financial asset price volatility and increased disclosure complexity, ultimately translating into heightened risk exposure.

Second, when managers exhibit higher levels of myopia, management is more inclined to pursue short-term gains through financial investments, leading to elevated risk levels. This finding reveals the micro-level decision-making drivers of financialization risks in textile firms, indicating that managerial characteristics constitute critical boundary conditions influencing the economic consequences of financialization.

Third, financialization in textile companies impacts operational risk through two channels: crowding out physical capital investment and increasing corporate opacity. On one hand, financialization significantly reduces textile firms' allocation to physical capital domains such as fixed assets and R&D investment, weakening core business competitiveness and directly elevating operational risk. On the other hand, the complexity of financial operations and potential earnings management by management increase the opacity of information disclosure in textile companies. External stakeholders struggle to accurately discern financial asset risks and the true state of core operations. Information asymmetry triggers financing constraints and resource misallocation, further amplifying operational risk.

Finally, both the quality of internal controls and external media coverage significantly mitigate the positive impact of financialization on operational risks in textile companies. From an internal governance perspective, high-quality internal controls curb excessive financialization at its source and block risk transmission by constraining management's short-term decision-making and standardising financial information disclosure. From an external governance perspective, media coverage mitigates risks arising from irrational management decisions by uncovering hidden financialization information, exerting reputational pressure, and guiding financialization back to serving the core business, thereby forming external oversight and checks and balances.

This study carries the following policy implications. First, at the regulatory level. Regulatory authorities need to establish clear "red line standards" for financial investments by textile companies and prohibit firms from diverting operational funds, such as those allocated for raw material procurement or employee compensation, into high-risk financial sectors. Regulators should also establish a dynamic monitoring mechanism for financialization risks, requiring listed textile companies to disclose quarterly information on financial asset allocations and market value fluctuations. Firms exceeding financialization thresholds should face inquiries and corrective oversight to prevent the exacerbation of "decoupling from the real economy". Additionally, at the institutional level, regulators must strengthen mandatory requirements for internal control systems. The completeness and effectiveness of financial risk management within internal control evaluation reports of listed textile firms should be incorporated into regulatory rating metrics. Firms with weak internal controls and frequent financial risks should be ordered to rectify them within a specified timeframe. Simultaneously, the independence and professionalism of media oversight must be safeguarded by establishing rapid response mechanisms for media exposure leads, prioritising investigations into reported financial irregularities by textile companies. Simultaneously, media reporting boundaries should be standardised to ensure objectivity.

Second, at the listed firms' level. Textile firms should adopt a clear business strategy prioritising their core operations over financial activities. Firms must develop more rational resource allocation rules, prioritising funding for critical areas like production line upgrades and supply chain optimisation. Strict limits should be imposed on capital allocated to non-core financial investments to prevent financialization from deviating from its essential purpose of serving the core business. Additionally, companies need to strengthen internal controls to block the transmission of financialization risks. For example, multi-tiered approval and risk threshold control mechanisms should be established, requiring financial investment decisions to undergo triple review by the finance department, risk management department, and board of directors. Second, to address reduced transparency caused by financialization, listed textile companies should enhance the content and format of information disclosure. This includes standardising accounting treatment and disclosure for financial operations, clarifying financial asset classification criteria, and detailing fair value measurement methods and risk exposures. Such measures help investors accurately assess the rationality and risks of financialization, preventing market misjudgments stemming from ambiguous information. Finally, this study identifies management myopia as a key driver of corporate financialization. Listed companies must therefore refine executive incentive structures to curb short-termism. Examples

include adjusting compensation frameworks to link executive pay with long-term metrics like tangible investment returns and R&D conversion rates. Firms may also implement term-based performance evaluations to prevent irrational financialization decisions driven by short-term pressure. Simultaneously, firms should establish accountability mechanisms for financialization risks, holding management responsible for significantly increased operational risks stemming from excessive financialization. This dual approach of incentives and constraints effectively curbs myopic behaviour.

This study deepens the understanding of the mechanisms through which financialization impacts operational risk and enriches research on the adaptability of corporate governance in traditional manufacturing firms. Nevertheless, this study has certain limitations. First, this paper uses A-share-listed textile, apparel, and chemical fibre enterprises as its sample, failing to include non-listed companies and small-to-medium textile enterprises. As a labour-intensive industry, the textile sector features a high proportion of small, medium, and micro enterprises. The resource constraints and financialization motivations of these firms may differ significantly from those of listed companies, potentially making the impact mechanisms of financialization on operational risk more complex. Therefore, the generalizability of the findings requires further validation. Future research could expand the sample to include non-listed textile enterprises and cross-border textile enterprises, conducting comparative analyses of financialization behaviours and their risk effects across enterprises of different scales, ownership structures, and export dependency levels. Second, while this paper validates the moderating roles of internal governance (internal controls) and external governance (media coverage), it does not delve into the impact of macro-environmental heterogeneity. For instance, institutional environments across regions with varying degrees of marketisation, textile industry "green transition" policies, and external shocks like Sino-US trade friction may alter the relationship between financialization and operational risk. Future research could integrate macro-environmental factors and more industry-specific governance measures for further discussion.

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