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Navigating the Financial Stability: Unraveling Impact of Risk Management Committees with Moderation of Firm Size in the Pakistan Business Landscape

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Abstract: *The purpose of this study is to empirically examine how risk management committees, taking into account variables like size, independence, and frequency of meetings, affect the possibility of financial distress in Pakistan, an emerging market. Furthermore, it aims to determine whether firm size moderates the relationship between risk management committees and financial distress. The fixed-effects panel regression approach is used in the examination of a sample of 944 firm-year observations from 2015 to 2022. The Hausman test is used to validate the fixed-effect model's applicability after panel data analysis techniques are executed. The main conclusions of the study make available insightful information on the Pakistani context. In certain, it validates that reducing financial distress is certainly and significantly impacted by the risk management committee's size. Financial problems are less expected to occur in larger committees. The study also shows that the relationship between committee independence and financial distress is moderated by firm size. According to the researcher's knowledge this is the pioneer study, that checks the impact of risk management committees on financial distress and also the moderating role of firm size in Pakistan. These new results suggest that firms with different-sized risk management committees can draw in investors by reducing asymmetric information, which would eventually reduce the probability of financial distress. However, risk management committees and firm size are significant factors in lowering the probability of financial distress.*

Keywords: Risk Management Committee, Firm Size, Financial Distress, Pakistan.

Introduction

Predicting financial distress (FD) in businesses is still an essential focus of interest for many stakeholders, including creditors, investors, managers, and entrepreneurs, even after the global financial crisis (GFC). When a business cannot recompense its debts within the selected period, it is supposed to be in financial difficulty. Should upper management fail to take counteractive action, the company may wind up or go bankrupt (W. Gao, Wang, Basavanagoud, & Jamil, 2017). Investors and creditors tolerate heavy costs

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when a firm is financially unstable. These costs consist of lost revenue and profits, reduced dividends, legal fees, higher capital and loan costs, tax evasion risks, incapability to issue new securities, and unexploited opportunities to chase projects with positive net present values (NPV) (A. M. Habib & Kayani, 2022; Zhou et al., 2019). Hence, it is imperious to inspect strategies to reduce FD. Several prediction models for financial effort have been formed by academics since Beaver's groundbreaking effort in 1966. Although some scholars argue that internal components like accounting performance play a role in a firm's failure, others relate external factors like market performance to an organization's bankruptcy. Additionally, research on the influence of corporate governance (CG) on FD has been conducted subsequently the late 1980s . On the other hand, risk management committee (RMC) activities in FD models have received reasonably less attention in the literature. Moreover, financial distress prediction (FDP) models based on predictable accounting have become less reliable recently (Beaver, Correia, & McNichols, 2012). As a consequence, it was mentioned that FDP models include further predictors.

By using a sample of Pakistani non-financial enterprises, we estimate the result of the RMC on the probability of FD and inspect how Firm Size (FS) moderates this relationship. We used the Altman and Hotchkiss (2010) to measure Financial Distress Risk (FDR). The study is based on perspectives from agency theory (Jensen & Meckling, 1979). According to theory, the RMC is crucial in reducing conflicts between shareholders and management and reducing corporate resources from being misused at the cost of shareholders'. According to Harjoto and Jo (2011), the committee is responsible for improving corporate governance, doing risk assessments, forming risk avoidance policies, generating management plans, and taking part in ethical initiatives. The field of agency theory has been expanded by recent influences from corporate strategy researchers (Farag & Mallin, 2017; Manzaneque & Priego, 2016) to include safety against unfavorable financial outcomes, such as FD, in addition to common financial efficiency considerations. A well-organized committee observes management practices through a diverse range of viewpoints and knowledge, which helps to reduce entrenchment behaviors (Bernile, Bhagwat, & Yonker, 2018) and, as a result, lowers the risk of FD.

Prior studies examined associations between CG variables (board characteristics and diversity), ownership structures, and FD. We used FS as a moderator for the following reasons. Larger organizations frequently have more complex and integrated processes. These enterprises' size may represent them to a broader range of risks, some of which could have falling consequences. Depending on the size of the company, the RMC may have a different role in determining, evaluating, and managing these related risks. Examining the role of FS as a moderator enables researchers to relate the FD mitigation of larger organizations to smaller ones by analyzing how well the committee manages complex, related risks (Rimin, Bujang, Wong Su Chu, & Said, 2021; Ramlee & Ahmad, 2020). Consequently, this study tests the proposed hypotheses by using Pakistani firms. Over time, the bankruptcy of the firm increased day by day. The weak institutions and low protection of investors can be effectively monitored by the RMC to limit FD (Adams & Ferreira, 2009). The committee efficiency of Pakistani firms is enhanced by the diverse backgrounds of the members. The regulatory and legislative bodies of Pakistan never regulated the RMC for the firm. The role of the RMC reduce the probability of FD and

guides management, shareholders, and regulators in Pakistan. According to researchers knowledge impact of RMC on FD moderating role of FS is a pioneer study.

The objective of this research is to fill in substantial gaps in earlier studies and improve current literature in numerous domains, taking into account of the Pakistan economy. Firstly, the relationship between the RMC, FS, and FD has not been comprehensively inspected in previous research, such as those conducted by (Bhat, Danelljan, Gool, & Timofte, 2019). Therefore, by inspecting the relationship between RMC and FD and specifically focusing on whether FS moderates this relationship, this research aims to enhance the body of knowledge regarding Corporate Governance (CG) committees. Secondly, by investigating the effect of RMC on FD risk, we hope to cover the application of agency theory. This study uses the Altman and Hotchkiss (2010) FD model, which is precisely suitable for the developing market, instead of the earlier models that were mostly created for developed markets. This offers an innovative perspective on the dynamics in this setting. Thirdly, FS is introduced as a moderator in this investigation, emphasizing the possibility that higher asset investment can reduce the risk related to FD.

Theoretical Background

Jensen (1986) clarification of the foundation of agency theory suggests important insights into the complex dynamics of the principal-agent interaction in intimate corporate systems. This theoretical framework is very useful when discussing how significant it is for an RMC to help those who are in FD. The necessity of matching the benefits of shareholders and management to efficiently navigate risks is highlighted by Fama and Jensen (1983) application of agency theory to RM. Building on this perspective, (Smith & Stulz, 1985) deliver insights into corporate financial hedging with proprietary information, and (DeMarzo & Duffie, 1991) search the factors that influence organizations' hedging decisions. As an important tool for reducing agency conflicts, the RMC takes on the responsibility of supervising RM plans that are both effective and line up with the goals of shareholders. The purpose of this alignment is to lessen agency costs that are affected by management and shareholder objectives not line up. A well-organized RMC, which fundamentally assists as a proxy for shareholders, may efficiently execute targeted RM techniques to address FD, a shared concern for both stakeholders (Lan & Heracleous, 2010).

Literature Review

Finanical Distress

FD is defined as when a business cannot recompense its debts within the selected period, it is supposed to be in financial difficulty. Should upper management fail to take counteractive action, the company may wind up or go bankrupt (Y. Gao, Kim, Tsang, & Wu, 2017). An important phase of a business's existence, FD is characterized by an irregular flow of operational cash and the requirement to settle the existing debt. Stated otherwise, the organization finds itself in a situation where its earnings are not high enough to

cover its continuous expenses (Opler & Titman, 1994). This frequently compels the company to start making adjustments to remedy the imbalance. Due to insufficient cash flows from activities to cover current obligations, the company operates in a risky environment. Without quick and effective action, financial difficulties could get worse and occasionally push the company perilously close to insolvency (A. Habib, Costa, Huang, Bhuiyan, & Sun, 2020). Financial difficulties can result from a diversity of situations, including high debt levels, unanticipated external shocks, bad money management, and economic downturns. This happens regularly. Since financial distress impacts an organization's operational capabilities, competitive position, and stakeholder confidence in addition to its financial health, it must be recognized and resolved as soon as possible. A diversified strategy is needed to address financial issues successfully; this strategy may include cost-cutting initiatives, debt restructuring, strategic financial planning, and, in some situations, applying for outside financial aid (Pindado, Rodrigues, & De la Torre, 2008). Apart from surmounting the present challenges, the objective is to position the enterprise for enduring, sustainable recuperation and growth. An organization's capacity to make proactive and informed decisions determines whether it will be able to withstand adversity and come out stronger or give in to pressure and suffer more serious consequences during financial difficulties (Avramov, Chordia, Jostova, & Philipov, 2013).

Risk Management Committee

The RMC is a critical element of corporate governance that becomes even more significant following high-profile company failures (Yatim, 2010). The principal role of the RMC is to act as a specific article responsible for supervising and controlling the different risks that an organization may encounter. This goes outside only financial risks; it also includes risks linked to operations, strategy, and compliance, among other things. Through positive risk management and mitigation, the RMC contributes knowingly to protecting stakeholders' interests and enhancing the business's overall resilience. As a consequence of the lessons that have been academic from these kinds of situations, the creation, and functioning of an RMC have become essential to improving performance and the caliber of financial reporting in businesses (Subramaniam, McManus, & Zhang, 2009).

One significant aspect of evaluating an RMC's efficacy is to take into interpretation the demographic characteristics that make up its face. The committee's size to fully evaluate and address the range of risks faced by the company can be significantly impacted by the variety and level of knowledge of those on it (Nocco & Stulz, 2006). Familiarity with the industry, expertise, and a variety of talents among RMC members are some of the elements that go into creating a complete and well-informed risk management strategy. The RMC's direct effect on both operational performance and the accuracy of financial reporting highlights its implication in current corporate governance. To ensure continuing success and resilience in the face of doubt, firms must negotiate an increasingly complicated business environment. This is where the RMC's role in evolving and putting into effect strong risk management measures comes into play. Fundamentally, the RMC dynamically contributes to the organization's longstanding stability and survival by acting as a strategic safeguard (Heath, 2009).

Impact of Risk Management Committee on Financial Distress

The existence and attributes of an RMC exert a substantial influence on a company's probability of experiencing financial difficulties (Jia, 2019). Notably, studies have known several characteristics of the RMC that may help to reduce the possibility of FD. Research on RMC has exposed a remarkable correlation with a decreased probability of financial difficulties. This proposes that gender-diverse committees are improved at keeping an eye on and reining into risk-taking within companies (Salloum, Azzi, Gebrayel, 2014). These committees can be positive in strengthening a company's financial health, as understood by the correlation found between RMC characteristics and the probability of FD. It appears that one of the most significant factors in promoting efficient risk supervision and management is an RMC's capacity to bring a variability of viewpoints, experiences, and expertise to the table (Elamer Benyazid, 2018). The gender diversity finding in the RMC suggests that a more diverse and comprehensive membership assistances create a stronger framework for risk management and may even reduce the tendency for high-risk behaviors that could put one at financial risk (Ashraf, F´elix, Serrasqueiro, 2021). The ever-changing business market continues to pose tasks for organizations, and it is crucial to understand the indirect ways in which RMC qualities affect financial results. It emphasizes how critical strategic factors are to the structure and operation of the RMC, serving as a dynamic catalyst for resilience and long-term financial well-being in addition to being a legal requirement (Jia, 2019). The correlation among RMC qualities has decreased probability of financial crisis, as supported by empirical research, highlights the advantages of developing diverse and experienced risk oversight committees within CG frameworks. Thus on the basis of literuatre we hypothised as following.

H1a: The risk management committee size has an impact on the financial distress.
H1b: The risk management committee meetings have an impact on the financial distress.
H1c: The risk management committee independence has an impact on financial distress.

Firm Size as Moderator

Research findings indicate that FS is a main moderating element in the relationship between capital structure and FD. The dynamics of this relationship are significantly influenced by a firm's size, which announces a moderating impact that affects the relationship amid capital structure decisions and the existence of financial difficulty.

The moderating effect is more visible in larger organizations, which are defined by extensive and expanded commercial operations. Because of their size and scope, these organizations frequently advantage of extended revenue streams, improved financial resources, and easier access to credit facilities. When it comes to management financial difficulty, larger organizations are better positioned than their smaller equals due to the collective effect of these characteristics.

Because their business operations are varied, larger organizations are better prepared to handle issues exclusive to their industry and navigate economic risks. Furthermore, they have a barrier that can help reduce the negative effects of financial crises due to their

strong financial standing and contact with a variety of funding sources. Equally, smaller businesses might be more susceptible because of their controlled resource base and less scope for diversification (Achimugu, Abdullahidr, & Adediran, 2023).

A layer of depth to strategy considerations for different-sized organizations is further when one recognizes the moderating influence of company size in the relationship between capital structure decisions and financial lack (Yatim, 2009). It emphasizes how critical it is to modify risk management techniques and financial plans in light of the particular traits and difficulties that come with becoming a larger company. Thus to achieve the objectives of study we hypothesized as following.

H2a: The firm size plays a moderating role between risk management committee size and financial distress.

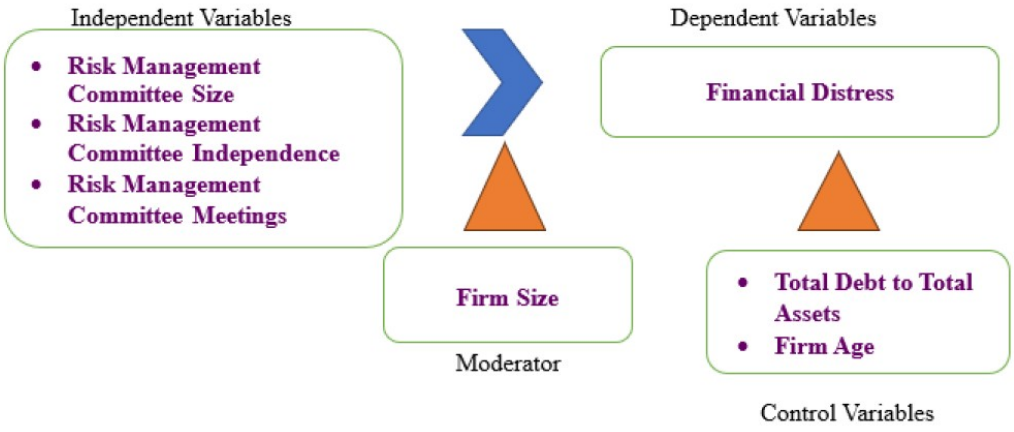
H2b: The firm size plays a moderating role between risk management committee independence and financial distress.

H2c: The firm size plays a moderating role between risk management committee meetings and financial distress.

Conceptual Framework

The RMC is the independent variable and FD is the dependent variable. However, FS plays a moderating role between RMC and FD.

Figure 1: Conceptual Framework



Methodology

Sample and Data

Our sample comprised listed non-financial firms at PSX during the years from 2015 to 2022. The reason for the inclusion of 2015 is global economic dynamics such as changes in trade patterns, geopolitical events, and oil price fluctuations correspond with the post-2015 era, offering a thorough understanding of how foreign forces influence domestic financial stability. Besides, fast industry changes and technology innovations around the world in the years after 2015 had an effect on particular industries in Pakistan. The study period also authorities an analysis of the effectiveness of government-implemented economic strength and policy reforms and provides insights into their effects on registered enterprises. The study's robustness has been considerably improved by upgraded data availability and dependability after 2015. This has endorsed a more specific investigation of the complex relationship concerning economic changes and the FD of Pakistani enterprises. The final sample comprised panel data with 944 firm-year observations. Data is collected from annual reports. Sample data received from industries detail is given below in Table I.

Table 1: Industry-wise Sample

Sr. #	Industrial Sector	Total Listed Firms	Final Sample	% of Sector	% of Sample
1	Automobile and Parts	22	12	54.5	10.1
2	Cement	20	13	65.0	11.0
3	Chemicals and Fertilizers	34	9	26.4	7.7
4	Food and Personal Care products	22	16	72.7	13.6
5	Sugar and Allied Products	32	8	25.0	6.8
6	Technology and Communication	15	7	46.6	5.9
7	Pharmaceutical	12	6	50.0	5.1
8	Synthetic and rayon	11	7	63.6	5.9
9	Textile	146	40	27.3	33.9
	Grand Total	314	118	37.5	100.0

Model Specification

To test the impact of RMC on FD and the moderating role of FS, we use two regression models. We use a panel analysis. The model of analysis that we propose is reflected in the following two equations:

$$FD_{it} = \beta_0 + \beta_1 RMCS_{it} + \beta_2 RMCI_{it} + \beta_3 RMCM_{it} + \beta_4 TDTA_{it} + \beta_5 FAge_{it} + \epsilon \quad (1)$$

$$FD_{it} = \beta_0 + \beta_1 RMCS_{it} + \beta_2 RMCI_{it} + \beta_3 RMCM_{it} + \beta_4 FS_{it} + \beta_5 (RMCS \times FS)_{it} + \beta_6 (RMCI \times FS)_{it} + \beta_7 (RMCM \times FS)_{it} + \beta_8 TDTA_{it} + \beta_9 FAge_{it} + \epsilon \quad (2)$$

Whereas, FD_{it} = Financial Distress of Firm i in time t, $RMCS_{it}$= Risk Management Committee Size of Firm i in time t, $RMCI_{it}$= Risk Management Committee Independence of Firm i in time t, $RMCM_{it}$= Risk Management Committee Meetings of Firm i in time t, FS_{it} = Size of Firm i in time t, $TDTA_{it}$ = Total Debt to Total Assets of Firm i in time t, and $FAge_{it}$ = Age of Firm i in time t.

Measurement of Variables

Dependent Variable

The dependent variable in this research, or the possibility of FD, is the main focus. To measure this, the research utilizes the Altman Z Score, which is unique to Pakistan and was established by Altman and Hotchkiss (2010). The Z-Score formula can be definite as follows: When evaluating financial distress, Ali et al., (2022) used the Z-Score, which is 3.25 + 6.56 (Working Capital / Total Assets) + 3.26 (Retained Earnings / Total Assets) + 6.72 (Earnings before Interest and Tax / Total Assets) + 1.05 (Book Value of Equity / Total Assets).

Independent Variables

The independent variable is the RMC. RMC is measured through its, size, independence, and meetings. Size was measured by the total number of members on the committee during a single year. Independence was calculated as the number of independent directors on the committee divided by the total number of members. Meetings were calculated by the number of meetings held during the period.

Moderator

FS is measured through the natural logarithm of total assets.

Control Variables

Some control variables have been added to the regression model to increase its quality. The model contained Fage as a control variable, a proxy for the company's stability. It was determined as the number of years the firm has been in operation. Finally, TDTA is calculated by dividing the total debt by the total assets of the firm.

Results

Descriptive Results

Table II Descriptive Statistics presents in the form of mean, standard deviation (SD), maximum, and minimum value summary of quantitative statistics for each variable. It provides a short but insightful summary of the most significant statistical metrics for a group of Pakistani enterprises, enlightening aspects of both financial health and RMC.

The sampled organizations' financial situations are generally stable, although with significant variability, according to the Z Score (ZS), which measures FD. The average value of ZS is 5.96, with a 0.979 standard deviation. The average figure of committee members, as specified by the Risk Management Committee Size (RMCS) is 5.09. The standard deviation, which is 2.364, specifies that there is a significant range in committee sizes, from 1 to 35. The committees' diverse degrees of independence are established by the Risk Management Committee Independence (RMCI), which processes, on average, at 0.436 with a standard deviation of 0.096. The average incidence of committee engagements, which ranges from 4 to 9, is shown by the Risk Management Committee Meetings (RMCM) of 4.829 average. Concerning metrics interrelated to the firm, the FS demonstrates a 3.897 average that is reasonably reliable with a narrow standard deviation of 0.085, proposing that business sizes, which vary from 3.449 to 4.121, are uniform. The Firm Age (Fage) has an average of 38.263 years, presenting a broad age range from 1 to 71 years, while the Total Debt to Total Assets ratio (TDTA) stances at 0.519, directing to an uncertain level of indebtedness.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ZS	944	5.960	0.979	3.354	12.754
RMCS	944	5.090	2.364	1	35
RMCI	944	0.436	0.096	0.214	1
RMCM	944	4.829	0.875	4	9
FS	944	3.897	0.085	3.449	4.121
TDTA	944	0.519	0.315	0.007	7.465
F Age	944	38.263	15.823	1	71

Correlation Analysis

Table 3: Correlations

Variables	ZS	RMCS	RMCI	RMCM	FS	TDTA	Fage
ZS	1.000						
RMCS	0.031	1.000					
RMCI	0.032	-0.008	1.000				
RMCM	-0.038	0.108	0.071	1.000			
FS	0.517	0.002	0.024	0.012	1.000		
TDTA	0.037	0.035	-0.043	-0.082	-0.028	1.000	
F Age	0.061	-0.093	0.001	0.082	0.031	-0.103	1.000

A correlation matrix for the subsequent seven variables is shown in Table 3: ZS, RMCS, RMCI, RMCM, FS, TDTA, and Fage. The results show that there is no issue of multi-

collinearity in the data. All the values are less than 0.70 thresholds. The ZS, RMCS, and RMCI show a positive association, which means that when any firm has more members in their RMC it reduces the FD because this committee has members who have experience, knowledge, and independent directors who work for stakeholders of firms. RMCM and ZS have a negative association, which means that more meetings of committees are not beneficial for firms to reduce the FD. FS variables show a positive association, denotation that when any firm has more assets it can meet their obligations. TDTA is positively associated with ZS, which means when any firm has more debt it has less ability to reduce FD. Fage is also positively correlated with ZS, which means that firms with more age and experience deal with situations and reduce the FD.

Table 4: Variance Inflation Factors

	VIF	**1/VIF**
RMCM	1.032	0.969
Fage	1.027	0.973
RMCS	1.024	0.976
TDTA	1.020	0.981
RMCI	1.007	0.993
FirmSize	1.002	0.998
Mean VIF	1.019	.

Regression Analysis

Risk Management Committee and Financial Distress

As we discussed above this research's first objective is to check the impact of RMC on FD. Table VI shows the regression results, which show how RMC affects the FD of Pakistani firms. We used the Hausman test to help us choose between the fixed effect model (FEM) and random effect model (REM) as an appropriate panel data model. According to the test results shown in Table V, the p-value in the first and second models is significant, i.e. < 0.05. As a result of these findings, FEM is the best model for equations (1) and (2).

Table 5: Hausman (1978) Specification Test

	Coeff.
Chi-square test value	8.139
P-value	0.520

Table 6: Regression Results

ZS	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval	Sig
RMCS	0.007	0.014	-0.50	0.037	-0.034	0.020	**
RMCI	0.296	0.342	-0.87	0.387	-0.966	0.374	
RMCM	-0.047	0.037	-1.26	0.207	-0.120	0.026	
TDTA	-0.113	0.104	-1.09	0.276	-0.317	0.090	
F Age	0.004	0.002	1.67	0.095	-0.001	0.008	*
Constant	6.273	0.256	24.50	0.000	5.771	6.775	***
Mean dependent var		5.960	SD dependent var		0.979		
Overall r-squared		0.008	Number of obs		944		
Chi-square		6.907	Prob > chi2		0.228		
R-squared within		0.001	R-squared between		0.050		

*** p<0.01, ** p<0.05, * p<0.1

Regression result shows that RMCS has a positive significant effect on FD. H1a suggests that RMCS reduces the likelihood of financial trouble. As predicted, the size of RMC is directly associated with the FD score (p 0.037). It shows that larger committees reduced the financial issues. More members of the committee have more experience and knowledge. Members can reduce the FD. To reduce the risk of financial crisis, the findings underscore the importance of carefully considering the size and structure of RMC in Pakistani enterprises. Furthermore, the findings corroborate the fundamental concept of agency theory that having a larger RMC reduces management's opposing conduct and illogical choices and helps reduce business financial risks. Fage has also a positive significant effect on FD. When any firm has more age it has more capabilities to solve the financial issues. So Fage reduced the FD. H1b and H1c show an insignificant association between RMCI, RMCM, and FD.

Firm Size as a moderator between risk management committee and financial distress

Table 7: Regression Results

ZS	Coef.	St.Err.	t-value	p-value	[95% Conf.	Interval]	Sig
RMCS	1.287	0.611	-2.11	0.035	-2.485	-0.089	**
RMCI	32.618	14.169	2.30	0.021	4.847	60.389	**
RMCM	0.115	1.411	0.08	0.935	-2.651	2.882	
FS	-3.841	2.257	-1.70	0.089	-8.265	0.583	*
RMCS*FS	0.329	0.157	2.10	0.036	0.021	0.637	**
RMCI*FS	-8.432	3.640	-2.32	0.021	-15.565	-1.298	**
RMCM*FS	-0.041	0.362	-0.11	0.911	-0.750	0.669	
TDTA	-0.137	0.087	-1.57	0.116	-0.308	0.034	
F Age	0.005	0.002	2.57	0.010	0.001	0.008	**
Constant	21.167	8.779	2.41	0.016	3.960	38.374	**
Mean dependent var		5.960	SD dependent var		0.979		
Overall r-squared		0.285	Number of obs		944		
Chi-square		371.92	Prob > chi2		0.000		
R-squared within		0.270	R-squared between		0.382		

*** p<0.01, ** p<0.05, * p<0.1

Table VII shows the moderating effect of FS in the RMC–FD relationship. As the result shows, FS moderates this relationship. In simple regression, we observed that RMCI has an insignificant effect on FD while with the moderating effect of FS, it has a positive significant effect on FD. It means that when any firm has RMC and an independent member is included in this committee reduces the financial issues of firms. FS also significantly affects FD which means that when any firm has more assets it has more ability to pay their debt and financial obligations. It reduced the FD. These results are supported by agency theory.

Hypothesis Result

A summary of hypotheses accepted and rejected is presented in Table VIII.

Table 8: Hypotheses Results

Sr. No.	Hypotheses	Decision
H1a	The risk management committee size has an impact on financial distress.	Accepted
H1b	The risk management committee's independence has an impact on financial distress.	Rejected
H1c	The risk management committee meetings have an impact on financial distress.	Rejected
H2a	The firm size plays a moderating role between risk management committee size and financial distress.	Accepted
H2b	The firm size plays a moderating role between risk management committee independence and financial distress.	Accepted
H2c	The firm size plays a moderating role between risk management committee meetings and financial distress.	Rejected

Conclusion, Implications, and Future Recommendations

This study observes the relationship between the FD of Pakistani firms that are publicly traded and the significant attributes of the RMC, such as the committee's size, independence, and occurrence of meetings. Using an innovative dataset and better methodological instruments, the research is in link with agency theory and makes an empirical input to the domains of corporate governance and management strategy in developing economies. The conclusions support the concept that characteristics of the RMC, like its size, independence, and regular meetings, help to reduce the effects of financial distress; the association between the RMC and FD is moderated by FS.

This research has implications for practitioners, investors, and executives. First of all, it emphasizes how important RMC independence, size, and existence are in lowering FD risk. Second, the results deliver management and shareholders a good understanding of how a diverse committee can defend companies from monetary difficulties and increase their overall value. The study's importance also rests on how it affects policy choices. These insights offer investors a means to investigate risks connected with various establishments according to their governance systems, and regulators may practice them to evaluate the efficacy of RMC. Managers of organizations and funds are well able to adapt to evolving institutional circumstances that demand committee structures through the usage of governance systems. This study suggests guidance to regulators and policymakers in Pakistan, where legislative authorities have essential RMC. According to the statement, strict CG laws; especially those about RMC, can help businesses in avoidance FD. Furthermore, it suggests producing committee standards that take risk assessment and evading into account, setting an upright model for economies without RMC laws.

The study has limitations notwithstanding its contributions. The consequences, which were derived from a sample of Pakistanis, should not be broadly applied. To discover

regional variations, future studies could increase by involving people from various countries. Further research exploiting GMM and triangulating primary and secondary data may also support the validity of the results. Finally, inspecting the moderating function of working capital in the connotation between RMC and FD may prove to be a worthwhile study topic in the future.

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