MODERN SPECIFICITY OF CORPORATE RELATIONS
ON THE EXAMPLE OF VERTICAL-INTEGRATED COMPANY

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The article describes features of the modern model of Russian corporate relations on the example of a vertically integrated and diversified company. The CRs are still affected by the consequences of the privatization processes of state and municipal enterprises in the 1990s, which resulted in the emergence of a peculiar economic model of oligarchic capitalism and a specific model of CR. On a specific example, the pros and cons of this model are analyzed considering the processes of consolidation of entrepreneurial activities in the metallurgy and gold mining industry. The conclusion is made about the predominance of quasi-corporate relations, the ways to improve CR are suggested.

Key words: corporate relations; Joint-Stock Company; size effects; majority and minority shareholders; stakeholders; affiliates


Introduction. Often, the concepts of «corporation», «corporate ties and relations» are applied to everything associated with organizational and management problems of modern Russian joint-stock companies. The term «corporation» in the broad sense implies an organization for achieving common goals (for example, income maximization) and protecting the interests of members of a given association. Many European corporations (a little later in Russia too) appeared in the Middle Ages as associations of persons based on their class or professional status. In the narrow sense, this term means a joint-stock (public) company as an organizational and legal form of a business entity. The members of the corporation, shareholders, are the owners (co-owners) of the property of the organization, and the current issues of economic activity are decided by the hired management. In this connection, a whole system of contradictory relations arises, since each participant has his own specific interests. This system includes relations between minority, majority, ordinary shareholders, community as a whole and as an issuer of securities, and investors, society and government bodies, etc.

The relevance of the topic is due to the following: 1) vertically integrated and diversified corporations in mining and metallurgy determine the current Russian production and export potential; 2) the existing theoretical and practical differences in the forms of corporate relations (CR) in the Russian Federation and the countries of the «triad» (USA, EU, Japan) require an analysis of the causes and consequences of these differences; 3) the current model of CR in the modern Russian economy has ambiguous efficiency and requires to be studied on a more detailed theoretical and practical level.

Methodology. As a result of the privatization of state and municipal enterprises in the Russian economy back in the 1990s a large number of open joint stock companies (OJSC), corporations, were founded. Within this context a new type of socio-economic relations appeared, which is corporate relations. The form and conditions of their establishment determined the main specificity of the emerging Russian CRs, which, for several reasons considered in this article, can be defined as «quasi-corporate». Let us formulate the basis of the methodology for the formation of a new scientific direction «Causes and conditions for the formation of quasi-corporate relations in the Russian gold mining industry»:

1) «corporate relations» are relations between owners of property interests (stocks, shares, interests) and the hired management of an organization, as well as between shareholders and external entities (state and municipal authorities, other organizations and individuals), including the so-called «stakeholders»;

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2) the notions of «corporate relations in a narrow sense» are introduced – between shareholders and hired management and «corporate relations in a broad sense» – with numerous external entities, including «stakeholders», etc.;

3) the definitions of «formal» and «informal» CRs are specified and described;

4) taking into account the specifics of the modern Russian economy, the concepts of «quasi-corporation» and «quasi-corporate relations» are introduced; their specifics is the absence in the modern Russian society of a wide range of subjects of corporate relations – shareholders of private, state and mixed corporations, hence the problems with the formation of the middle class, which is the basis for stable socio-economic development of the country in the long term period;

5) the CR efficiency is determined by their socio-economic benefits; however, the participation of minority shareholders in solving major financial and economic tasks is insignificant (the study was conducted using the example of the metallurgical and gold mining industries);

6) due to privatization in the 1990s, an oligarchic form of ownership emerged in the Russian economy, which significantly modified CRs compared to their classical understanding;

7) the modern Russian CR model has not only disadvantages (as noted by many authors), but also the advantages noted in this article;

8) the alternative form of development of property relations is described, which could improve the efficiency of CR in the Russian economy as a whole and in mining industry in particular;

9) the evidential basis is an analysis of the primary documents of PJSC «Severstal» and PJSC «Buryatgold» regarding the CR content.

Results and discussion. CRs are primarily social and economic ties between the subjects of the corporation itself, they include relations between various groups of participants in the corporation, ordinary members and management, management and the board of directors as a representative of shareholders, majority and minority shareholders, etc. The complexity of corporate relationships gives rise to the problem of economic power, its «transparency», accountability, responsibility, true and false motivation of management activities, etc.

Standard approach to CR; corporation size, holdings. The term «corporation» is used in several ways. Most often it defines an organization functioning in the economic sphere and having a set of specific features. «A corporation is a type of organization that is distinguished by its large size and geography of sales and operation, the presence of a wide network of economically independent organizations that are its members» [11, p. 16]. This example stresses the size of the organization. Authors in their definitions emphasize formal and informal aspects of the «corporation» term.

The definition of «corporation» also includes: «a group of persons united to achieve common goals, carrying out joint activities and forming an independent legal entity»; any joint stock company; some forms of international economic relations, etc. [10, p. 17]. M.A.Ovchinnikov stresses the importance of informal relations, in particular, the concept of a single «team» in which all employees are committed to common goals and basic values. «This is a team of like-minded people united around the leader. A team usually exists and acts as a structure within which informal relations can be of no less, and sometimes of greater importance than formal ones» [10, p. 58].

In this sense, a «corporation» (that is, a society, an alliance, an association of people with common interests) is implemented as a projection of personal interests on an organization in which members of the «team» do not separate their own and common interests. In a broad sense, corporate relations do not have a rigid institutionalization; they are implicit and do not always have clearly formalized interactions. In practice, it is quite difficult to distinguish between explicit and implicit, organizational and corporate relationships that are closely intertwined. An important aspect of informal CR is the friendly environment.

A.V.Gumerov, on the contrary, emphasizes the formal side of «corporation» concept: «a corporation is a legally defined organization, an aggregate of legal entities with the right of limited liability, forming its property and carrying out both commercial and non-commercial activities, while the interaction of CR participants has not a cumulative, but an emergent effect» [5]. «The corporation is
created to ensure the relative stability of the market economy. The size of the corporation and the concentration of structures can significantly affect not only a certain economic sector or region, but also the development of the country and the world, providing a certain stability, planning, controllability and predictability of a market economy» [5].

The modern macroeconomic model of the national economy is not a solely market-based, but a mixed organizational and management structure combining market competition and elements of planning. In this aspect, corporations play a meso- and macroeconomic role based on the implementation of projects and formal and informal agreements between corporations and stakeholders. At the same time, a symbiosis of administrative (unitary) and market regulation occurs, when significant production infrastructures are simultaneously controlled by the market and the corporation itself, which to one degree or another forms this market.

O.V. Brizhak draws attention to the significance of the size of an organization: «Modern Russian corporations unite many enterprises. This allows you to concentrate the resources needed for the implementation of investment projects, access to new markets, etc. In addition, the consolidation provides stability and the ability to solve larger problems» [3]. It is precisely concentrated property in various forms that is often considered the main economic mechanism of corporate control, which forms the basis for the real influence of investors and contributes to economic efficiency. «Concentrated property» makes it possible to maximize the positive effect of size («emergence»), but many authors, emphasizing the positive, forget about the negative effect of size, which can be neutralized to some extent by creating a holding structure.

Many authors confuse the concepts of «corporation» and «holding». Holding is a joint stock company that owns outstanding stock of legally independent enterprises (subsidiaries and affiliates) to exercise control over them. The companies included in the holding enter into commercial transactions on their own behalf. However, the right to address the main issues related to their activities belongs to the holding company. Thus, the main advantage of the holding structure as compared to the unitary one is the combination of a single strategy and the possibility of relatively efficient solution of operational tasks at the lower levels, which ensures their legal and economic independence. Accordingly, a holding is a kind of cluster consisting of a larger or smaller number of corporations.

In a holding the CR becomes even more complicated: the duality of the position of corporate associations, on the one hand, as a set of independent legal entities, and on the other hand, as a single economic entity, also presents a problem of development of CRs and creation of conditions for effective management.

Thus, the standard (classical) approach to CR can be defined as a system of formal and informal relations that are developed between their subjects because of their awareness of the common goals and objectives, the definition of a unified system of values and their corresponding attributes; as a process of combining organizational and financial resources to achieve common goals.

**Modern approach to CR; positive and negative effects of corporation size.** The most important problem of the CR analysis is the problem of economic power. A prominent American economist J.K. Galbraith was one of the first who gave comprehensive analysis of this problem [17]. He argued that as the corporation develops, its management moves from shareholders to the technostucture; as the industrial system developed, the goals of corporate activities changed – the main goal was no longer income maximization, but expansion (mergers and takeovers). According to Galbraith, it matches the public interests as well [17, p. 16], however, this is not always the case.

J.K. Galbraith noted that the large size of the enterprise is necessary for stability and strategic planning, which allows to eliminate the market uncertainty as much as possible. Large size is also required by the economic sector with the state being the only buyer. Galbraith believed that from the point of view of planning needs (control of supply and demand, provision of capital, risk minimization, etc.), the desired size of a company does not have a clear upper limit: «It is possible that the larger the firm, the better. Corporate form meets this requirement» [17, p. 124]. This is a very controversial thesis, justifying the concentration of corporate power.
Many modern foreign economists note that real corporations are significantly different from the image inspired by the formal legal and informal characteristics of a corporation [13, 18, 21]. On the markets large corporations buy materials, raw materials, equipment and labor and sell their finished products, and play a much greater role than the «sole proprietor». The corporation often deprives its shareholders of the ability to manage it (the problem of minority shareholders, often accentuated by Russian authors), grows to enormous proportions, extends its activities to areas completely unrelated to the main industry, acts as a monopsony when it buys and monopoly when it sells, which clearly does not fit into the neoclassical image of a corporation operating in a market system.

The main objective reason for the expansion of corporations and the occurrence of these phenomena is the desire to use the positive effect of company size («emergence»). However, few people note that as the scale of production grows at a certain stage, a negative effect occurs, which has a significant impact on the functioning of a large corporation of any form of ownership and the development of CR.

If the causes and consequences of the positive effect of company size are stated everywhere, but this cannot be said of the negative. In the largest economic organizations in the presence of an insufficiently effective organizational and management structure, operating costs can significantly affect the dynamics of average total costs (ATC), the mirror reflection of which is the efficiency curve. The increasing complexity of the vertical management in the process of concentration of property and the growth of the powers of the upper levels of management create the basis for the negative effect. It is manifested primarily in the growth of ATC and reduced efficiency of the organization.

The positive effect (synergy, emergence) in large organizations arises due to simple and complex cooperation of production factors; negative is a result of reducing the effectiveness of feedbacks: the upper levels of management begin to experience a chronic lack of time for the assimilation of the incoming information, for the lower levels this manifests itself in loss of motivation, hence the growth of opportunistic behavior trends, the need for a multi-level control system, etc. An increase in the size of economic organization and in the degree of centralization of management inevitably leads to strengthening of hierarchical ties and reduction of feedback effectiveness. The transfer of information on these levels is accompanied by distortions, which, as the experience of the functioning of large corporations shows, are cumulative and exponential in form [7, p. 123-129]. These phenomena lead to actual loss of control over lower structural divisions, as well as to material and financial losses more than revenues from the growth of the scale of production. From the point of view of management efficiency, this limit is defined as the «limit of control», the causes of which were described by A.A.Bogdanov [2]. The negative effect contributes to the violation of the principle of «organizational equilibrium» formulated by A.A.Bogdanov. Of course, this also has a negative effect on the effectiveness of CRs.

Consequently, the ideas of J.Galbraith and other economists, approving unlimited growth of the corporation, is incorrect: unlimited expansion in the form of mergers and takeovers leads to a significant increase in intra-company transaction costs and reduce the efficiency of the economic organization. Consequently, an effective corporation must have an organizational and managerial structure that meets the requirements of size effects, which is directly related to the efficiency of CRs. For large corporations, the optimal organizational and management structure is the holding [11].

It is necessary to note that in modern developed countries CRs have been significantly modified in comparison to the «neoclassical model». In this model the company’s efficiency is assessed by the turnover, profits and capitalization dynamics [14], in modern conditions the corporation is positioned depending on the evaluation of its activities by consumers, authorities, the media, etc., cooperation with which becomes an increasingly important task in the work of any corporation. In this regard, a new term has emerged – «stakeholder management». The content of this term is primarily related to the works of R.Freeman, who identified the people who influence the actions of the company and those affected by these actions [15, p. 58].
Stakeholders include persons interested in the operation of the enterprise, and persons having property rights, shares and other conditions regarding the company that meet their needs and expectations. Some authors propose a narrower definition of this term, referring to the stakeholders only individuals and groups, without whose support a corporation can cease to exist [12]. A.Friedman and S.Miles pay attention to the difference between persons whose interest in business is based on legal norms and those whose interests do not have a regulatory framework [16].

Another modern theoretical approach to the development of CR is a social perspective, which is based on the theory of resource dependence in the context of the influence of social networks on the formation and composition of the board of directors [19]. Some authors concluded that the actions of the organization are so integrated into social networks that the behavior of a board of directors is largely determined by stable corporate and public relations. These representations significantly expand the neoclassical interpretation of CR.

**Specificity of CR in Russia.** In the neoclassical understanding of CRs, one of the main principles of their structuring is the separation of property rights and control. According to several authors, the Russian model of corporate management does not usually recognize this principle, and the “insider” model of corporate control prevails, which is characterized by the combination of the functions of ownership and management. As R.I.Kapelyushnikov notes, one of the characteristic features of the post-privatization period is that as the ownership of external shareholders was concentrated, the focus gradually shifted from the problem of controlling the managers to the problem of relations between various external shareholders, mainly between owners of large and small enterprises. The practice of expropriation of small shareholders by large owners controlling the activities of an enterprise [6] has become widespread. According to A.V.Buzgalina, «personal-crony ownership of corporations» has developed, i.e. control over the majority of large domestic enterprises belongs not to a wide circle of shareholders owning small and medium-sized number of shares, «but to groups of individuals consisting of several partners» [4], or just one major shareholder. O.V.Brizhak defines this group of persons as «a corporate nomenclature that has concentrated in its hands the prevailing masses of capital and therefore occupies a dominant position in the appropriation of profit» (natural, corporate and other rent). This leads to the deepening of the problem of investment promotion, introduction of innovations and reduction of efficiency of CRs [3].

Zh.S.Belyaeva draws attention to the following characteristic of the modern Russian CR model: among the existing high-powered members of the company (the general meeting, the board of directors and the head) «the first is deliberately removed from the company’s affairs, the second does not actively participate in them, and control is performed by the head of the company» [1]. His main goal is to realize the potential of the enterprise, and the main criterion of efficiency is productivity (and not growth of capitalization as it is in the neoclassical model of CR).

Thus, the current model of Russian CR has the following features: 1) excessive concentration of power and finance revives the «pre-corporate» sole proprietor who heads the board of directors of a corporation; 2) control over corporations belongs not to a wide range of owners (as it was planned in the privatization program), but to a limited group of persons and (or) the state; 3) this group of individuals receives 70-100 % of dividends as a corporate annuity; 4) the predominance of the insider model of management (consolidation of property rights and control) reduces to zero the role of the general meeting of shareholders as the highest governing body of the corporation; 5) the negative size effect resulting from the concentration of property and power leads to a significant increase in organizational transaction costs and reduced efficiency, gives rise to opportunistic behavior, as opposed to the corporate behavior of subjects of the organization; 6) the exclusion of small shareholders from the management of production and financial flows, resolving issues of mergers and takeovers, diversifying production and marketing, selling assets, changing the size of the authorized capital and other major issues of the corporation’s development – up to their full expropriation; 7) lack of external management and underdeveloped corporate control mechanisms; 8) abuse of administrative resources; 9) closeness or opacity of information; 10) complex and intricate ownership structure; all this is defined as «personal-crony» ownership of corporations, «corpo-
rate nomenclature; 11) mergers and takeovers not always justified from a legal point of view; 12) the extraction of insider rent is carried out by cutting investments and wages, violating the rights of ordinary shareholders, misuse of funds, through transactions with affiliated persons, offshore schemes, tax evasion, etc.; 13) the concept of «united team» applies not only to CR participants, but also to company employees who are not its shareholders. All these features of the modern Russian CR model are presented by many authors as signs of the degradation of investment and innovation processes and the CR system as a whole. Similar CRs can be defined as «quasi-corporate».

In our opinion, these problems should not be overemphasized, and we should not make hasty conclusions about the inefficiency of the modern Russian CR model. These are rather controversial statements, since the desire for personal gain, including by rent, is normally combined with innovative development in the corporate sector; this postulate (the principle of the «invisible hand») was formulated by A.Smith and is classical (but it cannot be overemphasized). It is difficult to agree with the statement that «in some corporations, management basically not only has no experience in the field of high technologies, but also engineering education in general, i.e. has poor idea of the nature and value of certain projects and innovations, focusing on their financial performance and commercial side» [8].

In a tough oligopolistic competition, such corporations would quickly lose: it is very difficult to enter the market of oligopolistic structure and to stay there (especially at the international level). CR in the Russian model are generally perceived as concern for the company’s personnel and charity as an advertising company. In this case CRs cover issues of social policy in relation to employees (advanced training and education, a motivation system, health protection and improvement of working conditions; voluntary corporate medical and pension insurance, etc.); work on the formation and implementation of the company’s corporate culture.

An important characteristic of the Russian CR model is the high value of leadership in the company’s management system. «The implementation of a leadership-based strategy requires a wide use of resources and coordinated work of followers, which is a Western characteristic of leadership» [1]. We can agree with this and draw attention to the fact that the modern Russian CR model is not completely unique, and in some cases corresponds to the modern models of the leading countries.

Corporations with a high leadership role in the board of directors in particular and in the company as a whole in Russia manage business processes most successfully and more effectively build relationships with the external business environment, for this reason they can be regarded as socially responsible. The development of leadership in the corporation and in the processes of corporate relations is a mechanism that quite successfully uses innovative approaches through the potential of more organizational and socio-economic superiority over competitors.

In general, the borrowed and unique features of the Russian CR model have already assumed a steady form. Over the past 15 years, a special Russian model of corporate management has emerged, it differs from the Anglo-American, European or Japanese. Regulators are seeking to introduce a culture of corporate management through specially developed principles of best management practices for Russia.

In our opinion, the abovementioned features of the Russian CR model are not an obstacle to the positive development of a company, which occurs when adequate measures are applied to prevent and resolve conflicts, for example, introducing modern corporate management standards, inviting independent directors, conducting external audits, disclosing information, and creating a corporate culture.

Due to these measures, the corporation has good development prospects: investment attractiveness usually increases, the loyalty of shareholders and employees improves, there are signs of a decrease in transaction costs (i.e., overcoming the consequences of a negative size effect) and an increase in labor productivity. Most of the successfully developing Russian corporations have chosen this development strategy, in particular, the mining and metallurgical corporations – PJSC Gazprom, Rosneft, LUKOIL, Severstal, etc.
Features of the Russian CR model on the example of a vertically integrated company. Let us present the analysis of CRs on the example of PJSC Severstal through the subsidiaries of Nordgold and PJSC Buryatzoloto. PJSC Severstal is one of the world’s largest vertically integrated steel and mining companies, with assets in Russia, Belarus, Ukraine, Kazakhstan, Latvia, Poland, Italy, and Liberia. Shares of Severstal are included in the quotation list of the first level of the Moscow Stock Exchange, and depositary receipts are listed in the «standard» category on the London Stock Exchange.

Severstal complies with the requirements of regulatory documents: Recommendations for the use of the Corporate Governance Code (2014), approved by the Central Bank of Russia and recommended for use by joint-stock companies whose securities are in circulation on the stock exchange (www.cbr.ru); UK Corporate Governance Code 2016 (www.frc.org.uk).

The content of CR is reflected in state and corporate legal acts and documents: charters, articles of incorporation, annual reports, codes of corporate conduct, etc. In developed countries, the code of corporate conduct is an integral part of a successful company, and an important argument for investors.

The Severstal Corporate Governance Code (2015) is based on the following basic principles: ensuring that the interests of all shareholders are respected; unified and clear company structure based on corporate strategy; balanced mergers and takeovers strategy supported by a majority of the Board of Directors; reliance on a trusted team of experienced and professional managers; applying best practices for disclosing information and a transparent corporate reporting system; a reliable platform to ensure high returns for shareholders over the long term.

An important feature of the Severstal CR is that a large proportion of the shares is owned by one person. According to the 2017 report (http://www.severstal.com/rus/ir/results_reports/annual_reports), the shares were distributed as follows, %: A.A.Mordashov – 77.03; free-floating shares – 20.15; treasury shares – 2.82. A.A.Mordashov acquired the shares by participating in the auctions for the privatization of PJSC Severstal, as well as through other purchases, and as of December 31, 2017, indirectly controlled 77.03 % of the share capital of PJSC Severstal. Thus, the distribution of shares of the parent company and subsidiaries fully meets the criteria of the «insider model». However, the company’s documents provide for several «counterweights» aimed at improving the situation with a CR within the framework of this model.

For example, the «Statement of Regulatory Compliance» states that «during the year, Severstal complied with all the requirements imposed on the first level listings on the Moscow Exchange and on the depositary receipts of the «standard» category on the London Stock Exchange, except that Severstal «did not enter into an agreement on relations with its main shareholder A.A.Mordashov. The Board of Directors seeks to ensure due attention to the interests of minority shareholders and their coordination with the interests of the main shareholder. The Board of Directors carefully analyzed whether minority shareholders could benefit from concluding an agreement on relations with the main shareholder, and concluded that the existing regulatory framework aimed at enabling Severstal to operate independently of the main shareholder and with companies, it is satisfactory and that transactions with the controlling shareholder and related companies are carried out according to the principle of market relations on fair commercial terms» (annual report PJSC Severstal for 2017).

The company’s documents also provide control mechanisms in this area: the board of directors consists of half of independent non-executive directors, and the Audit Committee and the Personnel and Remuneration Committee are chaired by independent non-executive directors; the major shareholder exercises his right to vote, including voting on issues relating to the amendment of the Severstal charter, in a form that does not infringe upon the interests of minority shareholders; the major shareholder does not vote on the approval of transactions with related parties. In addition, at least
High River Gold Mines is owned by Nordgold [9], the main development of Corporate Governance. In 2007, Nordgold was founded as a gold mining division of Severstal. In early 2012, Nordgold became a public company, being a subsidiary in relation to Severstal, it has six subsidiary gold mining companies, including Buryatzoloto. Thus, the Severstal group of companies is a classic holding that makes it possible to efficiently use the positive economies of scale and minimize the negative consequences, as evidenced by the positive economic results of all parts of the holding – from the parent company to the lowest structures.

Despite several inconsistencies of the neoclassical CR model, the modern Russian model has specific advantages, including both unique features and characteristics of the modern foreign CR model. It should be noted that modern foreign CR models are far from fully consistent with the neoclassical one.
Environment for CR formation. Like any developing system, the modern Russian CR model has both advantages and disadvantages. The remaining unsolved problems hold back the development of Russian CRs. These include the weakness of the institutional structure of the corporate sector, the presence of significant administrative barriers, the uncertainty of state policy, etc. An important problem is the uncertainty and imperfection of the regulatory framework governing the organization of corporate entities: legal regulation is superficial and fragmented; methods for coordinating the work of industrial complexes with federal and municipal administrative and economic departments have not been fully developed. There are no standards and rules for the formation of large diversified corporate entities, entrepreneurial unions (holdings, group corporations), their legal status, rights and functions of governing bodies are not defined. The presence of problems significantly complicates the development of CRs in Russia. In general, it can be stated that CRs are an important part of the modern Russian economic system, mining industry, and a factor in the realization of the socio-economic goals of the national economy.

Conclusions
1. The modern Russian model of corporate relations has common features and differences in comparison with foreign analogues, including specific disadvantages and advantages, and it needs further improvement.
2. The «insider» specificity of this CR model leads to a deepening of the social and property differentiation of Russian society; it interferes with formation of the middle class, effective demand and acceleration of economic growth.
3. The excessively high differentiation of incomes and the underdevelopment of the «environment» for CR functioning leads to large-scale export of capital to offshore zones.
4. These specific features gives rise to general socio-economic instability, which manifests itself in spasmodic inflation, unexpected economic recessions, etc.
5. A breakthrough in the development of CRs could be the promotion of creation of enterprises of «employee property», known abroad as the ESOP system (Employee Stock Ownership Plan) [20].

The formal development of corporate relations, reflected in the documents of companies and legal acts, must be implemented in reality. In practice, much more diverse forms of CR should be applied, including the forms of employee ownership.

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