

Microsoft's Dilemma in Iran: The Epitome of an Institutional Tragedy

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Abstract: This paper takes the operational dilemma faced by the American tech giant Microsoft in Iran as a starting point to dissect the structural predicament of multinational enterprises in the context of geopolitical conflicts under globalization. The study argues that Microsoft's dilemma is not accidental; rather, it is the inevitable result of the combined action of three institutional forces: the failure of international public law at the macro level, the extraterritorial long-arm jurisdiction of US unilateral sanctions at the meso level, and the principle of shareholder primacy within the company at the micro level. The fragmentation and 'soft-law-ization' of international law have created a regulatory vacuum, granting US domestic sanctions laws exclusive influence. The long-arm jurisdiction enforced by the US through its financial hegemony has alienated Microsoft's global technological network into an instrument of foreign policy. Meanwhile, the fiduciary duty of shareholder primacy under US corporate law, from the perspective of internal governance, has locked the board of directors into a position where any 'moral choice' potentially harming shareholder interests becomes virtually impossible. This paper contends that Microsoft's 'compliant' behavior is essentially its only rational exit within the existing institutional framework, revealing the irreconcilable structural conflict faced by multinational tech giants between undertaking 'quasi-governmental responsibilities,' obeying home-country laws, and fulfilling corporate ethics. This conflict epitomizes an 'institutional tragedy.'

Keywords: Microsoft; Iran Sanctions; Long-Arm Jurisdiction; Shareholder Primacy; Fragmentation of International Law; Corporate Social Responsibility (CSR); Digital Human Rights

1. Introduction

The United States has instituted a series of institutional blockades against Iran, which Microsoft, as an American tech giant, must strictly adhere to. This has resulted in its inability to sell products or provide cloud services in Iran, forcing local users to access Microsoft's technology through illicit channels. This essentially shifts part of the geopolitical responsibility that belongs to governments onto multinational corporations, compelling them to assume 'quasi-governmental duties' beyond their commercial activities.

As a large number of Iranian users can only resort to pirated Microsoft products, system vulnerabilities become difficult to patch, increasing cybersecurity risks. Simultaneously, Microsoft loses potential local market share and revenue, and the security of its own technology ecosystem is also adversely affected.

This dilemma more profoundly reflects the structural challenge for technology companies in seeking a balance between national policies, international compliance, and basic digital rights within the context of globalization. Furthermore, this dilemma can be deconstructed into institutional contradictions at the following three levels.

2. Research Methodology

This paper adopts an interdisciplinary research approach combining normative analysis and case study analysis. Grounded in the triple theoretical framework of international public law, US domestic economic law, and corporate governance theory, it focuses on Microsoft's operational practices against the backdrop of Iran sanctions for in-depth analysis. During the research process, relevant US laws and regulations concerning unilateral sanctions against Iran, judicial precedents on long-arm jurisdiction, Microsoft's official compliance statements, and publicly available decision-making documents were systematically reviewed. Concurrently, core theoretical literature on the fragmentation of international

law, digital human rights, and the principle of shareholder primacy was examined to construct a three-tiered analytical framework encompassing macro, meso, and micro levels. Through comparative study of typical sanctions enforcement cases and classic corporate law precedents, the interrelationship between geopolitical coercive force, legal institutional constraints, and corporate governance logic is clarified. Eschewing a purely moralistic perspective, this paper reconstructs the formation mechanism of Microsoft's dilemma from the level of institutional structure, ensuring the objectivity and academic rigor of the research conclusions. The entire argumentation focuses on institutional factors, avoiding subjective value judgments.

3. Analysis of Core Institutional Contradictions

3.1 The 'Quasi-Governmental Responsibility' of Tech Giants and the Legalization of Private Power into Public Authority

The US institutional blockade against Iran forces Microsoft to undertake the 'quasi-governmental duty' of enforcing sanctions within its commercial operations. At the institutional level, this dilemma first manifests as the requisition and alienation of corporate private power.

Against the backdrop of a governance vacuum in the global digital sphere, tech giants like Microsoft often proactively incorporate public values such as safeguarding digital human rights and maintaining the network ecosystem into their assumed 'quasi-governmental responsibilities' through discourses like 'Corporate Social Responsibility' (CSR)[1]. This is essentially a strategic expansion of the boundaries of 'private power,' aimed at shaping an ethical image for the corporation and carving out new legitimate market spaces.

However, when this discursively constructed and expanded 'private power' encounters the coercive force of the home state, its nature undergoes a fundamental reversal. The United States does not endorse the humanitarian aspects of Microsoft's voluntarily assumed quasi-governmental responsibility. Instead, based on domestic law, it unilaterally and coercively requisitions Microsoft's global technological infrastructure and market dominance. Microsoft's market system and technological network, originally voluntary tools serving autonomous commerce

and social responsibility, are alienated into mandatory administrative instruments for executing national foreign policy of isolation. Therefore, the assumption of so-called 'quasi-governmental responsibility' by Microsoft presents a profound paradox in practice: at the discursive level, it is a strategy for the corporation to proactively expand its influence; at the level of legal enforcement, it becomes a role the corporation is forced to play after its power is coercively requisitioned by the state. The 'legalization of private power into public authority' is the concentrated embodiment of this paradox. It reveals that when the home country of a multinational corporation imposes specific foreign policy objectives (such as comprehensive sanctions against Iran) on the corporation's global operations through powerful unilateral sanction laws, the corporation's ambition for such 'quasi-governmental responsibility' immediately clashes sharply with the mandatory requirements of domestic law[2].

3.2 The Cost of Compliance: The Deprivation of Local People's Basic Right of Access

Digital human rights, namely human rights in digital space, refer to a series of subordinate rights extended from human rights into the digital space as a result of the digital expansion of human living spaces. Their essence remains the protection of human rights, aiming to address the human rights vulnerabilities arising from the rise of digital networks. Due to the blockade and sanctions, Iranian internet users are forced to rely on pirated software with significant security risks. This, in the name of compliance, systematically deprives them of the right to participate in the process of global digital economic development and to access secure technological tools. It constitutes an infringement upon their digital human rights, plunging Microsoft into the dilemma of 'compliance as infringement.'

3.3 The Nature of the Dilemma: The Collusion and Inevitability of Institutional Structures

Microsoft's dilemma in Iran is not accidental; it is the inevitable outcome of the combined action of three institutional forces: the failure of international law, US unilateral coercion, and shareholder primacy. The following analysis will detail this structural predicament from the macro, meso, and micro levels.

4. Macro: The Failure and Impotence of International Public Law

The failure of international public law, namely the minimal effect and lack of enforcement power resulting from its 'fragmentation' and 'soft-law-ization,' constitutes the macro-level cause of Microsoft's dilemma. This systemic institutional failure has prevented the establishment of a unified and binding international rule for global digital governance. The direct consequence is that when Microsoft's business touches Iran, it finds itself in a situation of 'imbalanced rule supply': on one side are international norms that are advisory but lack enforceability, and on the other is the domestic sanction law of its home country, the United States, which possesses absolute extraterritorial effect and punitive power. The absence of international law essentially creates a unipolar legal space, granting US domestic law de facto exclusive jurisdiction and leaving Microsoft facing a vacuum of constraining rules [3].

4.1 The Disorderly State of Fragmentation and Soft-Law-ization

The 'fragmentation' of international law signifies a rupture in the rule system. In the digital space, trade rules, human rights norms, cybersecurity, and sovereignty principles have developed separately, forming multiple 'self-contained regimes' that lack coordination mechanisms[4]. For Microsoft, this means that when its platform provides services in Iran, it simultaneously triggers potential obligations belonging to different domains: providing digital services to Iran stems from the human rights regime, while the service prohibition originates from the US-led sanctions regime. However, there exists no superior international law or court with universal jurisdiction to adjudicate the priority of these rules. This situation of 'coexisting rules without arbitration' places Microsoft in a fundamental legal contradiction.

Concurrently, the effective formulation of multilateral 'hard law' has been hindered by the wave of deglobalization, leading to the prevalence of 'soft law.' Declarations and guidelines issued by international organizations, while possessing a certain degree of moral influence, lack binding legal force. Consequently, on the crucial issue of 'corporate respect for digital human rights,' the international community can only offer vague ethical

advocacy without forming clear legal commands-it can stipulate 'should do' but not 'must do.' Therefore, when Microsoft faces the enforceable sanction laws of the United States, it cannot invoke any international treaty with equivalent legal force as a legitimate defense. The soft-law-ization of international law essentially disarms it in the face of domestic unilateral coercion.

4.2 Consequence: International Rules Reduced to Tools of Great Power Geopolitics

The political consequence of the aforementioned disorderly state is direct and severe: the international rule system cannot effectively check the unilateral actions of hegemonic powers. Instead, it provides institutional convenience for them to instrumentalize global tech giants. Due to the lack of a sufficiently authoritative centralized judicial body to review and constrain state behavior, the power to interpret and enforce international law is easily dominated by geopolitical forces in reality.

This logic is fully manifested in the Microsoft case. International law neither established a basic principle akin to 'digital human rights shall not be derogated due to unilateral sanctions' beforehand, nor can it provide remedial channels for Iranian users whose rights are infringed upon afterward. This leaves the global digital infrastructure controlled by Microsoft (such as its cloud services, operating systems, and the developer platform GitHub) vulnerable to unimpeded utilization by US domestic law in the absence of international legal protection. These digital technologies, originally belonging to the realm of commercial private power, are thereby alienated into law enforcement tools for executing specific US foreign policies. The corporation's global operational decisions are forced to become deeply bound to the geopolitical strategies of its home country [5]. Ultimately, the international public law system, which should uphold order and justice, passively acquiesces to or even facilitates unilateralism's seizure of corporate private power due to its inherent fragmentation and soft-law-ization. The failure of international law allows US domestic law to advance unimpeded, shaping tech giants like Microsoft into precise, efficient, and 'compliant' pawns in its geopolitical games. This 'compliance' stems from the failure of international law. When the law fails to provide robust protection for digital rights, corporations,

subject to the will of sovereign states unconstrained by international norms, become de facto rule enforcers. Microsoft's termination of services to Iran, ostensibly following its home country's executive orders, fundamentally represents its home state reconstructing the boundaries of rights in global digital space. The defense of technological neutrality thus cannot hold, replaced by the carving of digital territories demarcated by nationality and wielded by the blade of sanctions.

5. Meso: The Extraterritorial Extension of Domestic Law and Unilateral Coercion

5.1 The Extraterritorial Extension and Unilateral Export of Domestic Law

The United States, through domestic legislation such as the *International Emergency Economic Powers Act (IEEPA)*, forcibly extends the effect of sanctions beyond its borders, forming 'long-arm jurisdiction.' Its core deterrent lies in controlling the two lifelines of multinational enterprises: the SWIFT system and the US dollar clearing system. Leveraging its dominant position, the US extends the effect of its sanctions extraterritorially. If a multinational enterprise transacts with sanctioned entities, its SWIFT messages will be monitored, and its US dollar clearing channels may be cut off.

For instance, the Swiss bank CA Indosuez (Switzerland) S.A. ultimately paid a \$720,000 fine to settle charges after processing approximately \$3 million in US dollar transactions for clients located in Iran and other sanctioned regions between 2013 and 2016. For Microsoft, whose global business is deeply tied to these two systems, any violation could lead to the closure of clearing channels, payment disruptions, subsequent breakage of the business chain, loss of markets and partners, and ultimately 'commercial death.' This hegemonic constraint also forces Microsoft into the role of an execution tool for US foreign policy, depriving it of operational autonomy.

5.2 Microsoft's Rational Response: Compliance Prioritized Over Responsibility

Faced with US sanction laws possessing extraterritorial effect, Microsoft's decision-making exhibits the characteristics of a 'rational choice': legal liability is absolutely prioritized over moral responsibility. The core of its compliance system is to avoid legal

punishment and commercial losses from its home country. Therefore, even knowing that blocking Iran will exacerbate the digital divide, it must enforce the sanctions, creating the structural paradox of 'compliance as infringement.'

6. Micro: The Institutional Rigidity of Shareholder Interest Maximization

6.1 The Core of Corporate Law: The Fiduciary Duty of Shareholder Primacy

Shareholder primacy is the unshakable cornerstone of US corporate law and the inescapable statutory fiduciary duty of the board of directors. Research finds that 'stakeholder provisions' in most US states are merely permissive, not mandatory. In acquisition transactions, management 'generally does not use its discretion to benefit stakeholders, but mainly to secure benefits for shareholders and management themselves'[6]. This means that when Microsoft faces business decisions, the legal guideline for its management is clear: prioritize shareholder economic interests. However, when this commercial tenet encounters the coercive force of extraterritorial US domestic law, it transforms from an internal governance principle into a mandatory directive for external behavior.

Specifically, the comprehensive US sanctions against Iran, formulated under authorities like the *International Emergency Economic Powers Act (IEEPA)*, such as the *Iranian Transactions and Sanctions Regulations (ITSR)*, prohibit US entities from providing services, technology, and software to Iran. In other words, Microsoft, as an entity subject to US domestic law, has its continued provision of a range of services to Iran presumed 'non-compliant.'

Therefore, Microsoft's actions are driven by the core institution of shareholder interest maximization and a series of specific domestic laws. When confronting geopolitical conflict, sacrificing the rights and interests of foreign users to safeguard shareholder interests is an inevitable choice dictated by the institution.

6.2 Analysis of the Inevitability of Blocking Iran

Firstly, regulations such as the US *Iranian Transactions and Sanctions Regulations (ITSR)* explicitly prohibit US companies from providing most services and technology to Iran. Continuing

to provide services to Iran is presumed 'non-compliant.'

Secondly, the board of directors must weigh the consequences of different decisions. If it were to circumvent sanctions for the sake of so-called 'humanitarian' or 'digital human rights'-framed as 'quasi-governmental responsibility'-it would expose the company to severe direct damages from the US government, including massive fines, criminal prosecution of executives, and market access restrictions. According to the IEEPA and enforcement cases by the Treasury Department, similar 'willful violations' can result in fines amounting to millions or even billions of US dollars. Such direct and enormous financial and legal risks would inevitably trigger a plunge in share price and immediately lead shareholders to file derivative lawsuits alleging breach of fiduciary duty. Under US corporate law, the board of directors bears the core fiduciary duty to pursue the maximization of shareholder interests. The classic judicial interpretation of this principle originates from the case of *'Dodge v. Ford Motor Co.'*, in which the ruling explicitly stated, 'a business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end.' Therefore, the board has almost no effective legal defense for a 'moral impulse,' such as providing services to Iran, that causes serious damage to shareholder interests.

In contrast, the risks associated with ceasing services to Iran are manageable. It entails only the loss of interests in one region and temporary reputational damage, yet it ensures that management fulfills its due legal duties. Moreover, there is no clear and effective international law requiring Microsoft to fulfill its quasi-governmental responsibility.

Under these circumstances, the rational and legally sound choice is inevitably to prioritize the protection of shareholder interests. This plunges the enterprise into a profound ethical and legal dilemma, with the outcome, in the vast majority of cases, being compliance with sanctions and the protection of short-term shareholder value.

Therefore, Microsoft's 'compliant' behavior, which appears to be an infringement on the human rights of foreign users, is actually the inevitable outcome dictated by the dual constraints of unshakable shareholder interests and the rigid stipulations of home-country law. Expecting Microsoft to violate its statutory

fiduciary duty, to fulfill a 'quasi-governmental responsibility' lacking international legal enforceability, and to defy the sanction laws of its home country is an unrealistic fantasy within the existing institutional framework. Human rights inevitably yield to compliance and profit.

7. Conclusion: Structural Conflict and an Insoluble Dilemma

In summary, Microsoft's dilemma in Iran is a typical structural tragedy. Its root lies in the profound conflict and power imbalance among institutional logics operating at different levels.

The source of the dilemma lies in the systemic failure of international public law. Its fragmentation and soft-law-ization have failed to establish unified and binding rules for global digital space, let alone check unilateralist actions, thereby creating a unipolar legal space that grants the most powerful domestic law exclusive influence.

The direct pressure of the dilemma stems from the coercive logic of US unilateral sanctions. Through long-arm jurisdiction and control over global financial infrastructure, the US extraterritorializes the effect of its domestic law, forcing multinational enterprises like Microsoft to alienate their global operational networks into instruments of foreign policy. The autonomous business judgment of the enterprise gives way to geopolitical compliance.

The final adjudication of the dilemma is executed by the micro-level corporate governance principle of shareholder primacy. Under US corporate law, the board's fiduciary duty to maximize shareholder wealth possesses institutional rigidity. When faced with the choice between obeying sanctions (safeguarding shareholder interests) and upholding the digital rights of Iranian users (undertaking 'quasi-governmental responsibility'), the former is the only rational path legally mandated and incentivized, while the latter incurs dual punishment from both the legal system and capital markets for causing damage to shareholder interests.

Therefore, Microsoft's seemingly 'malevolent' action in Iran does not stem from the moral failure of the individual corporation. Rather, it is the only feasible exit for Microsoft under the joint pressure of three structural forces: the absence of macro-level international law, the coercion of meso-level home-country law, and the constraints of micro-level corporate

institutions. This conflict is fundamental and irreconcilable within the existing international political-economic and legal framework. As long as the basic institutional logics underpinning the current globalized system do not undergo fundamental change, 'institutional tragedies' similar to Microsoft's dilemma will continue to replay in various domains.

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