However, once trained, MNEs would like to keep them for a few years, and thus not only typically pay *higher* wages relative to similar positions in local firms but support the families and communities (see Integrative Case 'German Chamber of Commerce').

On the other hand, local employees in management and professional positions have increasing bargaining power because local supply of top talent is often limited, especially in emerging economies. Top software engineers and analysts in India and China are scarce, their salaries have been rising by up to 30% per year, while staff turnover even in top outsourcing firms is 15 to 20%.[39] It is not surprising that high-calibre local employees, because of their scarcity, will fetch more pay (In Focus 16.3). MNEs unwilling to pay top local talent top salaries may end up losing such local talent to competitors that are willing to do so. The quest for talent results in a competitive bidding, and eventually individuals qualified for top positions and internationally mobile will earn international rates regardless of nationality.[40]

IN FOCUS 16.3

Competing for talent in China

This may be hard to believe, but the most populous country in the world has a shortage of managers. Chinese and foreign firms need globally competitive executives in China, yet few executives have the required combination of skills. Thus MNEs of all stripes are going after the same pool of talent, and the pickings are especially slim at the top. Although the average annual pay rise has been 10% or more in recent years, it can be much more for top talent. Top talent is often snatched up, quickly promoted and then, all too often, headhunted away. Even middle managers quickly quit when offered a slightly higher salary down the road. One study finds that every year, 43% of executives in China voluntarily quit, compared with 5% in Singapore and 11% in Australia. Another study puts the average turnover at 14%. Although estimates vary, China probably now has the world's highest turnover rate for managers.

In a tight job market, money clearly matters. But beyond compensation, training and development are key to staff retention, with inpatriation in the MNE's parent country being one of the most sought-after prizes. At *GE* China, 60% of the salaried employees are under 35. Young managers take on responsibilities that twenty-something employees elsewhere can only dream about. A position that takes ten years to reach in Japan or five years to reach in the West often takes only three years to get to in China; otherwise, the MNE risks losing such talent. *GE* finds that its executives are especially vulnerable after three years. This is the crucial point at which they have soaked up enough training and responsibility to make themselves attractive, but they are not yet really loyal to *GE*. In response, *GE* tries hard to stimulate, recognize and nurture promising managers and thereby to reduce its executive turnover to 'only' 7%.

Adding to the heat, Chinese firms have entered the fray. *Alibaba*, *Tencent*, *Haier*, *Huawei*, *Lenovo* and *Xiaomi* are successfully raiding the managerial ranks of *Microsoft*, *Google* and other MNEs. This reflects a sea change. Ten years ago, no self-respecting executive would quit a Fortune 500 MNE to join a local outfit. Now such moves are considered very smart, and many MBA graduates aspire to work for local internet start-ups or venture capitalists, rather than for MNEs. Although Chinese firms do not necessarily outbid the MNEs in compensation, Chinese firms offer something that is hard to beat: no glass ceiling, no expats and unlimited promotion opportunities.

Sources: (1) Authors' interviews in China; (2) *Business Week*, 2006, Management grab, August 21: 88–90; (3) *Business Week*, 2005, Stealing managers from the big boys, September 26; (4) V. Hulme, 2006, Short staffed, *China Business Review*, March–April: 18–23; (5) K. Lane & F. Pollner, 2008, How to address China's growing talent shortage, *McKinsey Quarterly*.