

Three Questions with Joseph J. Liberatore Executive Vice President and CFO, Kforce, Inc.

Kforce Inc. (Nasdaq: KFRC) reported year-end 2010 revenue of \$990.8 million, up nearly 9% from 2009. Net income was \$20.6 million, or \$0.51 per share, increases of 60.3% and 54.5% respectively over 2009. Most notably, over the past five years the firm's stock performance has increased 44.9%, ranking Kforce No. 1 in its peer group. Joseph J. Liberatore, Kforce's executive vice president and CFO, shares with us the firm's strategy for achieving and maintaining that level of performance.

What were Kforce's most critical actions over the past five years that enabled the firm to perform so strongly?

"It all starts with getting the right people in the right roles, and then motivating and rewarding them for accomplishing clearly outlined objectives. That approach forms the foundation of the firm's corporate culture. It really begins with our three-year planning cycle, a process that allows us to set the stage to align, prioritize, focus and simplify objectives based on where we desire to be in three years. It's a pretty exhaustive process that takes six months to organize. It's very rigorous, and creates a healthy dynamic tension at the executive level. When we come out of that planning process, we have very good alignment and the positions needed to lay framework for the objectives.

"We also have an annual planning meeting and checkpoints along the way to see where we are and to ensure nothing significant has taken place that might require a course redirection. Then we go to the next layer, which feeds into our annual POA (plan of action) process. This goes all the way down to the market and business unit support levels. It allows us to align field sales with various corporate and sales support functions. That is all supported by a 12-month rolling forecast process that allows us to maintain our focus on and be accountable for established financial revenue targets as we move into implementation.

"The reason this works inside Kforce is because we have a relentless focus on communication and management of expectations. We are always looking for how we can create leverage, in particular through our sophisticated PMO function, our project management office. This allows us to execute initiatives quickly and in a high quality manner so we can continue to drive optimization and efficiency. It allows us to keep everyone connected from a communications standpoint, and drives high accountability and associated expectations.

"It is that methodology and process to which I attribute our success."

What are the challenges in sustaining this performance for the next 5 years?

"The key is not to become complacent with past success, and to continue to focus on our overall process so all the various entities within the firm remain aligned to achieve the clear objectives that we lay out. The process lets us understand the external marketplace and competitive landscape, as well as our internal dynamics, all of which is necessary to remove noise from the channel and keeps the firm moving as one collective body to achieve our objectives.

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“Kforce also makes significant and ongoing investments in our infrastructure, especially technology. Thus, we must remain focused on maximizing those investments as well as our past experience. This will ultimately result in our ability to deliver our services to customers in a timely and quality manner as compared to our competition. Professional staffing is much more competitive than ever, and I don’t see that ending. That is why our focus must remain on speed and efficiency without sacrificing quality. Virtually everything we have done in the past seven years has been in those areas.

“Another element that allows us to outperform the competition is our focus on innovation. We must keep that innovation going and not be content to rest on our laurels or become complacent. The underlying piece to all of this is that we continue to focus very hard on retention. We currently have the best leadership team, associate population and support infrastructure in the firm’s history. Our focus must be on holding on to those folks because their expertise and experience allow us to do more in a more timely and cost-effective manner.

“We’re a human capital entity. There is no real secret formula. Our differentiator in the marketplace is our culture.”

Is Kforce’s recent performance an indication of shifts in either the economy or broader business practices?

“It’s really a combination of multiple dynamics. I’d go back to that relentless focus on maintaining the strong culture we have built inside Kforce. It doesn’t matter what is happening externally if we lose that. Driving retention creates a flywheel effect where we can accomplish more in a more efficient manner.

“There is a unique backdrop to all this because of the uncertainty in the marketplace around human capital. Clients are more hesitant to go long on human capital because of the uncertainty of the economic backdrop and where the economy is going. It’s a very unique situation that is projected to drive temporary employment penetration to its highest level ever. Currently, 1.7% of every employment dollar spent is on temporary help. The analysts we are talking to indicate that everyone is anticipating that we’ll break through the high water market with temporary employment because of the ongoing uncertainty that is driving the need for a more flexible workforce.

“In 2010, 36% of total job creation was in the flexible workforce. When you think about 36% of job creation, and temporary staffing making up roughly 1.7% of total U.S. payroll, right there you can see there is a significant shift happening where employers are looking to add flexibility.

“Everything we’ve done has put Kforce in a very exciting place from a leverage standpoint. We are the most optimistic that we have ever been. It’s all about being in the right firm at the right time and, fortunately, having done all the right preparation to maximize business and provide maximum shareholder return.”

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