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Benchmark Background and Objectives



Objectives in completing the benchmark

- Establish a baseline of NNSA - Pantex's Human Resource (HR) organization
 - Identify staff mix and resource allocation
 - Identify key cost drivers
- Compare Pantex's Human Resources to a Minimum and Maximum Site Performer, Site Median, Peer Group Median (cross-industry), and World-Class Human Resources organizations in order to identify performance gaps and quantify those gaps
- Provide a balanced, qualitative perspective through Executive interviews and comprehensive stakeholder surveys
- Learn how the sites together compare to an appropriate peer group of companies from a cost and FTE standpoint

Pantex's HR Benchmark scope and timeline

NNSA - Pantex's Benchmark Scope

- Benchmark covered NNSA - Pantex's HR investment across 11 processes as defined by Hackett
- Information was collected for all of Pantex
 - FTE data and best practice questions were collected across all the locations
- The benchmark period for which costs, full-time equivalents ("FTEs"), practice related and volume data were collected was fiscal year 2008 (ending September 30, 2008)

NNSA - Pantex's Benchmark Timeline

- Planning:
 - December 2008
- Kick-off:
 - December 16, 2008
- Data Collection/Executive Interviews:
 - December 17 through February 13, 2009
- Site Review:
 - March 10, 2009
- Final Presentation:
 - March 17, 2009

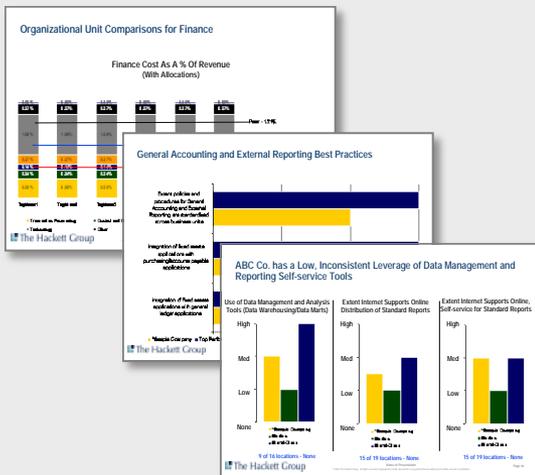
Data was collected in accordance with Hackett's HR taxonomy

Transactional	Employee Life Cycle	Planning and Strategy	Management and Administration
<ul style="list-style-type: none"> ■ Total Rewards Administration <ul style="list-style-type: none"> - Health & Welfare Administration - Pension & Savings Administration - Compensation Administration ■ Payroll Services <ul style="list-style-type: none"> - Payroll Administration - Time & Attendance ■ Data Management, Reporting & Compliance <ul style="list-style-type: none"> - Employee Data Management and HR Reporting - Compliance Management 	<ul style="list-style-type: none"> ■ Staffing Services <ul style="list-style-type: none"> - Recruiting and Staffing - Exit Process ■ Workforce Development Services <ul style="list-style-type: none"> - Transferable Skills ■ Organizational Effectiveness Services <ul style="list-style-type: none"> - Organization Design and Development - Employee Relations - Labor Relations 	<ul style="list-style-type: none"> ■ Total Rewards Planning ■ Strategic Workforce Planning 	<ul style="list-style-type: none"> ■ Function Management



Our analyses and recommendations were based on three separate inputs

Benchmark Questionnaire



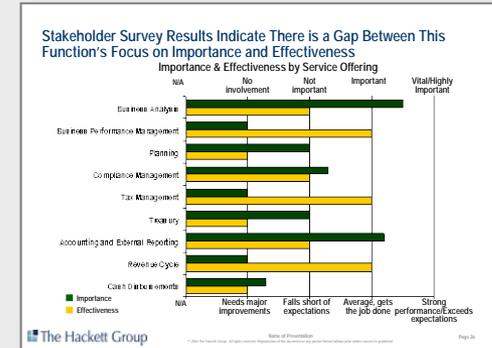
- Completed by HR staff

Executive Interviews

- Gather management's perspective on:
 - Overall functional efficiency and effectiveness
 - The strategic connection between HR and specific business objectives
 - How recent, related initiatives effect business objectives
 - Opportunities for further improvement concerning HR
 - Expectations from the benchmark process

- 2 phone interviews with Deputy General Manager and HR Division Manager

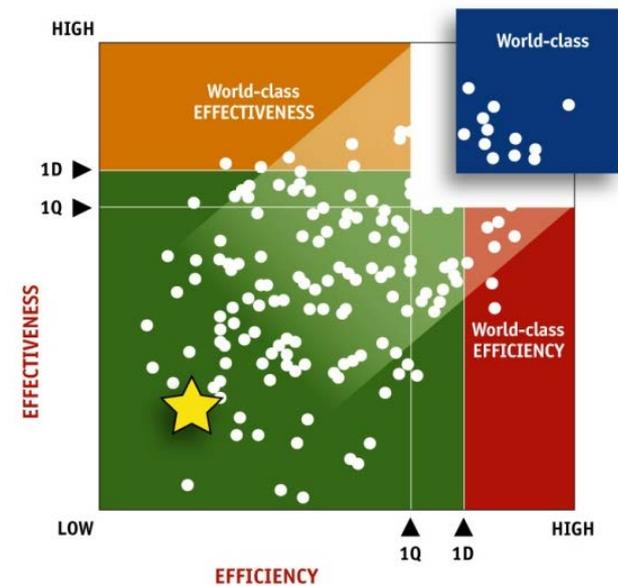
Stakeholder Survey



- 72 responses to the HR Stakeholder Survey

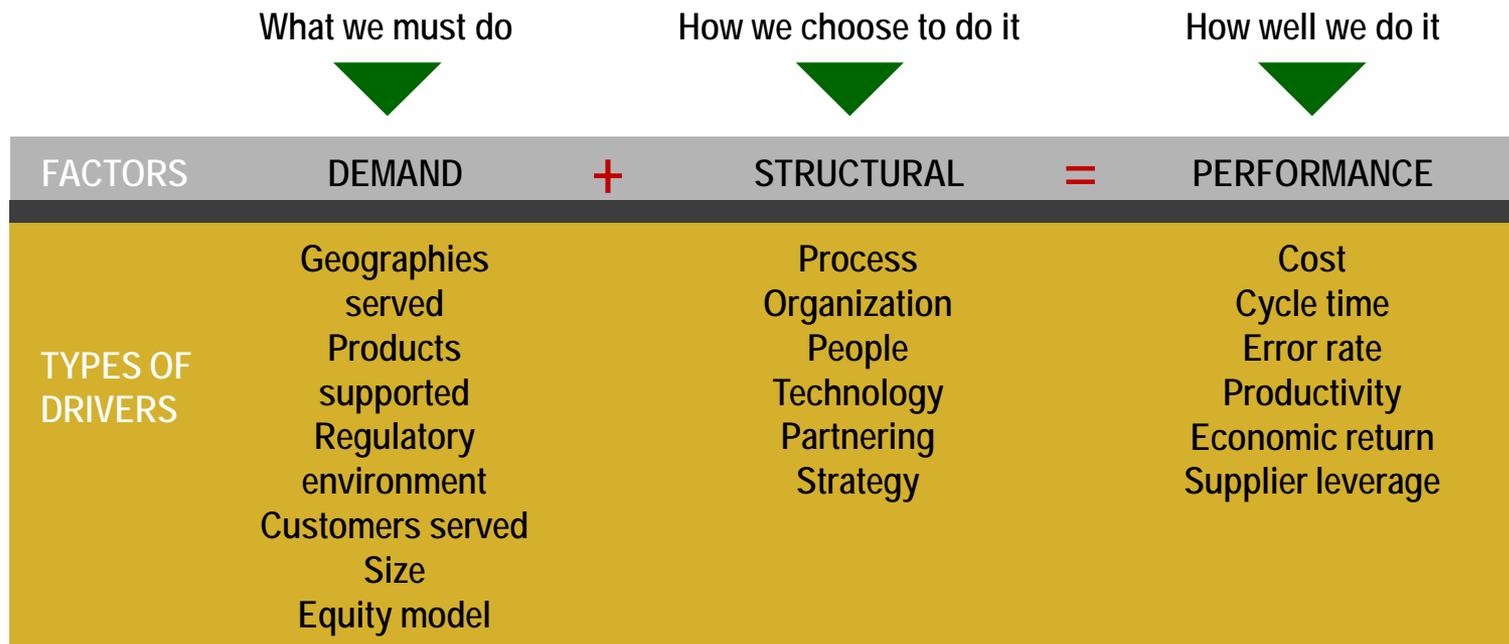
We compared Pantex to several key comparisons

- NNSA Site-specific:
 - **Site Min:** the lowest value across the Sites
 - **Site Median:** the median value across the Sites
 - **Site Max:** the highest value across the sites



Hackett's HR benchmark addresses the important drivers of effectiveness and efficiency

Results identify, quantify and prioritize improvement opportunities offering the greatest potential return



Benchmark results should be evaluated in conjunction with the specific requirements of Pantex's industry

What this benchmark is . . .	What this benchmark is not . . .
A starting point	Not the end answer
Tells us where to focus	Not a detailed analysis of <i>how</i> to redesign our processes
Process based comparison data was scrubbed internally and externally by Hackett	Not an exact match to our departments . . . no benchmarking is
One input to setting targets	Not the only input
A broad look at Human Resources as defined by Hackett	Does not cover all aspects of your company's operations

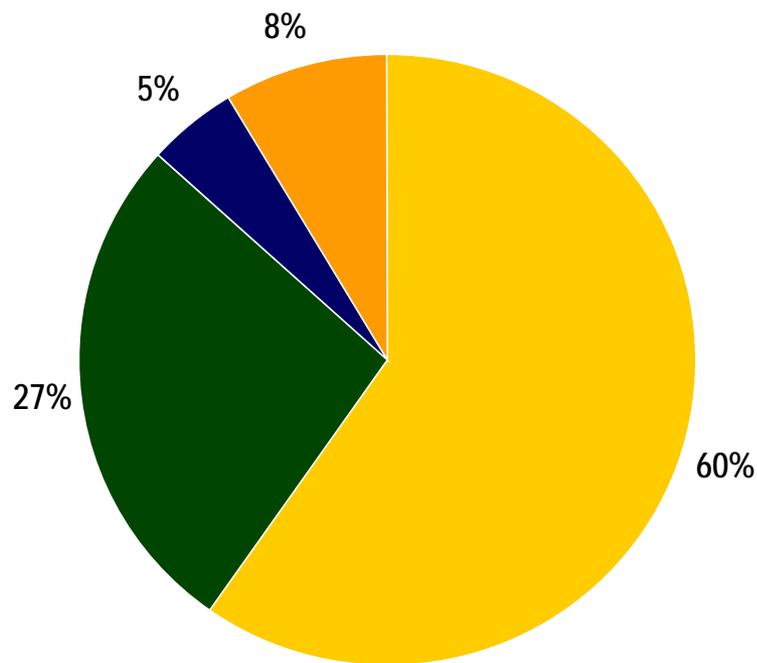


Company Baseline



Pantex's baseline HR cost is \$9.1 million, or \$2,710 per employee

Total HR Cost
\$ 9.1 Million



Total employees = 3,351

Other cost –\$0.8 Million

- Facilities & Overhead
- Travel
- Training
- Other (Supplies, subscriptions, etc.)

Technology cost – \$0.4 Million

- Computer processing
- Maintenance

Outsourcing cost – \$ 2.4 Million

- Outside services

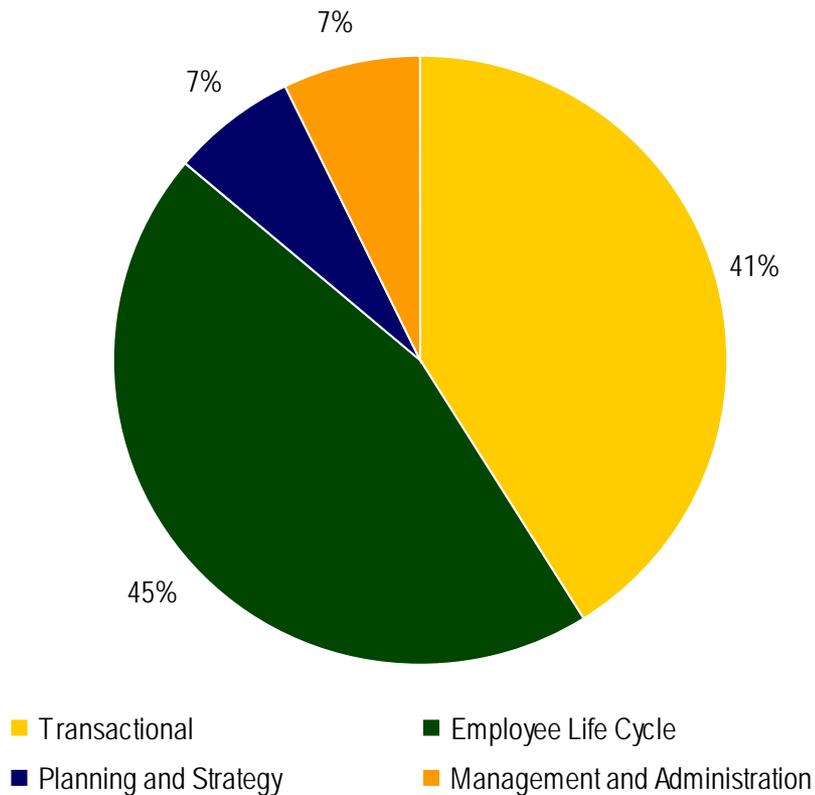
Labor cost –\$ 5.4 Million

- Wages (full-time and part-time)
- Overtime and bonuses
- Taxes and fringe benefits

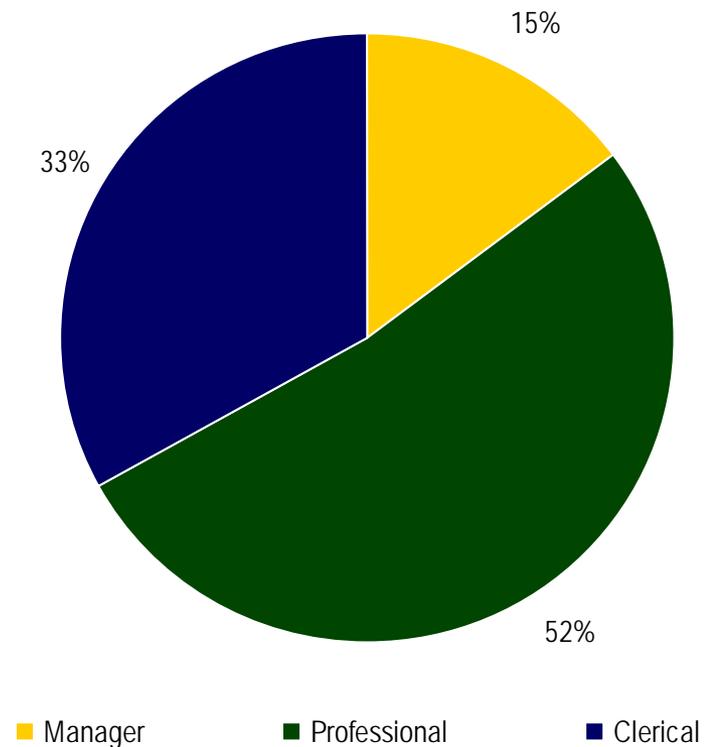
Process Cost:
\$ 7.8 Million

41% of Pantex's resources are allocated to the Transactional processes

Resource Allocation



Staff Mix



Executive Summary

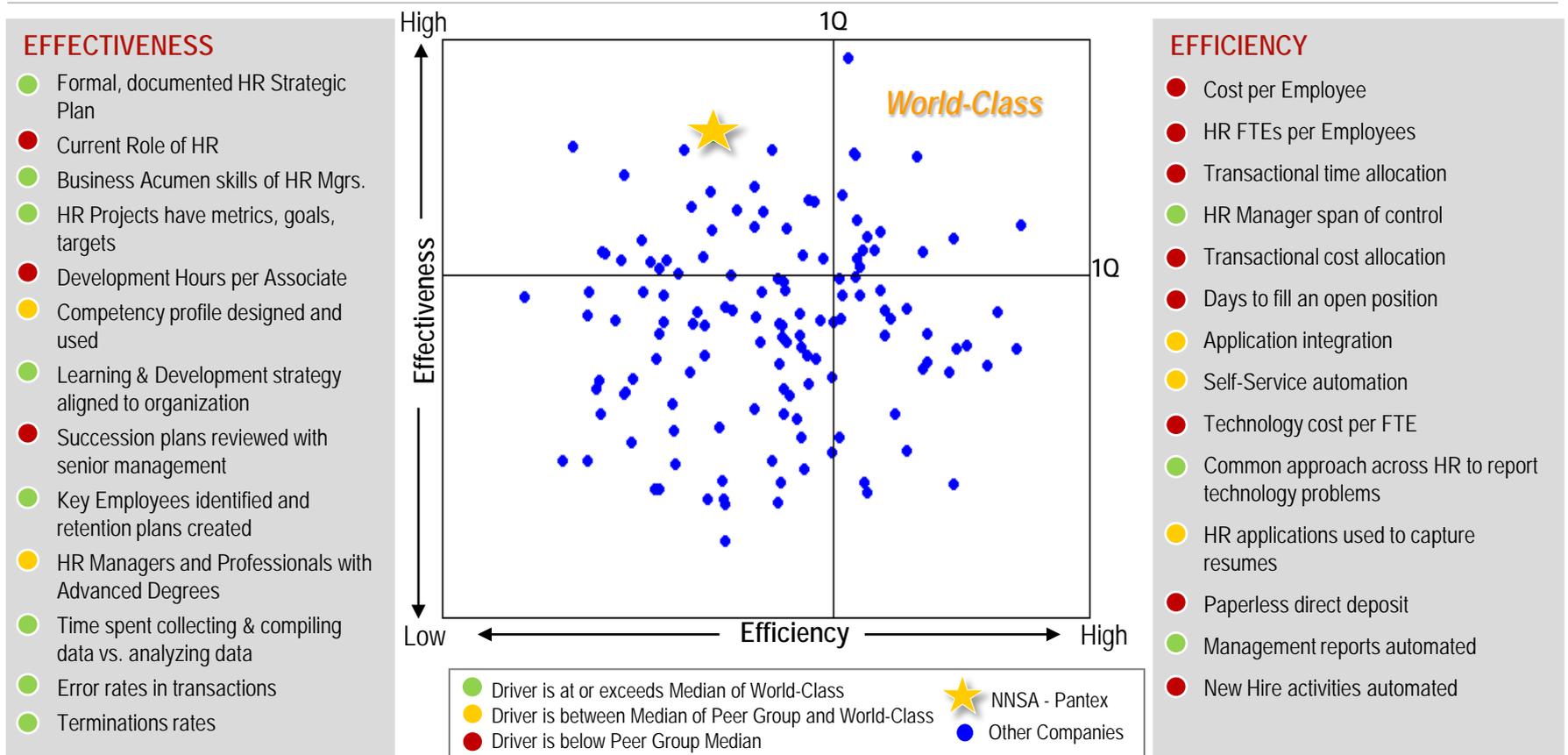


Key findings and observations

- Pantex's overall Human Resource performance has opportunity to improve efficiency.
 - Efficiency scores are held back from 1st quartile due to overall cost per employee, higher number of HR FTEs supporting the processes, greater FTE and cost allocation to the transactional processes, limited technology investment and longer days to fill open positions.
 - Effectiveness scores are 1st quartile because Pantex reported they have a formal, documented HR strategic plan in place, HR spends more time analyzing data rather collecting and compiling data for reporting purposes, lower error rates in the transactional processes, key employees have been identified and formal retention plans created for them, and Pantex has aligned their learning and development strategy to the organization's strategic plan.
- Pantex's Human Resources cost per employee is \$2,710 which is the Site Median.
 - Pantex's labor cost makes up 60% of the total HR cost and outsourcing makes up 27% of the total HR cost.
 - Pantex's overall resource allocation is 4% higher than the Site Median and 84% higher than the Site Min. Pantex has more FTEs than the Site Median in all the processes except Data Mgmt, Staffing, and Workforce Development
- Overall technology costs are significantly less than the other Sites.
 - Despite the lower investment, Pantex reported over 60% automation in Total Rewards Administration, Payroll, Time & Attendance, and Staffing. There is opportunity to increase self-service in Data Management, the Exit process, and the new hire process.
- Stakeholder survey feedback indicates HR as an Expert while HR views itself as a Valued Business Partner.
 - Stakeholders would like HR to be more proactive.
 - Stakeholders see a gap in HR's effectiveness in Recruiting, Strategic Workforce Planning, Workforce Development and Compensation Administration.

Pantex has opportunities to reach higher levels of efficiency

Hackett Value Grid™

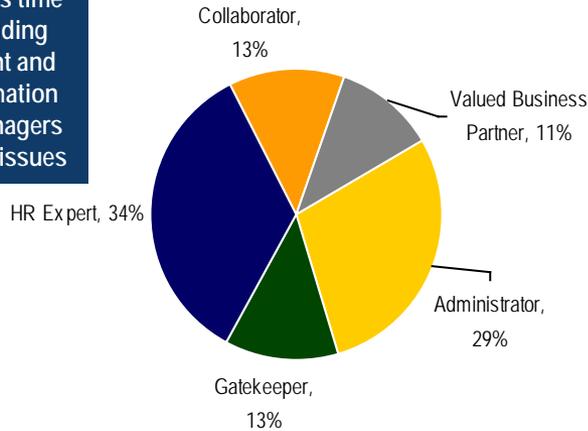


Note: The ranking of the drivers are a representation of gaps to world-class and are not a direct indicator of where to focus/ launch initiatives. Specific action plans should not be developed until after the benchmark results are assessed within the context of the functional and business strategies.

Stakeholders view HR as an Expert, while HR views itself as a Valued Business Partner

Stakeholders' Perception of HR's Role

HR Expert – Spends time providing insight and information to managers on HR issues

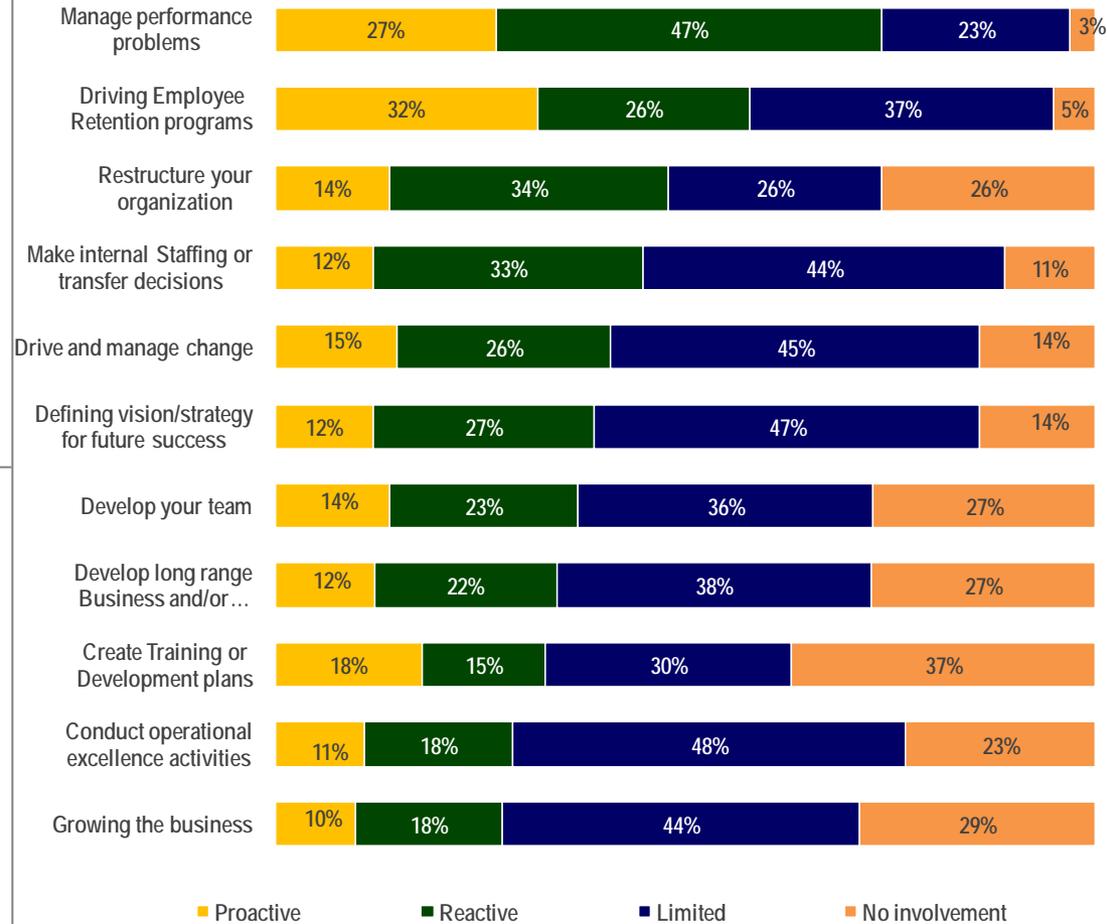


HR's Perception of Its Role

HR Views Itself as a Valued Business Partner

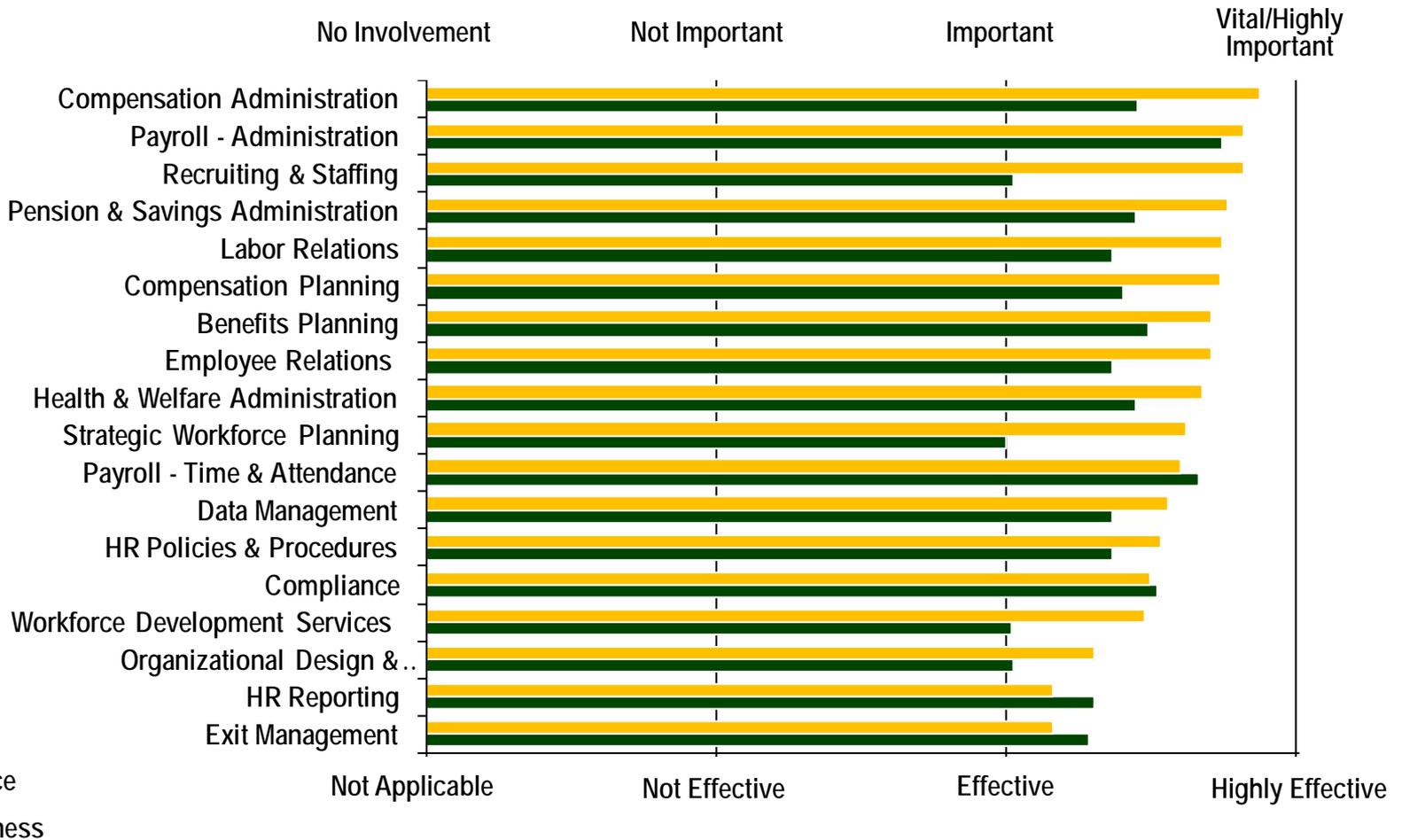
Valued Business Partner - Spends time with other business/functional heads. Interested in improving my business metrics rather than HR's agenda

Stakeholders' Perception of HR Involvement



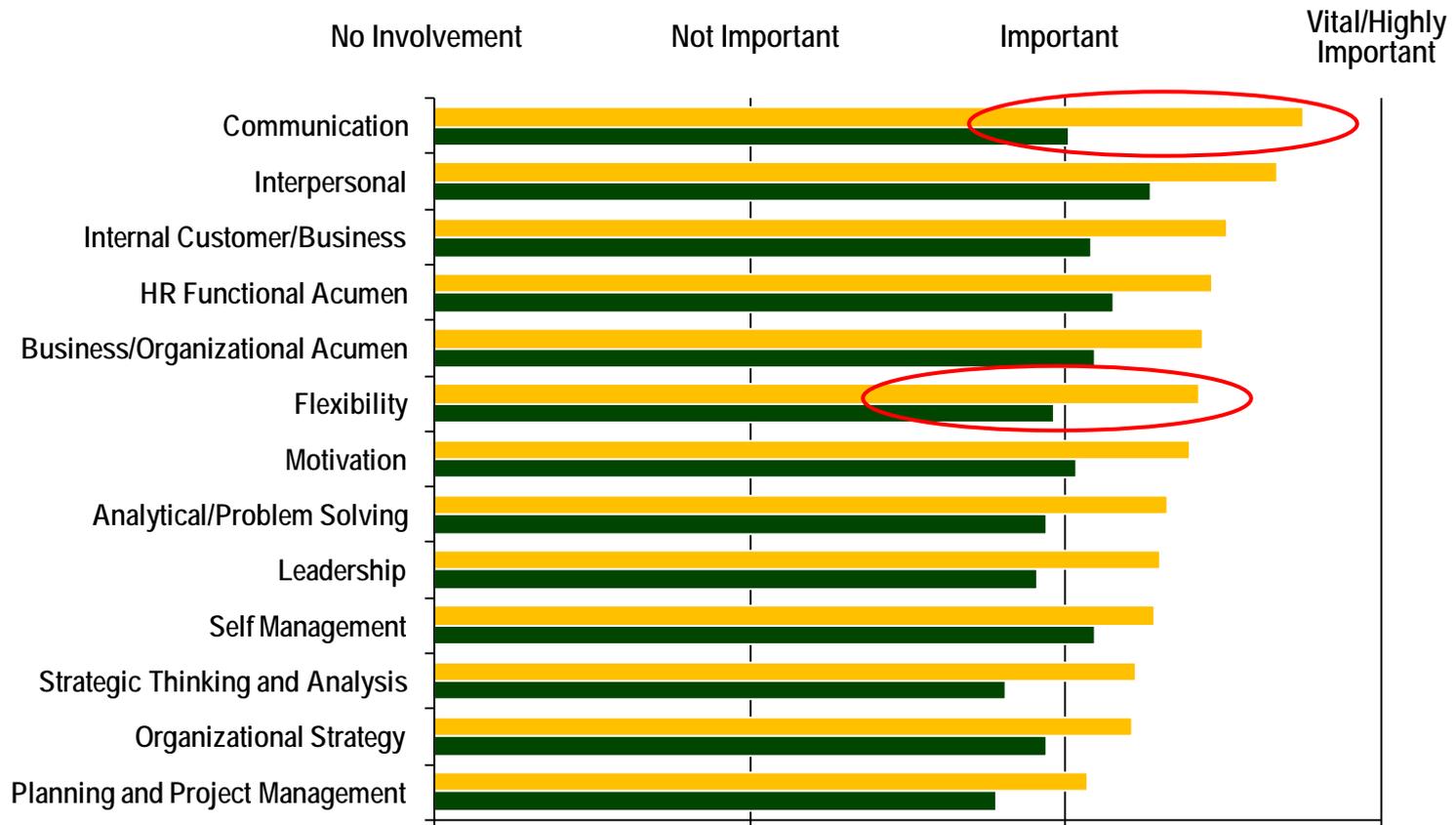
Overall, stakeholders view HR as effective; some opportunity exists in Recruiting and Workforce Planning

Importance & Effectiveness by Service Offering



Stakeholders would like HR to increase their skill set in several key areas specifically communication and flexibility

Skill Set Importance & Effectiveness



■ Importance
■ Effectiveness

Needs Major Improvements

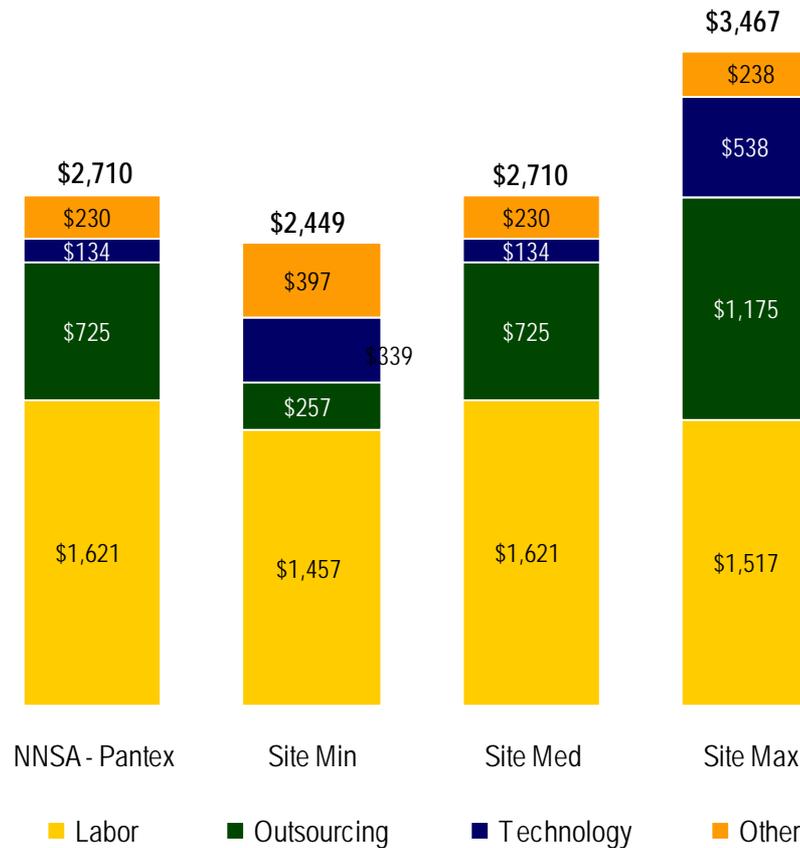
Falls Short of expectations

Average, Gets the job done

Strong Performance / Exceeds expectations

Pantex's HR cost per employee is the Site Median

HR Cost (\$) per Employee



Pantex's HR cost differences to the Site Top Performer

HR Processes	NNSA - Pantex's Costs (in Millions)	NNSA - Pantex's Gap to Site Top Performer (in Millions)
Total Rewards Administration	3.21	1.65
Payroll Administration	0.33	0.19
Time and Attendance	0.21	0.18
Data Management, Reporting and Compliance	0.49	0.26
Staffing Services	0.84	0.45
Workforce Development	0.47	0.39
Labor Relations	0.53	0.46
Organizational Effectiveness	0.79	0.20
Total Rewards Planning	0.11	0.02
Strategic Workforce Planning	0.26	0.22
Function Management	0.61	0.47
Total Process Costs	7.86	4.49
Technology Cost	0.45	(0.00)
Other Cost	0.77	0.43
Total HR Cost	9.08	4.92

Note: Values are in (\$).

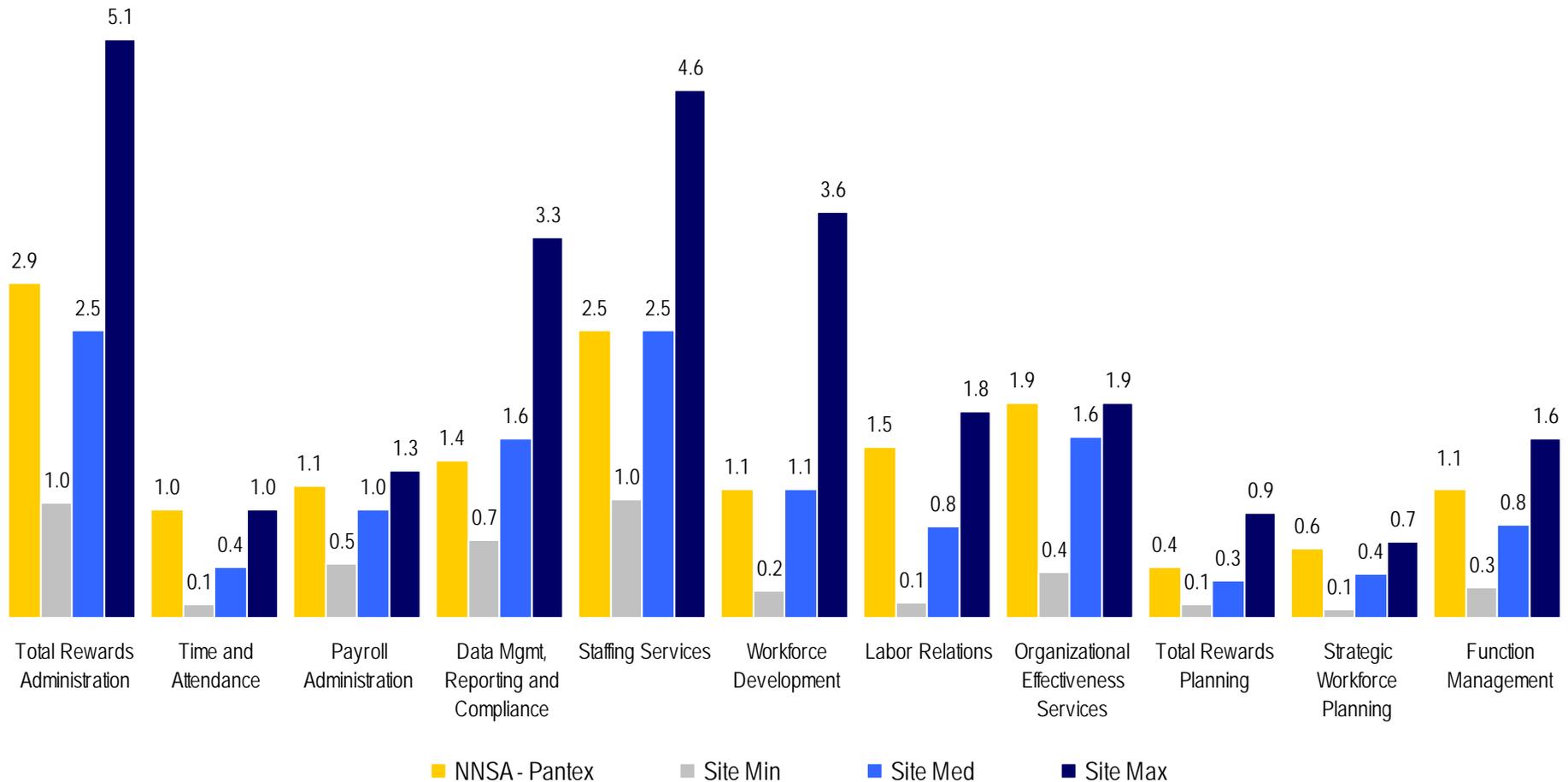
Performance Driver Analysis

- Process
- People/Organization
- Technology/Other



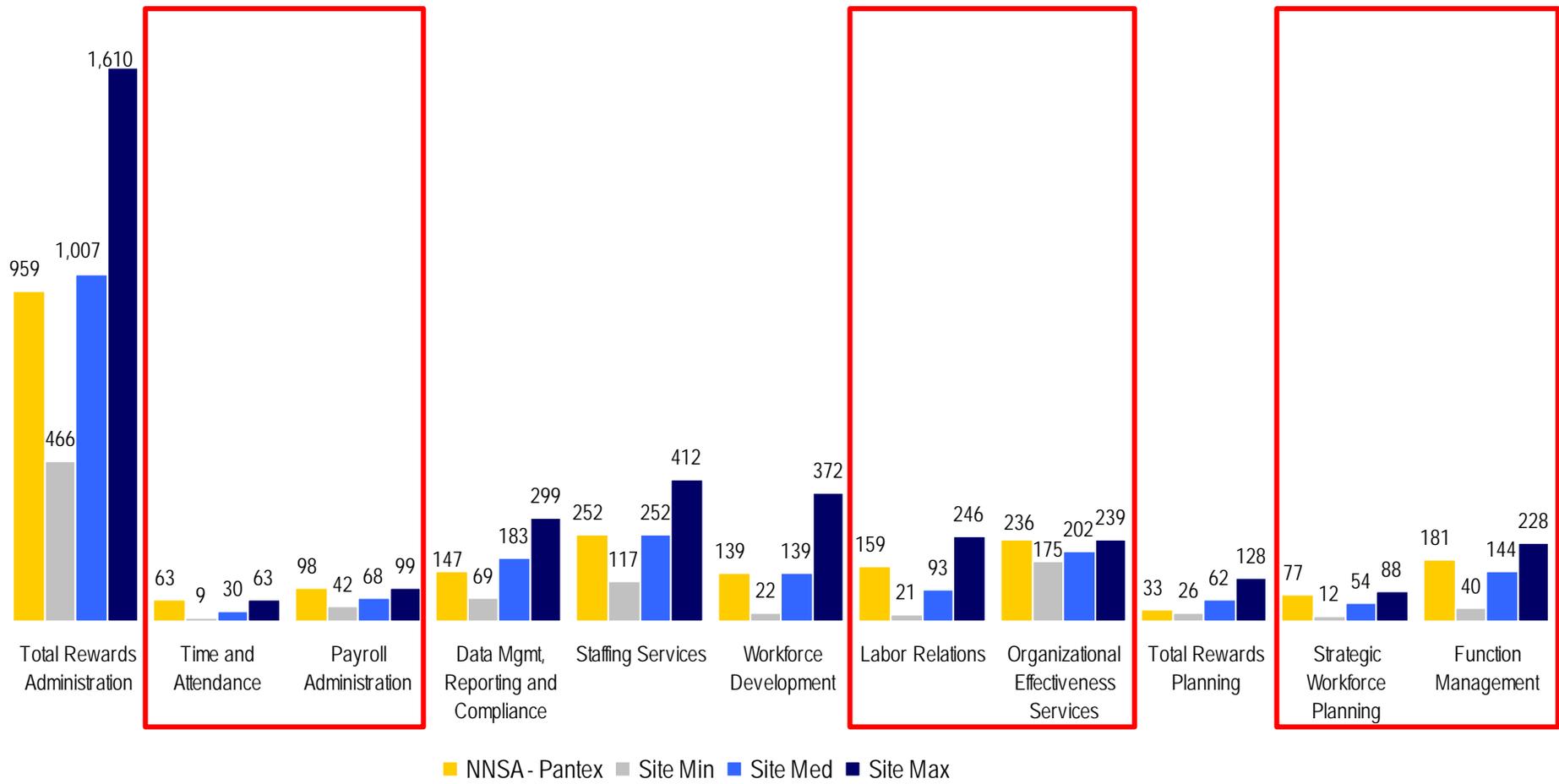
Pantex has more FTEs than the Site Median in all the processes except in Data Mgmt, Staffing, and Workforce Development

HR FTEs per 1,000 Employees



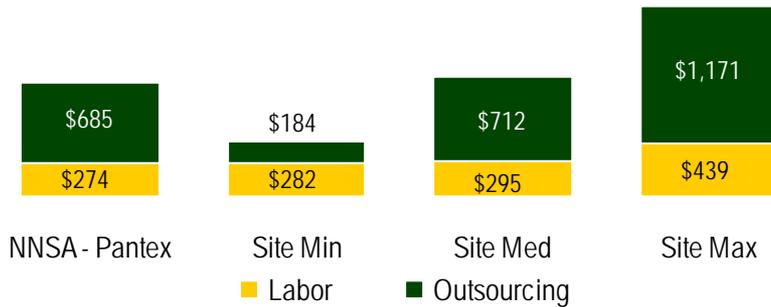
Pantex has higher cost than the Site Median in 6 of the 11 HR processes

Process Cost (\$) per Employee

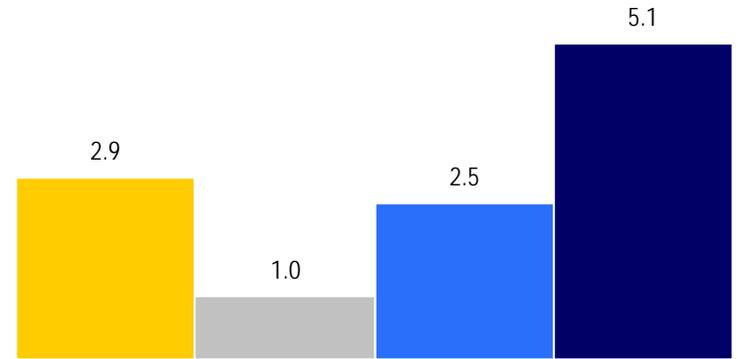


Pantex has 5% less process cost compared to the Site Median, but 16% more FTEs

Total Rewards Administration Process Cost (\$) per Employee

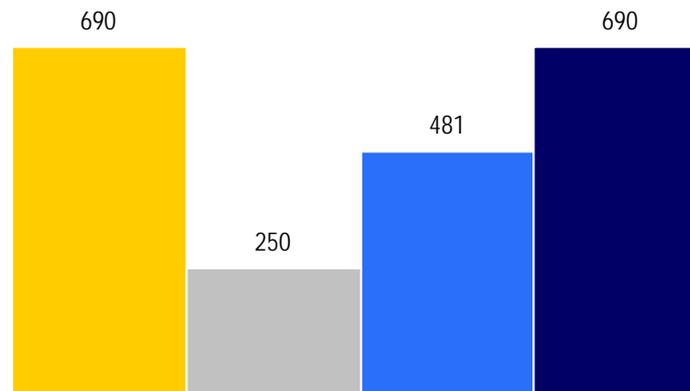


Total Rewards Administration FTEs per 1,000 Employees



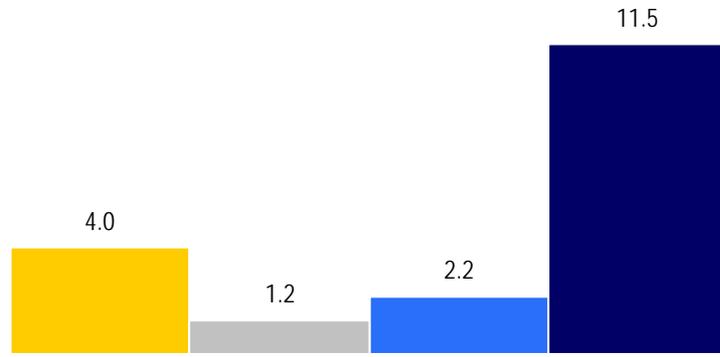
■ NNSA - Pantex
 ■ Site Min
 ■ Site Med
 ■ Site Max

Total Rewards Administration Cost per Served

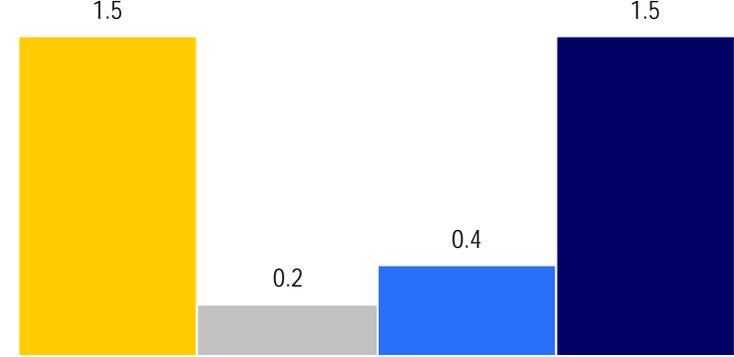


Pantex offers more Health & Welfare plans, Pension & Saving plans, and Compensation plans than the Site Median

Number of Health & Welfare Plans per 1,000 Employees and Retirees Served

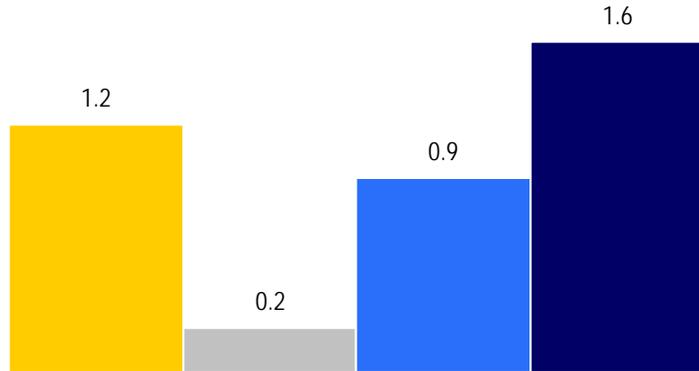


Number of Pension & Savings Plans per 1,000 Employees and Retirees Served



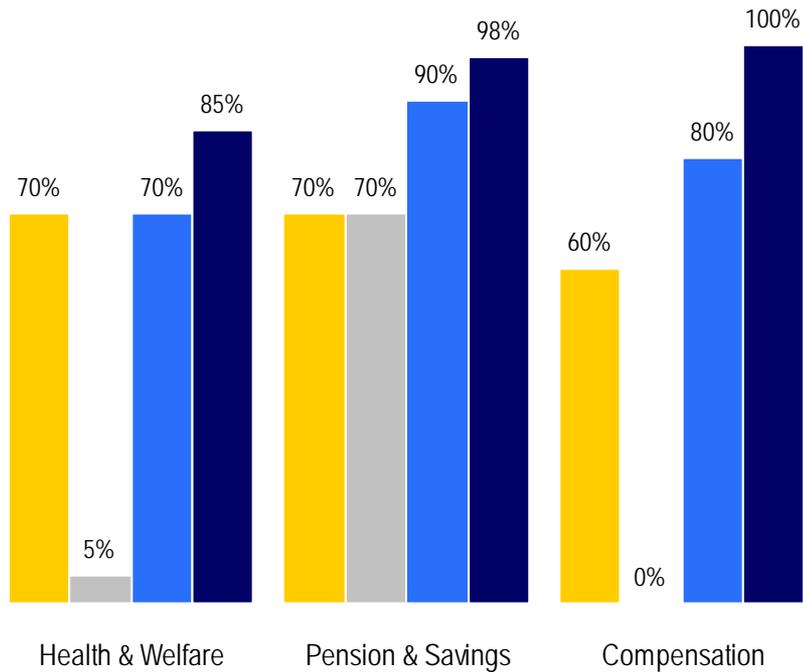
■ NNSA - Pantex
 ■ Site Min
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Number of Compensation Plans per 1,000 Employees

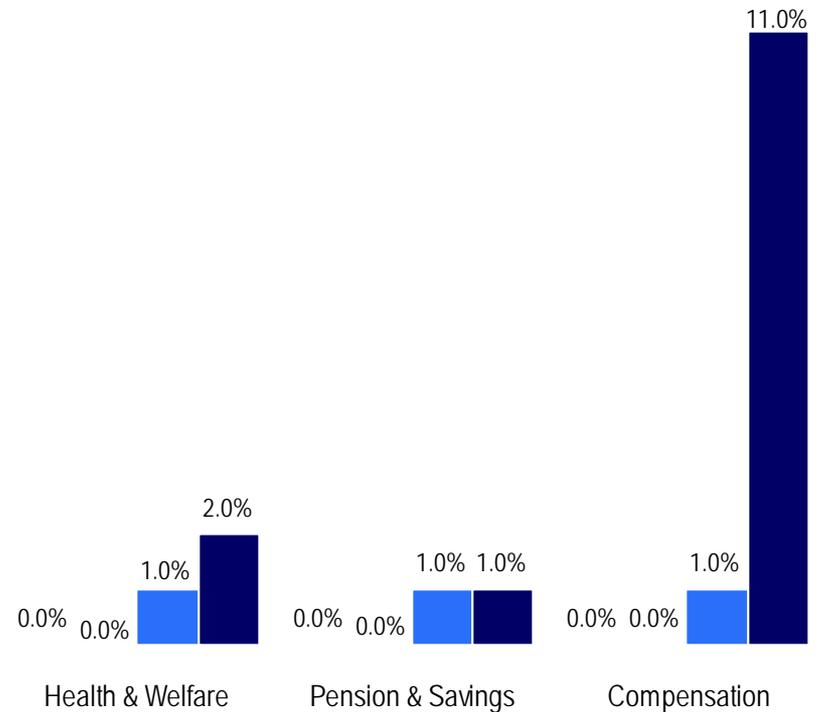


Pantex reported 0% error rates in Total Rewards Administration

Process Automation



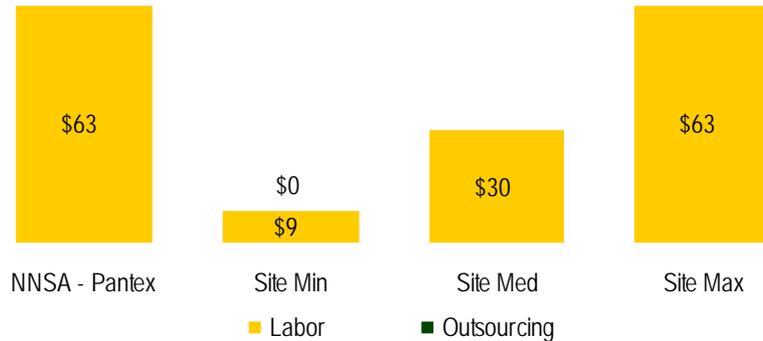
Error Rates for Transactions



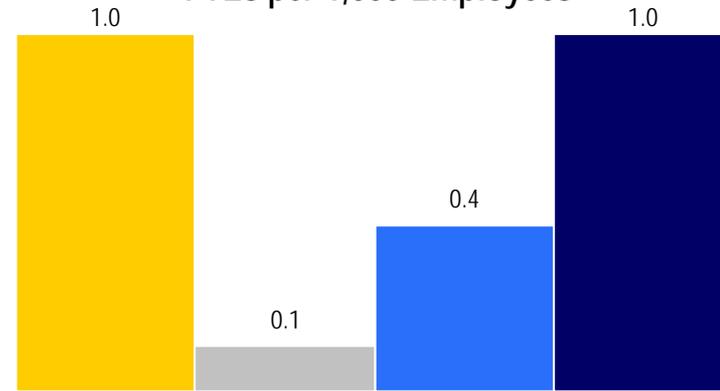
■ NNSA - Pantex
 ■ Site Min
 ■ Site Med
 ■ Site Max

Despite 85% automation in Time & Attendance Administration, Pantex's process cost and FTE allocation are the Site Max

Time & Attendance Cost (\$) per Employee

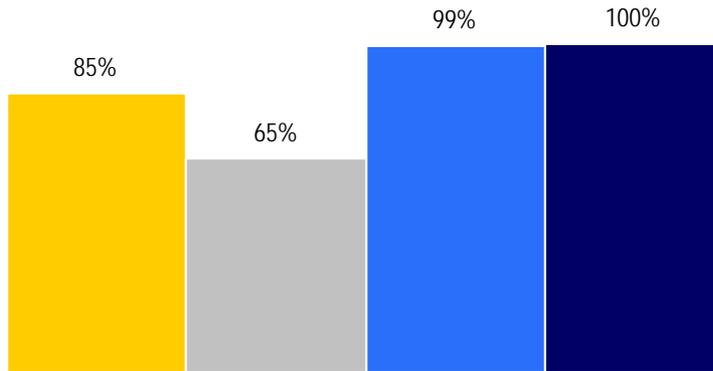


Time & Attendance FTEs per 1,000 Employees

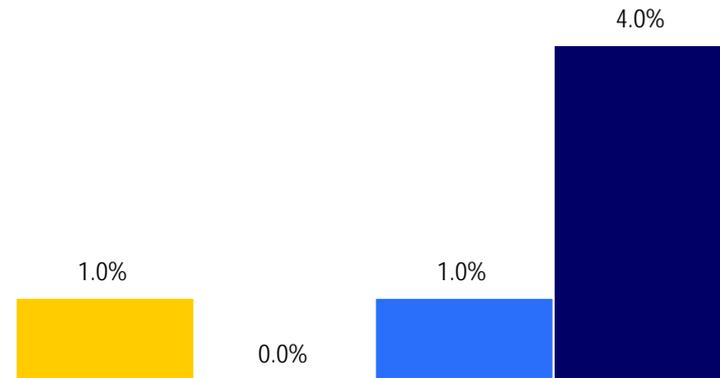


■ NNSA - Pantex
 ■ Site Min
 ■ Site Med
 ■ Site Max

Time & Attendance Automation

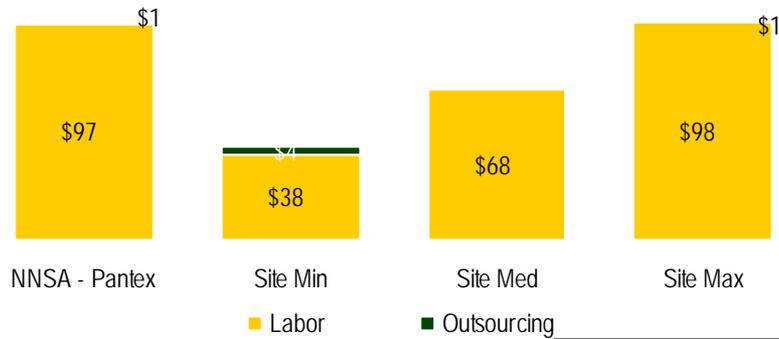


Time & Attendance Error Rate

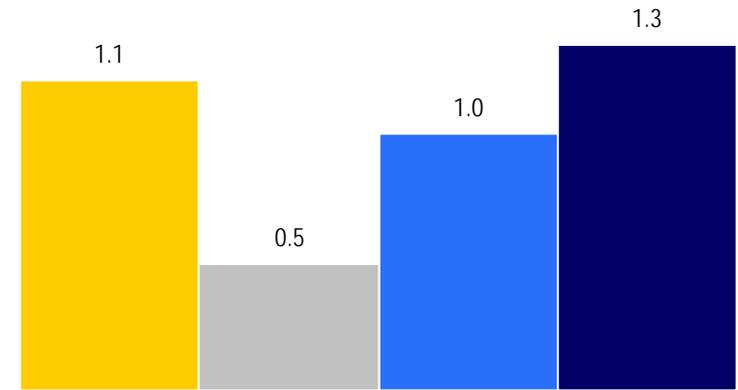


Even though Pantex reported 98% automation in Payroll, costs are 44% higher than the Site Median

Payroll Administration Cost (\$) per Employee

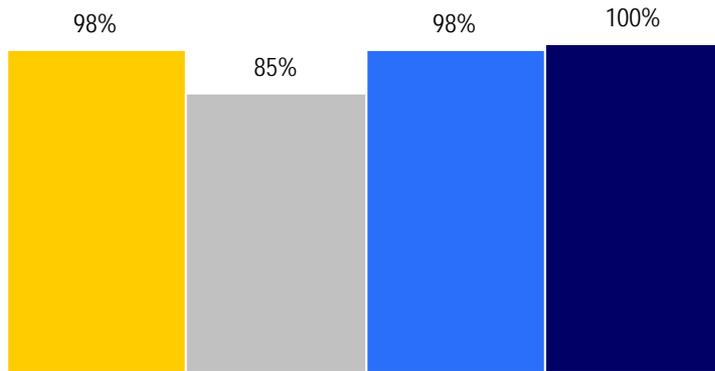


Payroll Administration FTEs per 1,000 Employees

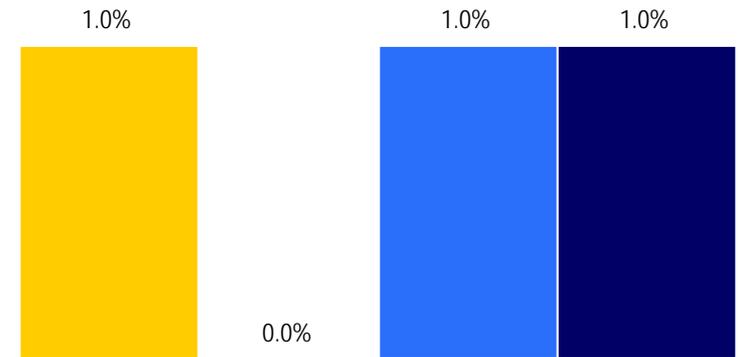


■ NNSA - Pantex
 ■ Site Min
 ■ Site Med
 ■ Site Max

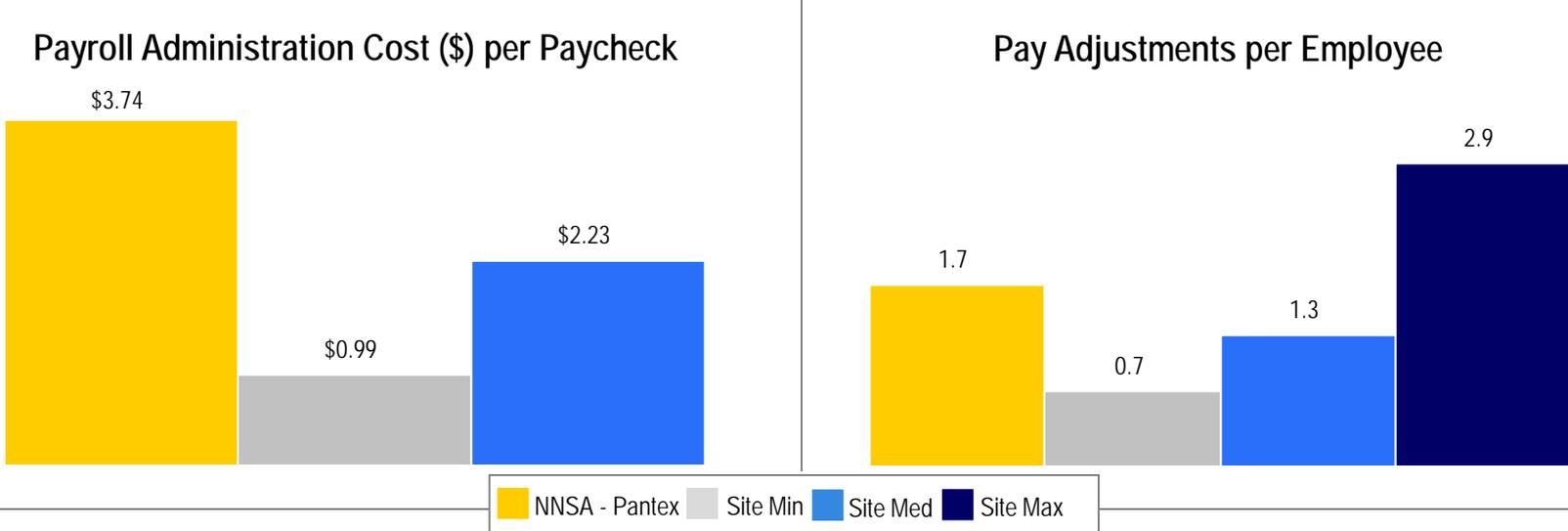
Payroll Administration Automation



Payroll Administration Error Rate



Best practice utilization is similar to Site Top Performer except that Pantex does not utilize paperless direct deposit notifications to a high extent



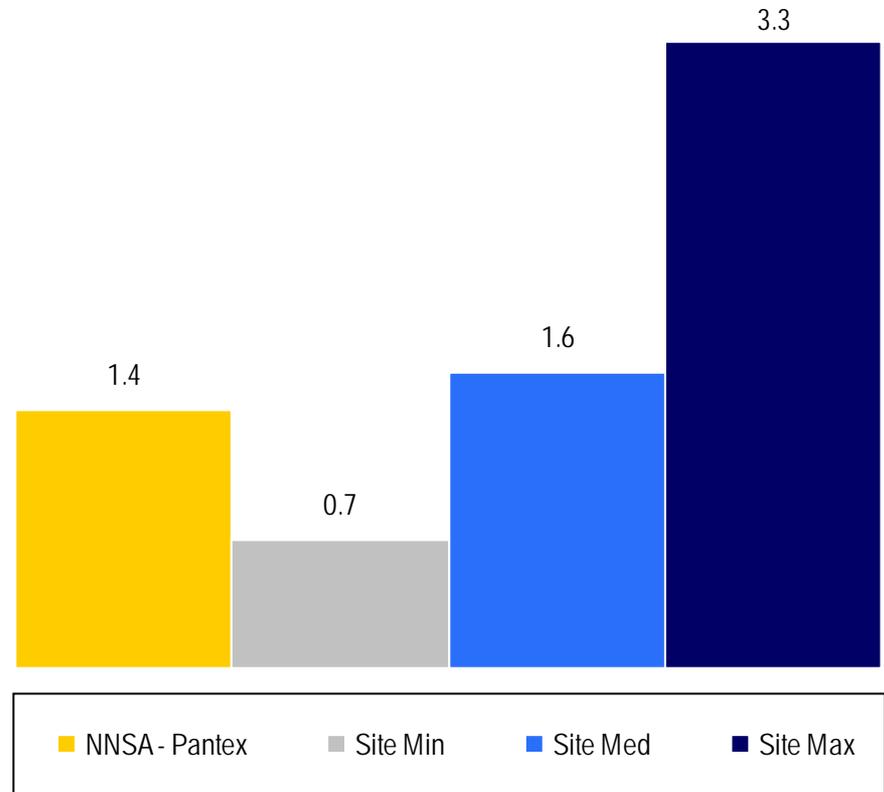
Payroll Administration Best Practices	NNSA - Pantex	Site Top Performer
Extent standardized payroll cycles and calendars are utilized for similar job classifications	High	High
Extent distribution of direct deposit notifications is paperless	Low	High
Extent a single common employee information database is shared between human resources and payroll	High	High

Pantex's Data Management, Reporting and Compliance cost is 25% below the Site Median

Data Management, Reporting and Compliance Process Cost (\$) per Employee

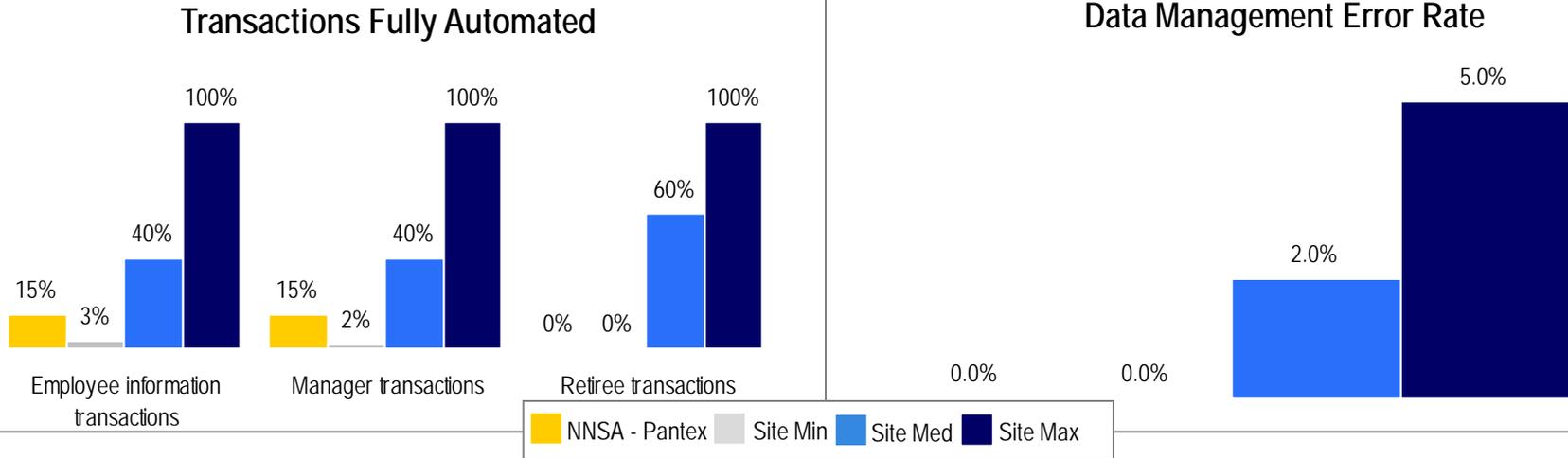


Data Management, Reporting and Compliance FTEs per 1,000 Employees



Despite limited automation, Pantex reports no errors and utilization of many best practices

Stakeholder Survey Comment – “Use the PeopleSoft HR system to allow user to manage their information and not require so many forms.”



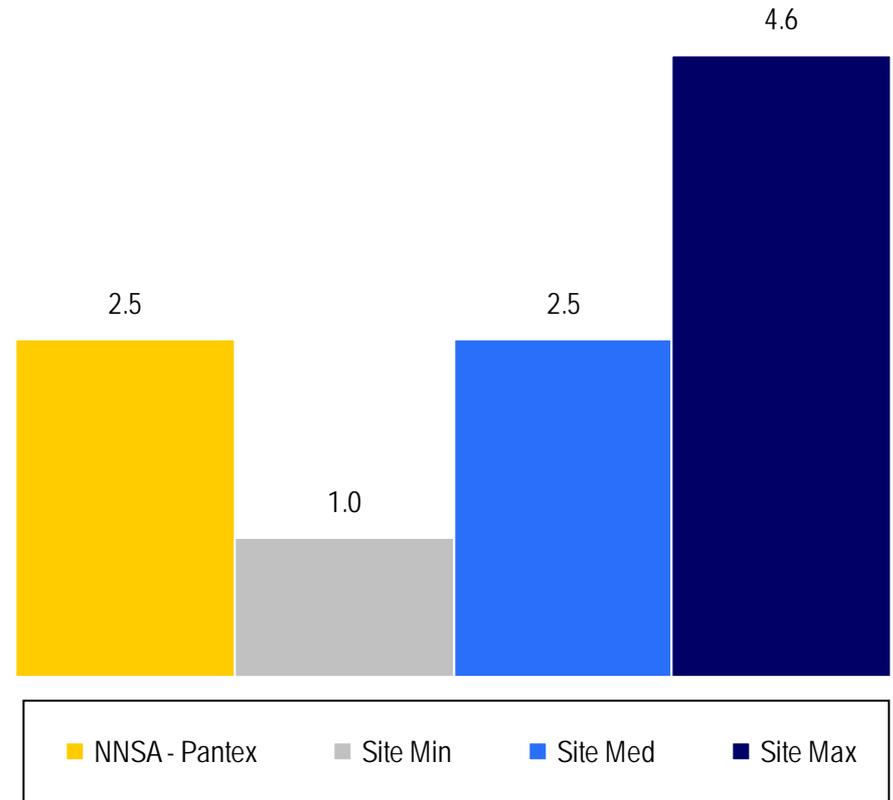
Employee Data Management, HR Reporting, and Compliance Best Practices	NNSA - Pantex	Site Top Performer
The total cost of employee absence is measured and reported	High	High
Incentives for employee to return to work are in place and utilized	High	High
Percent of time HR spends collecting and compiling information versus analyzing data for standard reports	Low	Low
Percent of time HR spends collecting and compiling information versus analyzing data for ad hoc reports	Low	Low
Extent statutory reports are produced automatically	Medium	High
Extent random samplings of transactions are executed for compliance	High	High

Pantex is the Site Median in Staffing Services in terms of cost and FTEs

Staffing Services Process Cost (\$) per Employee



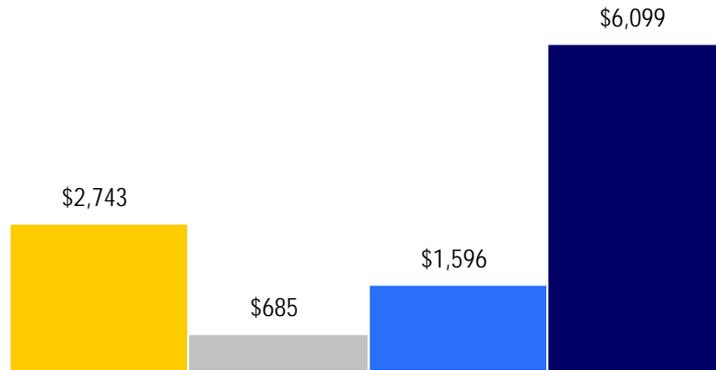
Staffing Services FTEs per 1,000 Employees



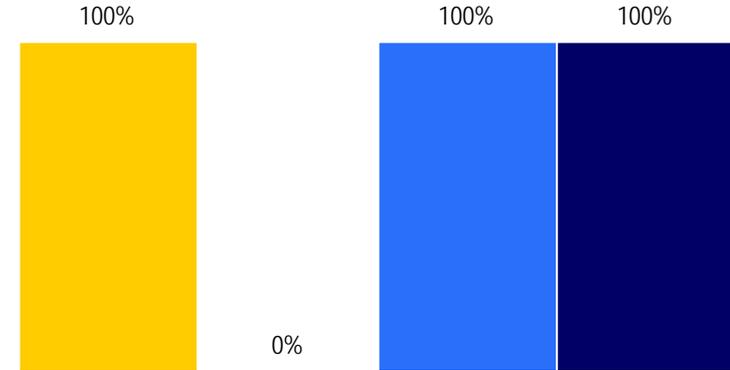
Automation is high, yet productivity and cost per transaction lag behind Site Median

Stakeholder Survey Comment – “Better recruiting, quicker hiring process.”

Staffing Services Cost (\$) per Hire/Placement

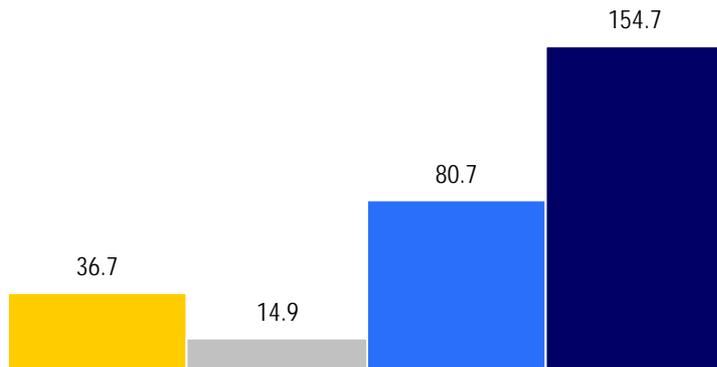


Staffing Transactions Fully Automated (e.g., Candidate Search, Resume Tracking, Job Posting)

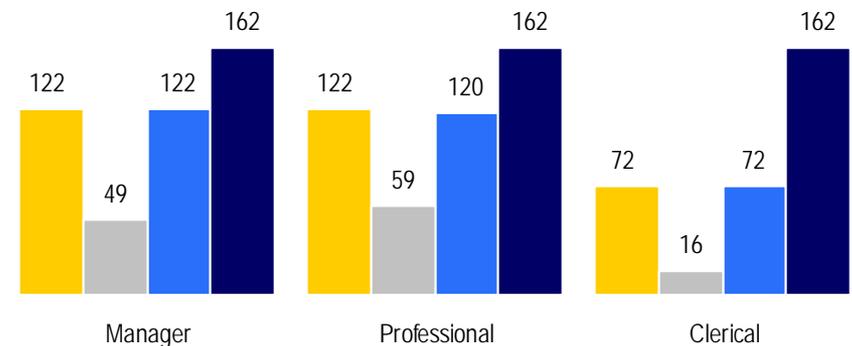


■ NNSA - Pantex ■ Site Min ■ Site Med ■ Site Max

Total Placements/Hires per Staffing Services FTE

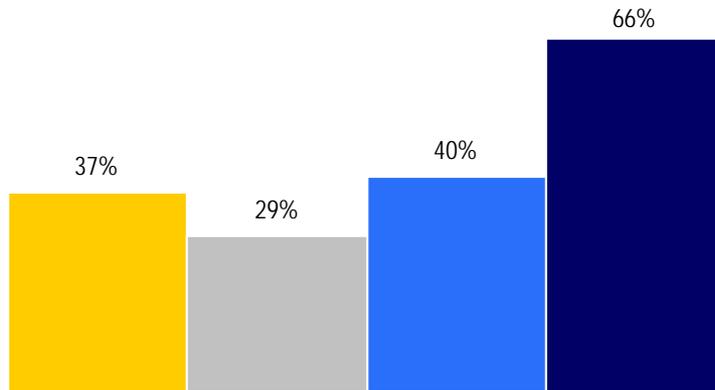


Days to Fill Open Positions (weighted by number of hires/placements)



Opportunity exists to increase best practice utilization in Recruiting and Staffing

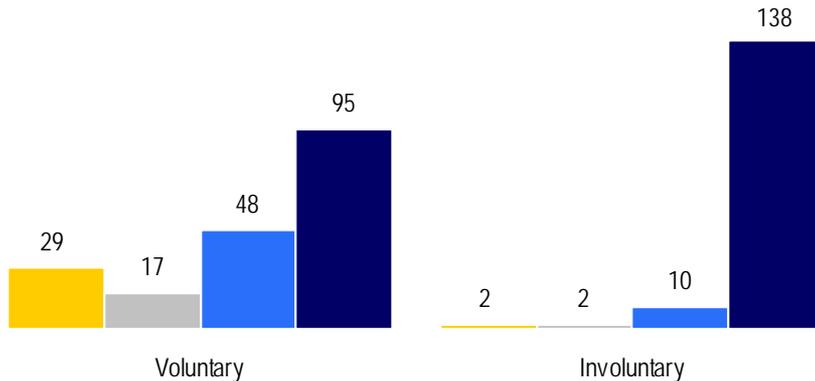
Internal Placements versus External Hires



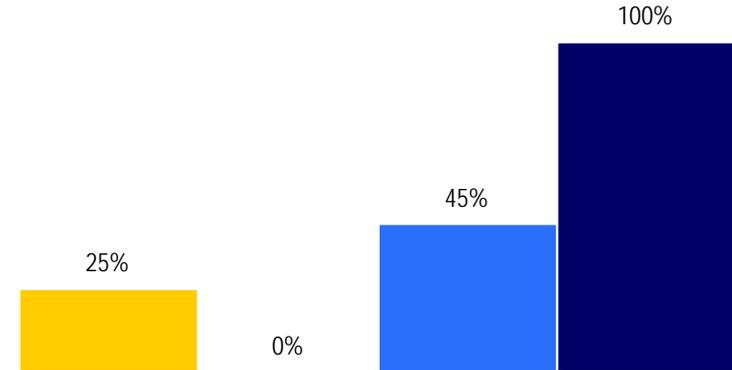
■ NNSA - Pantex
 ■ Site Min
 ■ Site Med
 ■ Site Max

Recruiting and Staffing Best Practices	NNSA - Pantex	Site Top Performer
Extent automated external candidate pools are on a searchable platform	High	High
Percent of time a competency profile is used in the selection process	Low	High
Extent new hire activities are automated	Low	High

Terminations per Thousand Employees

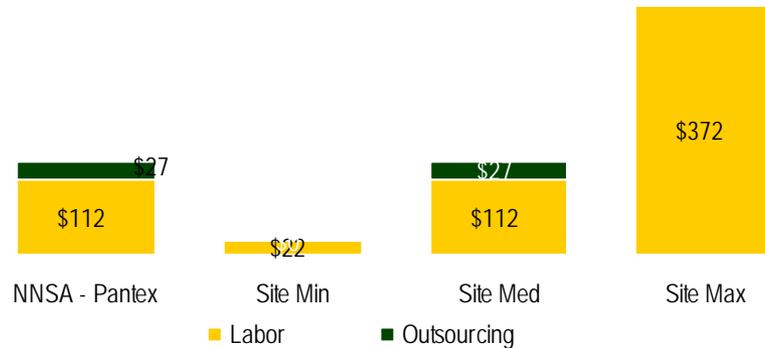


Manager and Employee Termination Transactions Fully Automated

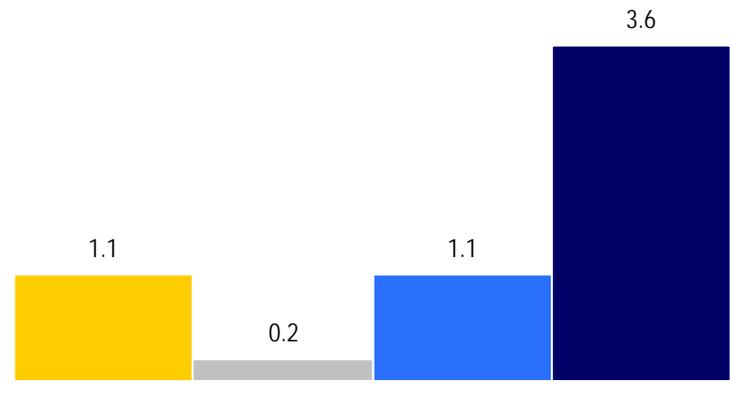


Pantex is the Site Median in Workforce Development costs and FTEs; Opportunity exists to improve best practice utilization

Workforce Development Cost (\$) per Employee



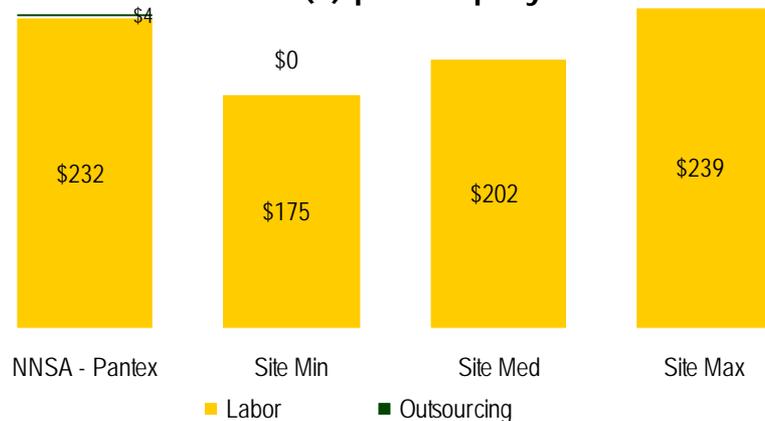
Workforce Development FTEs per 1,000 Employees



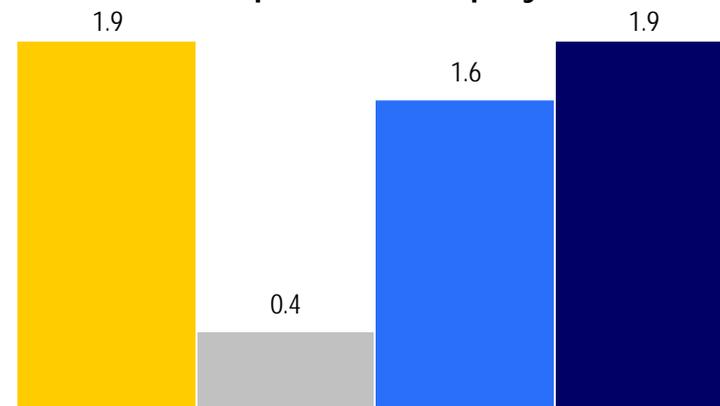
Workforce Development Best Practices	NNSA - Pantex	Site Top Performer
Extent mentoring or coaching on new skills behaviors takes place	Medium	High
Extent training is offered on new tools, equipment, and technology	High	High
Extent job rotation outside current function is used to increase knowledge and understanding	Low	High

Pantex is the Top Performer in best practice utilization for HR-managed change projects

Organizational Effectiveness
Cost (\$) per Employee



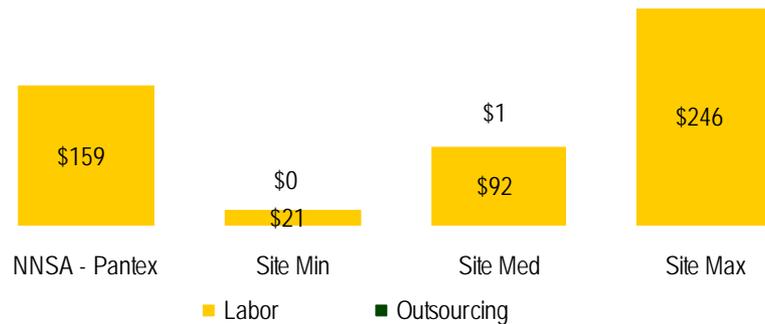
Organizational Effectiveness
FTEs per 1,000 Employees



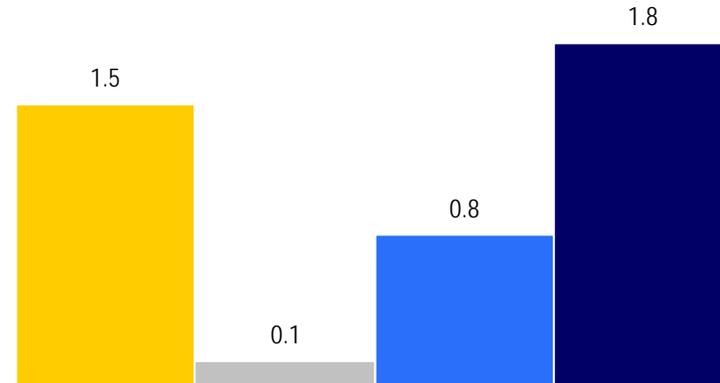
Extent the Following Best Practices are Included in HR-managed Change Projects	NNSA - Pantex	Site Top Performer
A highly involved and active steering team	High	High
A plan to train project team members to function as a committee	High	High
Change to incentives or compensation	High	High
Changes to reward and recognition processes & procedures	High	High
Senior management education and involvement plans	High	High
Education and training plans	High	High
A communication plan	High	High

Pantex's Labor Relations process has more cost and FTEs than the Site Median

Labor Relations Cost (\$) per Employee

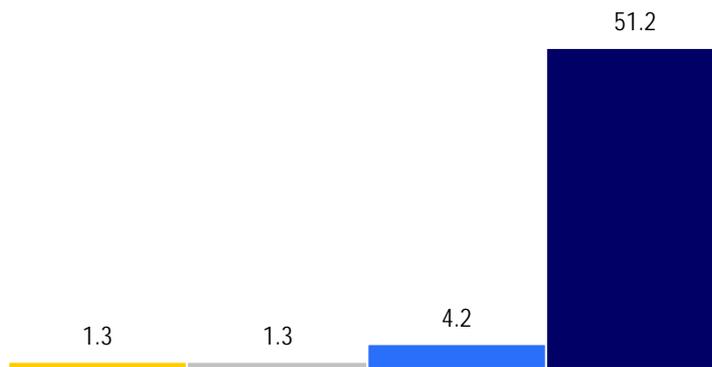


Labor Relations FTEs per 1,000 Employees

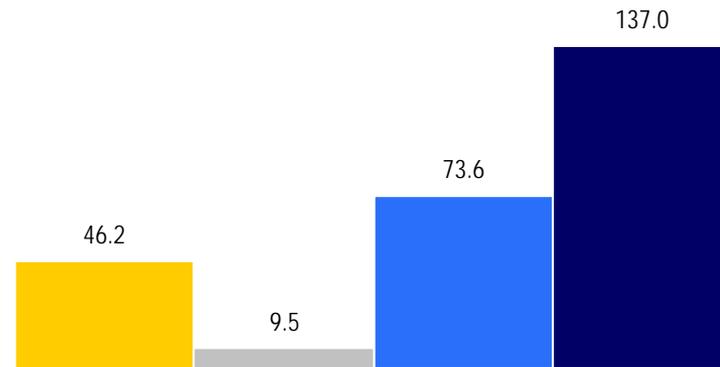


■ NNSA - Pantex
 ■ Site Min
 ■ Site Med
 ■ Site Max

Unions per Thousand Unionized Employees

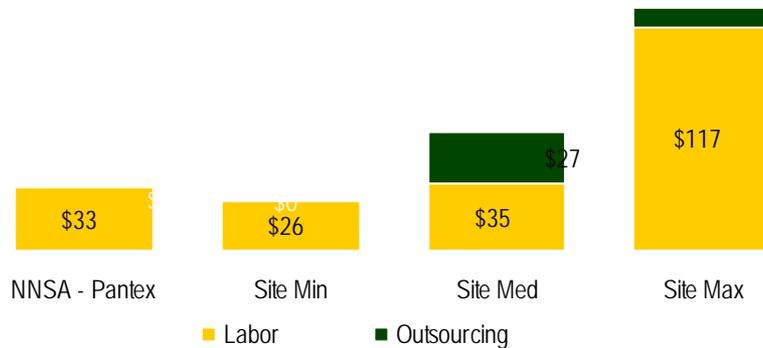


Grievances per Thousand Unionized Employees

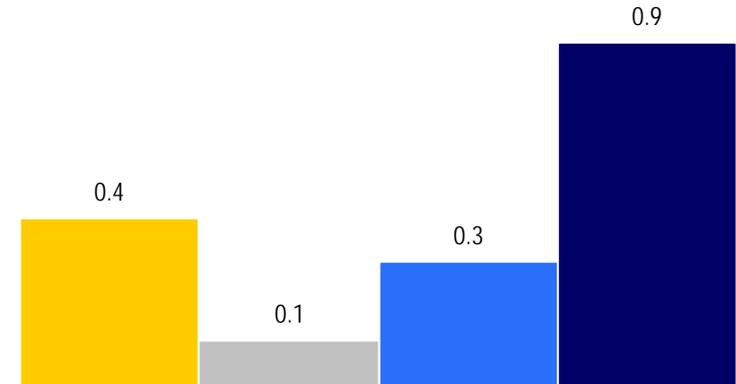


Pantex invests significantly less in Total Rewards Planning than the comparisons, but best practice utilization is high

Total Rewards Planning Cost (\$) per Employee



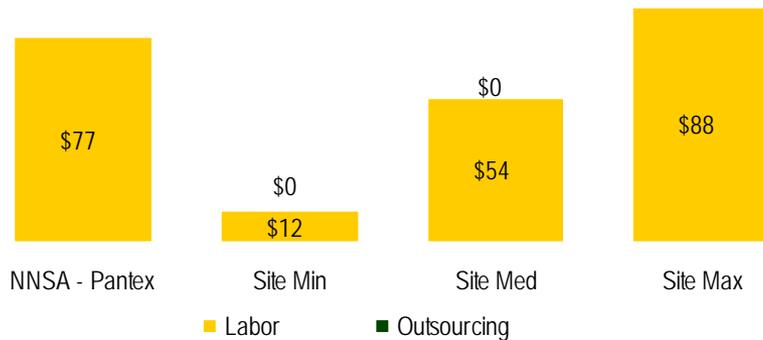
Total Rewards Planning FTEs per 1,000 Employees



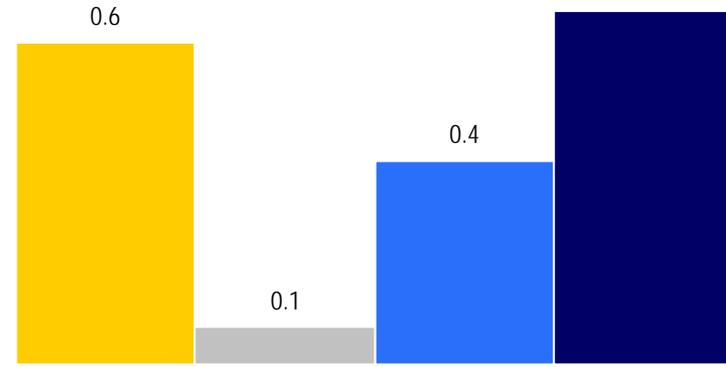
Total Rewards Planning Best Practices	NNSA - Pantex	Site Top Performer
Extent you participate in industry or function surveys regarding benefit plan design	High	High
Extent there are explicit goals and targets set for benefit plans in terms of service levels, coverage or cost	High	High
Extent there are explicit goals and targets set for compensation plans in terms of service levels, coverage or cost	High	High

Pantex's best practice adoption is high in Strategic Workforce Planning

Strategic Workforce Planning Cost (\$) per Employee



Strategic Workforce Planning FTEs per 1,000 Employees



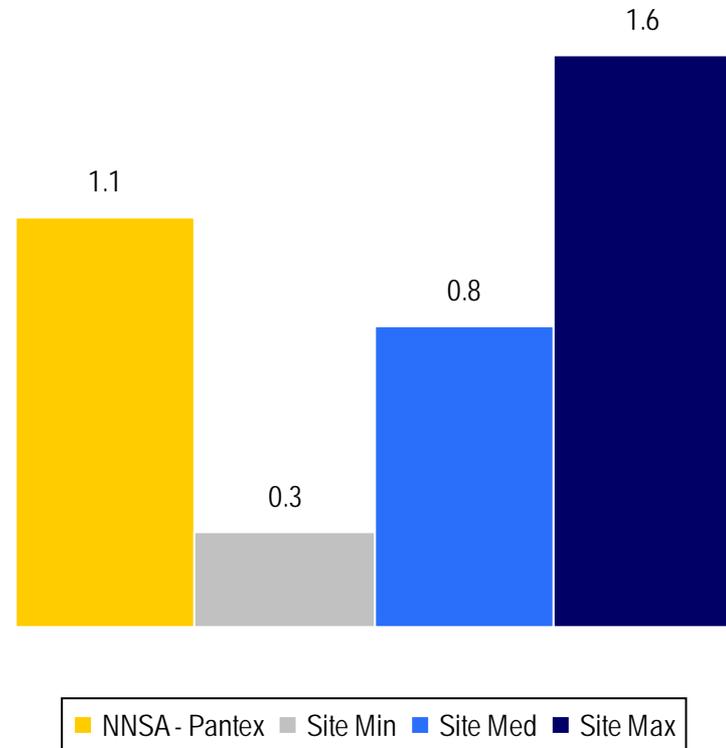
Strategic Workforce Planning Best Practices	NNSA - Pantex	Site Top Performer
Extent an explicit workforce strategy has been articulated	High	High
Extent key employees have been identified and formal retention plans created for these employees	High	High
Extent strategic workforce plans identify scarce set of skills and set a strategy for acquiring those skills	High	High

Pantex has slightly more FTEs allocated to Function Management than the Site Median which is driving their process cost higher

HR Function Management
Cost (\$) per Employee



HR Function Management
FTEs per 1,000 Employees



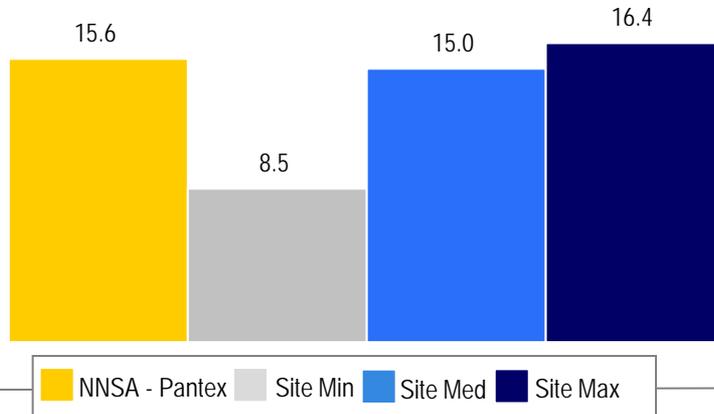
Performance Driver Analysis

- Process
- People/Organization
- Technology/Other

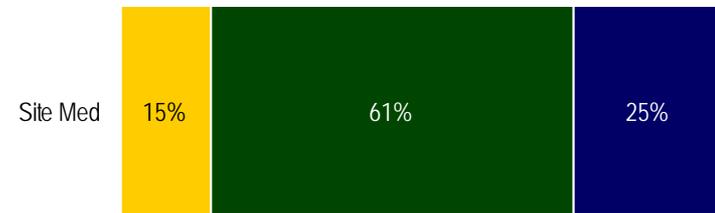


Pantex has a larger clerical staff mix than the comparisons

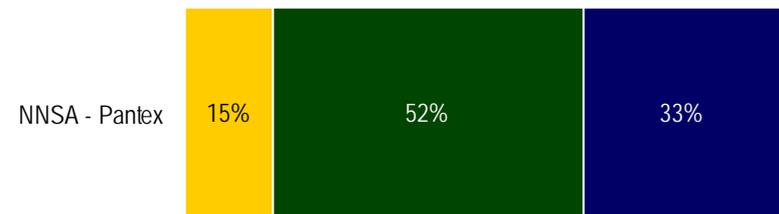
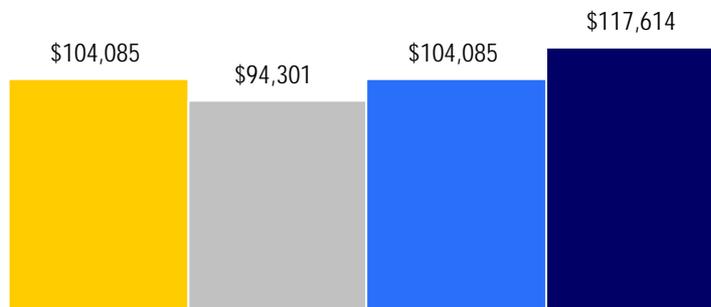
HR FTEs per 1,000 Employees



HR FTE Staff Mix



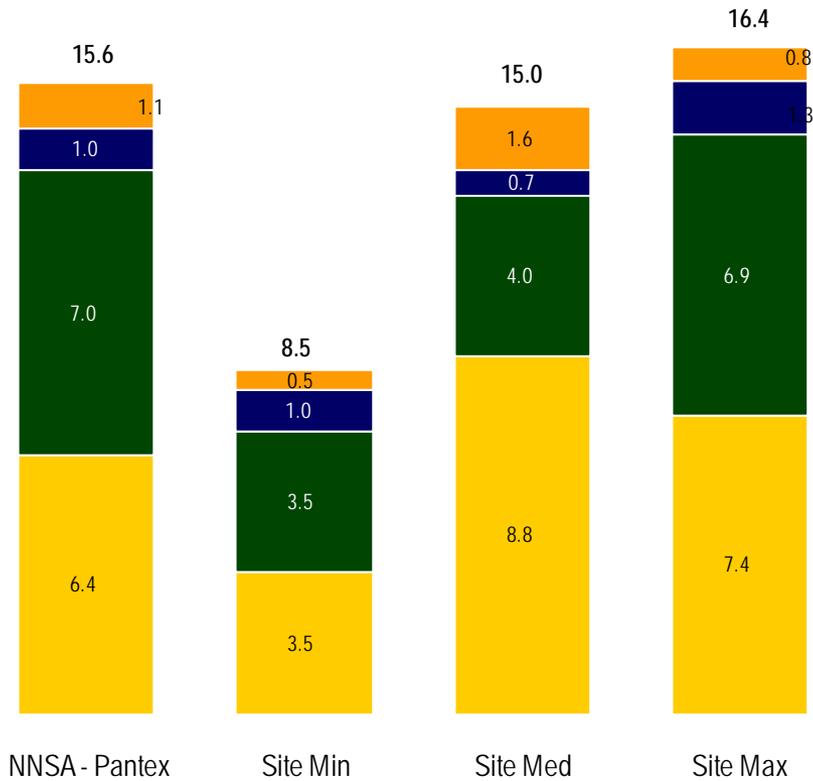
Average Fully Loaded Labor Cost (\$ per FTE per year)



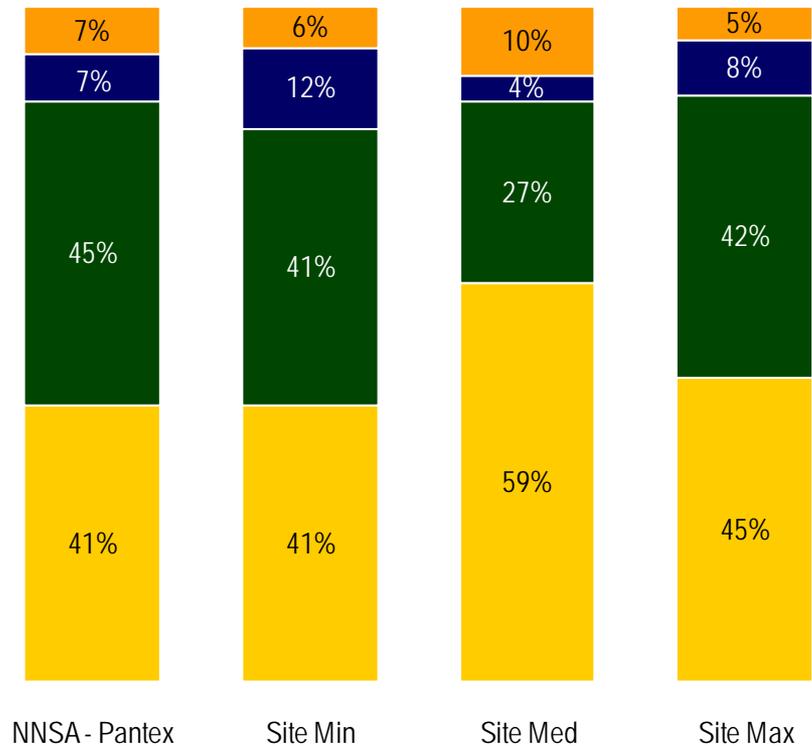
■ Manager ■ Professional ■ Clerical

Pantex has 4% more FTEs supporting HR than the Site Median and 84% more FTEs than the Site Min

HR Staffing (FTEs) Per 1,000 Employees



HR Resource Allocation



■ Transactional
 ■ Employee Life Cycle
 ■ Planning and Strategy
 ■ Management and Administration

Performance Driver Analysis

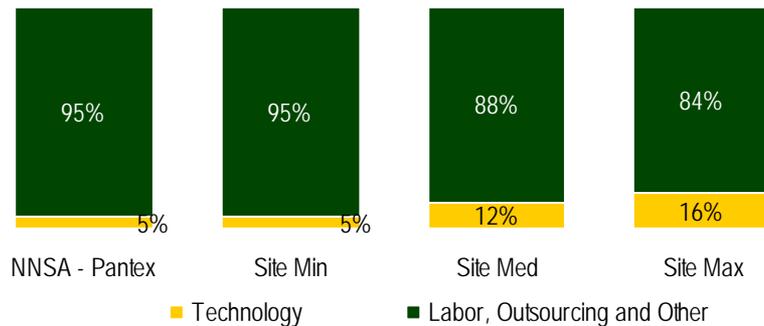
- Process
- People/Organization
- Technology/Other



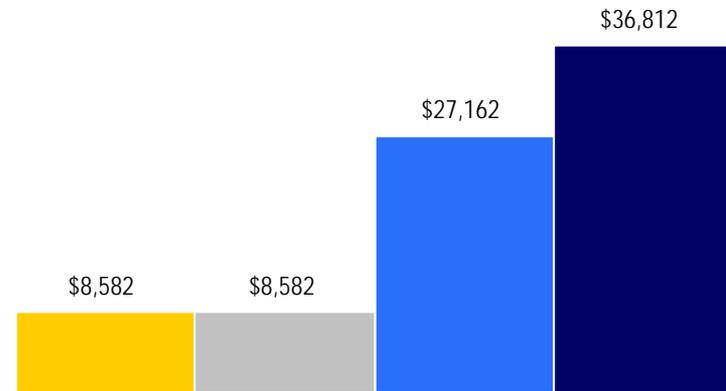
Pantex invests significantly less in technology than the other Sites

Stakeholder Survey Comment – “HR could benefit from updated IT business tools and the resources to manage those tools.”

Technology Cost as a % of Total Cost

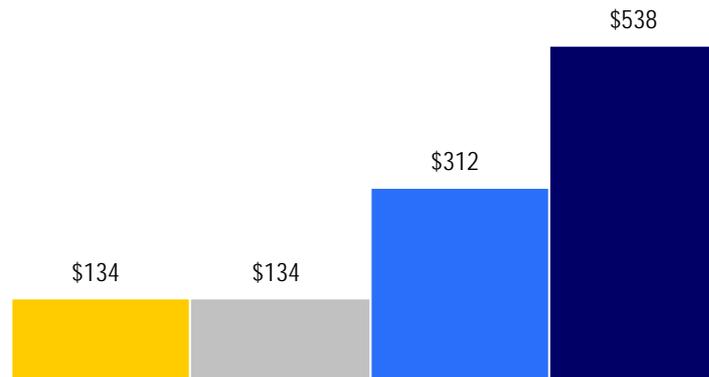


Technology Cost (\$) per HR FTE



■ NNSA - Pantex
 ■ Site Min
 ■ Site Med
 ■ Site Max

Technology Cost (\$) per Employee



Application Integration is online/real time or batch/open interface except in Recruiting and Staffing

Application Integration

	NNSA - Pantex	Site Top Performer
Benefits Administration	Batch / Open interface	On-line - Real Time
Compensation Admin	On-line - Real Time	On-line - Real Time
Time & Attendance	On-line - Real Time	On-line - Real Time
Payroll Administration	On-line - Real Time	On-line - Real Time
Compliance / Health & Safety	Batch / Open interface	On-line - Real Time
Recruiting & Staffing	Not Integrated	On-line - Real Time
Learning & Development	Batch / Open interface	On-line - Real Time
Exit Management	On-line - Real Time	On-line - Real Time

Recommendations and Next Steps



HR recommendations

- Simplify, standardize, and streamline higher cost and staffed processes (TRA, Payroll Services, and Employee Data Management, HR Reporting & Compliance) while better leveraging technology and outsourced partners.
 - Total Rewards Administration
 - In TRA, understand the roles and responsibilities between the internal FTEs and the outsourced provider. Determine driver of higher outsourcing expenses and focus on reducing costs and increasing effectiveness.
 - Reduce the number and variety of Health & Welfare, Pension & Savings and Compensation plans therefore reducing complexity.
 - Assess and expand utilization of existing technology and self-service to automate transactions. Pantex reported 70% automation in H&W and P&S. In Compensation, Pantex reported 60% automation.
 - Time & Attendance and Payroll Administration
 - Pantex reported 85% automation in Time & Attendance, but twice the FTEs and cost of the Site Median. In Payroll Administration, Pantex reported 98% automation, but 10% more FTEs and 44% more cost. Determine the driver of additional resources to support Payroll Services despite high levels of automation. Improve the processes or policies that drive additional resources. This will allow Pantex to reduce FTE time spent in these processes and allow more time to focus on the more strategic processes.
 - Employee Data Management, HR Reporting & Compliance
 - Pantex reported less than 15% automation in employee and manager self-service. Increase investment in technology and shift transactions to self-service to drive efficiency.
 - Encourage managers to use self service instead of their HR contact for job and organization data changes, compensation administration, learning & development, performance reviews and other transactional processes that consume high percentages of HR staff time.
 - Stakeholder Comment – “Incorporate online capability and reduce the amount of forms needed to fill out.”
- Increase the effectiveness in the Staffing Services process.
 - Stakeholder Comment – “Develop an efficient recruiting, hiring, and employee retention process.”
 - Allow all those involved in the hiring process access to search candidate pools, review resumes, and track applicants.
 - Increase the level of automation within the new hire process for orientation scheduling, security, literature fulfillment, and data capture.
 - Conduct a root cause analysis for the longer days to fill positions.
- Ensure that HR has proactive interaction and is aligned with the goals and requirements of the business to guarantee stakeholder alignment
 - Stakeholder Comment – “One of the most difficult issues for HR is measuring and communicating its own successes in terms of savings and benefits to the organization. HR can always do a better job of promoting its own successes and necessity for any organization.”

Contact Information

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