DONALD CARTY

How do you ensure the continued success of a company that started in a college dorm room and - 15 years later - is posting $22 billion in annual sales? If you’re Michael Dell, you name outstanding directors like Don Carty to your board. Carty, who also serves on the Brinker International board, is the newly appointed chairman and CEO of American Airlines.

“Don has been on our board for seven years of dramatic expansion and growth,” says Dell founder and CEO Michael Dell. “During that time, Don has made himself available to us over and above the commitment of the typical board member in order to help us through the challenges that growth has presented.”

Those challenges include making sure all Dell’s financials are crossed and i’s are dotted. In his time on the computer maker’s board, Carty has served as head of the finance committee, compensation committee, and audit committee. All three are crucial posts at any company, but particularly at a company that grew from a handful of employees in 1984 to 24,400 in 1999.

“We’ve never done this before,” explains Michael Dell about the company’s rapid expansion. “Don Carty helped us avoid mistakes that other companies have made.”

Rapidly growing companies are often known to stumble, particularly in the area of financial management and reporting. As chairman of the Dell audit committee, Carty pushed to make sure there were processes and procedures in place early on to prevent that.

Carty also played a key role in getting Dell back on track after a change in strategy in the early 1990s. The company had shifted its marketing. It went from selling strictly direct to customers to including selling computers through intermediaries. The addition of indirect distribution diluted Dell’s effectiveness, and the company’s sales and stock price suffered.

In the summer of 1998, Dell’s stock hit its low, adjusted for splits, of roughly 25 cents a share. It had been as high as 70 cents per share the previous year. Today, the stock trades at around $49.00. During this crisis period, sales fell below $3 billion, versus today’s figure of $22 billion.

“He helped Michael steer through the crisis, and was very significantly responsible for the company’s turnaround and subsequent huge success,” notes one observer.

“When Michael started the business, he had a clear vision” of direct distribution, Carty explains. But as the company grew, other opportunities appealed to Dell’s management. “The board helped reinforce that original vision and get Dell Computer back on track.”

Thomas Lace, a fellow Dell director, believes Carty’s experiences at
American Airlines are valuable assets to the Dell board. “He strategically had to think through many difficult issues at the airline, including deregulation and a changing industry,” Luce notes. Many of these issues mirror those Dell faces.

Michael Dell agrees. “He brings a great perspective from American Airlines. He has experience dealing with financial controls and building a sustainable high-growth company.”

Carty has also been instrumental in helping Dell Computer find the right management team to oversee the transition from an entrepreneurial enterprise to a major corporation. Carty pushed to recruit and retain executives from large companies who knew how to steer the type of firm Dell was fast becoming.

“Don has helped recruit people at Dell, particularly in the finance and human resources areas,” notes Luce. Carty also gets kudos from his peers on the Brinker International board. The Dallas-based operator of casual-dining restaurants boasts nine chains and nearly 850 restaurants.

Norman Brinker, chairman of Brinker International, values Carty’s “intuitive sense of customer service.” Brinker points out that Carty has made a concerted effort at American Airlines to identify with his people, and is translating that approach to the Brinker board.

Carty joined the Brinker board last year. Yet Norman Brinker reports that he has had a significant influence after just three meetings. “He has brought a real discipline to the board,” explains Brinker. “He makes sure we stay right on track on a given subject until we’ve resolved it.”

“He’s a big-picture man who doesn’t get involved in a lot of trivia,” seconds Brinker director Dan Cook. “Don does what people don’t want to do – and he does it fast. He jumps on problems quickly.”

Carty makes time for his directorships in spite of a demanding full-time job. He became chairman and CEO of American Airlines in May of 1998. When Carty took over the world’s second-largest carrier, it was experiencing its share of difficulties in the human resources arena.

American’s flight attendants went on strike in November of 1993, and its pilots followed suit in February of 1997. Former chief Bob Crandall, who retired in May, was respected by Wall Street for posting great numbers. Inside American, however, many employees felt like excess baggage. Carty is working to change that.

Since earning the top spot at American, Carty has been expending considerable energy on relaxing the corporate culture – without losing American’s strength.

Despite being “damned tough,” as Cook describes him, “Don is affable with a great sense of humor. He has the ability to poke fun at himself,” Cook smiles. “He has great judgment, which is the essential ingredient for being a director,” adds Luce.

Carty himself enjoys the “two-way benefits” of serving on a board. “There’s a wonderful balance between what you can put into something and what you can take out of it.” Carty has benefited from the experience he’s gained on other boards, bringing those fresh perspectives – on service from the Brinker board and on technology from the Dell board – to his work at American Airlines.

“Every business needs a perspective from 5,000 or 10,000 feet,” Carty says, deftly weaving an aviation metaphor. “You need directors for their objective analysis. I enjoy getting that from my directors and giving it to other companies.”

Carty feels strongly that boards should give advice and counsel, but should not actively manage the company. “Some people expect directors to become more involved in the day-to-day management of a company. I don’t agree with that role.”

Rather, Carty believes a director’s chief function is “the selection and assessment of senior management, and especially of the CEO.” If a board has done its job correctly, he argues, it can then delegate the daily running of the company to the management team.

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—Michael Dell, CEO, Dell Computer