**CHAPTER5 INNOVATION IN ENTREPRENEURHIP.**

**SOURCES/FACTORS OF INNOVATION.**

The systematic innovation lies within the seven sources for innovative opportunity. The first out of four sources lie within the enterprise, whether business or public service institution or within an industry or service sector, they are:

1. The unexpected – unexpected success, failure and outside event.

2. The incongruity between the reality and assumption.

3. Innovation based on process need.

4. Change in industry structure or market structure.

The second set of three sources for innovative opportunity lies outside the enterprises or industry they are:

**1. The unexpected success:**

(a) The unexpected success: The unexpected success is an opportunity for an enterprises out of the success made by the other business man or within Management no other area offers richer opportunity for successful innovation than the unexpected success. It creates serious demand for the enterprises to consider such opportunity for innovation. Sometimes the opportunity perceived by the management is totally neglected by other member due to unexpected success or less chances for success in the business as innovative idea.

Example: The major U.S Steel Companies in 1970 rejected the concept of “Mine Mill”. Management knew that its steel works were rapidly become obsolete (outdated) due to billions of dollars of investment to modernized, for which “Mine Mill” was a solution. Almost by accident, such a “Mine Mill” was acquired and boon began to grow rapidly and generated profit. Therefore, the executive proposed to acquire additional “Mine Mills”. Within few years “Mine Mills” gave steel company several millions of tons of steel based on modern technology low labour costs and a good market. A ten years later the only parts of the steel industry in America that were healthy growing and prosperous were “Mine Mills”.

(b) The Unexpected Failure: Failures, unlike success cannot be rejected by anyone and they hardly remain unnoticed, but still they are the symptoms of the innovative opportunity. The failures are of course nothing but mistakes, the result of greed, stupidity, thoughtlessness, clinching or incompetence in design or execution. If something fails despite being carefully planned and designed then that failure indicates some changes which itself is an innovative opportunity.

Example: The failure of Ford Motor Company’s Edsel in 1957 in America. The General belief was that the Edsel was totally mistaken. The Company made ten years campaign during which Ford Motor converted itself into an aggressive competitor through carefully designed, introduced and marketed products to the market, which became a Strong No. 2 contender in the United States and No. 1 in European Market.

Ford, went to extreme length to plan and design the Edsel from the results of market research about customer preferences, styling and product quality. Instead of blaming customers company went forward to see the reality and had success. The decision of the company to go ahead was the socio-economic segment of American market into ‘low’ ‘lower-middle’ ‘upper middle’ and ‘upper’ segment and accordingly company produced different products for different segments.

(c) The unexpected outside event: Unexpected success and unexpected failure occur within a business or industry. The unexpected outside event may be an opportunity to apply already existing expertise knowledge to a new application but to such an application which does not change the nature of business. It may be an extension of an existing business rather than a diversification to new idea.

Example: IBM Computers in 1970’s realized that the future belong to centralized ‘Main Frame’ Computer with a larger memory and larger calculating capacity but it was expensive, still IBM concentrated on maintaining its leadership in the main frame market.

In around 1975-76, it was a total surprise that a ten to eleven year kids began to play computer games, so the expectation of the parents to have office and personal computer with far less capacity, less expensive and even with the smallest main frame. IBM set-up a task with one another development in personal computer even though the sales of personal computers was very low as compare to main frame computer, as a result, IBM produced its own personal computer in 1980. Three years later, in 1983, IBM became the world’s leading personal computer producer and a leading position in the personal computer.

**2. Incongruities:**

An incongruity is a discrepancy, an inappropriate, a dissonance between what ‘is’ and what ‘ought’ to be or between what is and what assumes it to be. Incongruity speaks about an underlying ‘fault’ such a fault is an invitation to innovate. It creates an opportunity from a minor effort which can move to large extent and bring about a restructuring of economic or social configuration. Incongruity is a symptom of an opportunity to innovate like success and failures.

There are several kinds of incongruity, i.e.

1. An incongruity between economic realities of an industry.

2. An incongruity between the reality of an industry and the assumptions about it.

3. An incongruity between the efforts of an industry and the values and expectations of its customers.

1. If the product demand or a service is growing steadily, its economic performance (profit) should also steadily improve. It is easy to be profitable in an industry with rising demand for the product. A lack of profitability and results in such industry speaks something wrong or an incongruity between economic realities. It is a macro-phenomena which occurs to a whole industry or a whole service sector.

2. The people in an industry misconceive reality whenever they make erroneous assumptions, their efforts are misdirected. Since, they concentrate on the area where results do not exist. They focus mainly on assumptions and hot on the reality which creates incongruity between reality and behavior (assumption). Therefore, such incongruity once again offers opportunity for innovation.

3. The Producers and Suppliers must always try to understand is what the customer actually buys. No customers ever perceives himself as buying what the producer delivers himself as buying what the producer delivers product in the market. To succeed in a job, one has to believe in it and take it seriously. The producer of cosmetics should believe in the product otherwise he will lose his customers. People who run hospital should believe in health care otherwise patients will get deteriorated fast.

**3. Process Need:**

Process need unlike the other sources of innovation does not start out of the events from internal and external environment. It starts with the job to be done. It is a task – focused rather than situation focused. It refers to a process that already exists, replaces something that is weak, redesigns an existing/old process around newly available knowledge. Sometimes it makes possible a process by supplying the missing link.

Example: Ottmar Mengonthaler designed linotype typewriting in 1885. During the previous decades, printing materials for magazines, newspapers, books had all been growing at a high speed with the spread of literacy. All the other elements of printing process had already changed but only typewriting had not changed. It was continued as a manual work. In typewriting what required was keyboard that could select right letters from type font which could assemble letters and that to in a line. The next phase was a development of computer which could save matter as long as somebody needed and takes copies easily, number of times as and when required.

**4. Changes in Industry Structure / Market Structure:**

Industry and market structures sometimes last for many – many years and seems completely stable. Actually market and industry structures are quite brittle (broken easily). One small scratch can disintegrate the whole industry, whichever this happens, every member of the industry has to act to protect the industry and in such a case there is no guarantee of the company to run as it was earlier and the company can lose its leadership position. If lost once, it is almost impossible or never regained again. But such a change in market or industry structure is also a major opportunity for innovation.

Example: In 1950’s, three young men met each other in New York city who were working for Wall Street House, a financial institution. They found that the securities business (Insurance) has remained unchanged since the depression for last 20 years which is hurdle / block for rapid structural change, such hurdle offers opportunity for innovation. These three young men found out a whole new group of customers and started pension fund

administrators which were something different. Another young man realized opportunity of ‘intelligent investor’. If offered risk as well as  
investment opportunity for the customers. During mid-sixties the structure of American insurance again changed and directed customers attraction towards ‘health care”.

Another development that will lead to sudden changes in industry structure is the convergence of technologies which offer business opportunity.

Example: 30 years ago (around 1950s) American physician were practicing on their own. By 1980 only 80% were practicing alone but now more than 40% of doctors (75% of young doctors) practice in a group due to sharing of physical equipment / technology together which could save and serve better technology together.

**5. Demographics:**

Demographics defined as changes in population, size, structure, composition, employment, educational status and income.

Example: The good example of changes in population is during 19th century migration of population from Europe to America, Australia and New Zealand changed the economic and political geography of the world beyond recognition. It created an abundance (lot) of entrepreneurial opportunities. The whole structure of European politics and military strategies became obsolete.

The other example of age which offer opportunity is that the American teenagers buy a good may pairs of cheep shoes a year. They buy for fashion and not durability. The same people, 10 years later will buy very few pairs of shoes a year which are formal, quite durable and comfortable one. When they were 60’s or 70’s, they will buy only shoes of durability and comfort which could last for several years.

Even younger people would like to spend an entertainment, travelling and enjoyment but early retirement (same people) will spend their income get together, family travel etc. still after retirement, some people would spend on nursing homes, retirement communities and medical care.

Such examples make it clear how demographic factors create opportunities for innovating.

**6. Changes in Perception:**

Perception means thinking, understanding or experiencing. In mathematics there is no difference between ‘the glass is half full” and “the glass is half empty”. But if somebody think the meaning of these two statements is totally different. The general understanding changes from seeing the glass as “half full” and “half empty”. When there is a change in the perception the facts do not change but their meaning and understanding changes. Such change in perception creates major innovative opportunities. 25 years ago in America even minor improvements in the nation’s health were seen as a major achievement but now, even major improvements are barely treated as a minor achievement that is the perception of American people.

Example: Traditionally the way people eat food were called differently on the basis of income group and class of people. The ordinary people for eating food say ‘ate’ whereas the rich people say ‘dined’. This perception has changed after 25 years whether rich or poor both type of people say ‘eat’ and ‘dine’.

**7. New Knowledge:**

Knowledge based innovation is the ‘super star’ of entrepreneurship. It gets publicity and money. Of course, not all knowledge based innovation are important but amongst the history making innovation, knowledge based innovations ranks high. The knowledge is not necessarily scientific or technical only but the social based innovations have equal or even greater impact on innovation. Knowledge based innovations differs and faster than all other innovations in terms of time span (period), casualty rate predictability and in the challenges which poses to an entrepreneur.

Example: Rudolf Diesel designed the engine of diesel which bears his name in 1987. Everyone during that time realized that it was a major innovation but for many years it remained with few practical applications. In 1935, Charles kettering, an American, redesigned a diesel’s engine which is used in wide variety of units such as trucks, buses cars, ships, power tillers, locomotives etc.

**8. Bright Idea:**

Innovation based on a Bright idea probably outnumber all other categories of innovations. The Bright ideas are based on research in many businesses which aims at finding and exploiting such idea in the product or business. Bright ideas are one of the riskiest and least successful source amongst the other sources of innovative opportunities and the casualty rate enormous (very high). No one knows which ideas based on bright idea have a chance to succeed and which one is likely to fail. The bright ideas are brilliant ideas which somebody catches in his mind and it is believed that you will win only if you keep on trying such bright ideas.

**PRINCIPLES OF INNOVATION**

All experience physicians have seen ‘miracle cures’. Patients suffering from terminal illnesses recover suddenly – sometimes spontaneously, sometimes by going to faith healers, by switching to some absurd diet, or by sleeping during the day and being up and about all night. Only a bigot denies that such cures happen and dismisses them as ‘unscientific’. They are real enough. Yet no physician is going to put miracle cures into a textbook or into a course to be taught to medical students. They cannot be replicated, cannot be taught, cannot be learned. They are also extremely rare; the overwhelming majority of terminal cases do dies, after all.

Similarly, there are innovations that do not proceed from the sources described in the preceding chapters, innovations that are not developed in any organized, purposeful, systematic manner. There are innovators who are ‘kissed by the Muses’. And whose innovations are the result of a ‘flash of genius’ rather than of hard, organized, purposeful work. But such innovations cannot be replicated. They cannot be taught and they cannot be learned. There is no known way to teach someone how to be a genius. But also, contrary to popular belief in the romance of invention and innovation, ‘flashes of genius’ are uncommonly rare. What is worse, I know of not one such ‘flash of genius’ that turned into an innovation. They all remained brilliant ideas.

The greatest inventive genius in recorded history was surely Leonardo da Vinci. There is a breathtaking idea – submarine or helicopter or automatic forge – on every single page of his notebooks. But not one of these could have been converted into an innovation with the technology and the materials of 1500. Indeed, for none of them would there have been any receptivity in the society and economy of the time.

Every schoolboy knows of James Watt as the ‘inventor’ of the steam engine, which he was not. Historians of technology know that steam engine, which he was not. Historians of technology know that Thomas Newcomen in 1712 built the first steam engine which actually performed useful work; it pumped the water out of an English coal mine. Both men were organized, systematic, purposeful innovators. Watt’s stem engine in particular is the very model of an innovation in which newly available knowledge (how to ream a smooth cylinder) and the design of a ‘missing link’ (the condenser) were combined into a process need-based innovation, the receptivity for which had been created by Newcomen’s engine (several thousand were by then in use). But the true ‘inventor’ of the combustion engine and with it of what we call modern technology, was neither Watt nor Newcomen. It was the great Anglo-Irish chemist Robert Boyle, who did so in a ‘flash of genius’. Only Boyle’s engine did not

work and could not have worked. For Boyle used the explosion of gunpowder to drive the   
piston and this so fouled the cylinder that it had to be taken apart and cleaned after each stroke. Boyle’s idea enabled first Denis Papin (who had been Boyle’s assistant in building the gunpowder engine), then Newcomen and finally Watt, to develop a working combustion engine. All Boyle the genius had was a brilliant idea. It belongs in the history of ideas and not in the history of technology or of innovation.

The purposeful innovation resulting from analysis, system and hard work is all that can be discussed and presented as the practice of innovation. But this is all that need be presented since it surely covers at least 90 percent of all effective innovations. And the extraordinary performer in innovation, as in every other area, will be effective only if grounded in the discipline and master of it .

What, then are the principles of innovation, representing the hard core of the discipline? There are a number of ‘dos’ - things that have to be done. There are also a few ‘don’ts’ – things that had better not be done. And then there are what I would call ‘conditions’.

**The Dos**:

1. Purposeful, systematic innovation begins with the analysis of the opportunities. IT begins with thinking through what I have called the sources of innovative opportunities. In different areas, different sources will have different importance at different times. Demographics, for instance, may be of very little concern to innovators in fundamental industrial processes, to someone looking, say, for the ‘missing link’ in a process such as papermaking, where there is a clear incongruity between economic realities. New knowledge, by the same token, may be of very little relevance to someone innovating a new social instrument to satisfy a need crated by changing demographics. But all the sources of innovative opportunity should be systematically analyzed and systematically studied. It is not enough to be alerted to them. The search has to be organized, and must be done on a regular systematic basis.

2. Innovation is both conceptual and perceptual. The second imperative of innovation is therefore to go out to look, to ask, to listen. This cannot be stressed too often. Successful innovators use both the right side and the left side of their brains. They look at figures, and they look at people. They work out analytically what the innovation has to be to satisfy an opportunity. An then they go out and look at the customers, the users, to see what their expectations, their values, their needs are.

Receptivity can be perceived, as can values. One can perceive that this or that approach will not fit in with the expectations or the habits of the people who have to use it. And then once can ask: ‘What does this innovation have to reflect so that the people who have to use it will want to use it, and see in it their opportunity?’ Otherwise one runs the risk of having the right innovation in the wrong from – as happened to the leading producer of computer programs for learning in American schools, whose excellent and effective programs were not used by teachers scared stiff of the computer, who perceived the machine as something that, far from being helpful, threatened them.

3. An innovation, to be effective, has to be simple and it has to be focused. It should do only one thing, otherwise, it confuses. If it is not simple, it won’t work. Everything new runs into trouble; if complicated, it cannot be repaired or fixed. All effective innovations are breathtakingly simple. Indeed, the greatest praise an innovation can receive is for people to say: ‘This is obvious. Why didn’t I think of it?’.

Even the innovation that creates new uses and new markets should be directed toward a specific, clear, designed application. It should be focused on a specific need that it satisfies, on a specific end result that it produces.

4. Effective innovations start small. They are not grandiose. They try to do one specific thing. It may be to enable a moving vehicle to draw electric power while it runs along rails – the innovation that made possible the electric streetcar. Or it may be as elementary as putting the same number of matches into a matchbox (it used to be fifty), which made possible the automatic filling of matchboxes and gave the Swedish originators of the idea a world monopoly on matches for almost half a century. Grandiose ideas, plans that aim at ‘revolutionizing an industry’, are unlikely to work.

Innovations had better be capable of being started small, requiring at first little money, few people, and only a small and limited market. Otherwise, there is not enough time to make the adjustments and changes that are almost always needed for an innovation to succeed. Initially innovations rarely are more than ‘almost right’. The necessary changes can be made only if the scale is small and the requirements for people and money fairly modest.

5. But – and this is the final ‘do’ – a successful innovation aims at leadership. It does not aim necessarily at becoming eventually a ‘big business’; in fact, no one can foretell whether a given innovation will end up as a big business or a modest achievement. But if an innovation does not aim at leadership from the beginning, it is unlikely to be innovative enough, and therefore unlikely to be capable of establishing itself. Strategies (to be discussed in Chapters 16 to 19) vary greatly, from those that aim at dominance in an industry or a market to those that aim at finding and occupying a small ‘ecological niche’ in a process or market. But all entrepreneurial strategies, that is, all strategies aimed at exploiting an innovation, must achieve leadership within a given environment. Otherwise they will simply create an opportunity for the competition.

**The Don’ts**

And now the few important ‘don’ts’.

1. The first is simply not to try to be clever. Innovations have to be handled by ordinary human beings, if they are to attain any size and importance at all, by morons or near-morons. Incompetence, after all, is the only thing in abundant and never-failing supply. Anything too clever, whether in design or execution, is almost bound to fail.

2. Don’t diversify, don’t splinter, don’t try to do too many things at once. This is, of course, the corollary to the ‘do: be focused! Innovations that stray from a core are likely to become diffuse. They remain ideas and do not become innovations. The core does not have to be technology or knowledge. In fact, market knowledge supplies a better core of unity in any enterprise, whether business or public-service institution, than knowledge or technology do. But there has to be a core of unity to innovative efforts or they are likely to fly apart. An innovation needs the concentrated energy of a unified effort behind it. It requires that the people who put it into effect understand each other, and this, too, requires a unity, a common core. This, too, is imperiled by diversity and splintering.

3. Finally, don’t try to innovate for the future. Innovate for the present! An innovation may have long-range impact; it may not reach its full maturity until twenty years later. The computer, as we have seen, did not really begin to have any sizeable impact on the way business was being done until the early 1970s, twenty-five years after the first working models were introduced. But from the first day the computer had some specific current applications, whether scientific calculation, making payroll or simulation to train pilots to fly airplanes. It is not good enough to be able to say, ‘In   
  
twenty-five years there will be so many very old people that they will need this. One has to be able to say, ‘There are enough old people around today for this to make a difference to them. Of course time is with us – in twenty-five years there will be many more. But unless there is an immediate application in the present an innovation is like the drawings in Leonardo da Vinci’s notebook – a ‘brilliant idea’. Very few of us have Leonardo’s genius and can expect that our note books alone will assure immortality.

The first innovator who fully understood this third caveat was probably Edison. Every other electrical inventor of the time began to work around 1860 or 1865 on what eventually became the light bulb. Edison waited for ten years until the knowledge became available up to that point; work on the light bulb was ‘of the future’. But when the knowledge became available – when, in other words, a light bulb could become ‘the present’ – Edison organized his tremendous energies and an extraordinarily capable staff and concentrated for a couple of years on that one innovative opportunity.

Innovative opportunities sometimes have long lead times. In pharmaceutical research, ten years of research and development work are by no means uncommon or particularly long. And yet no pharmaceutical company would dream of starting a research project for something which does not, if successful, have immediate application as a drug for health-care needs that already exist.

**Three Conditions**

Finally, there are three conditions. All three are obvious but often go disregarded.

1. Innovation is work. It requires knowledge. It often requires great ingenuity. There are clearly people who are more talented innovators than the rest of us. Also, innovators rarely work in more than one area. For all his tremendous innovative capacity, Edison worked only in the electrical field. And an innovator in financial areas, Citibank in New York, for instance, is unlikely to embark on innovations in retailing or health care. In innovation as in any other there is talent, there is ingenuity, there is predisposition. But when all is said and done, innovation becomes hard, focused, purposeful work making very great demands on diligence, on persistence, and on commitment. If these are lacking, no amount of talent, ingenuity, or knowledge will avail.

2. To succeed, innovators must build on their strengths: Successful innovators look at opportunities over a wide range. But then they asks, ‘Which of these opportunities fit

me, fits this company, put to work what we (or I) are good at and have shown capacity   
for in performance?’ In this respect, of course, innovation is no different from other work. But it may be more important in innovation to build on one’s strengths because of the risks of innovation and the resulting premium on knowledge and performance capacity. And in innovation, as in any other venture, there must also be a temperamental ‘fit’. Businesses do not do well in something they do not really respect. No pharmaceutical company – run as it has to be by scientifically minded people who see themselves as ‘serious’ – has done well in anything so ‘frivolous’ as lipsticks or perfumes. Innovators similarly need to be temperamentally attuned to the innovative opportunity. It must be important to them and make sense to them. Otherwise they will not be willing to put in the persistent, hard, frustrating work that successful innovation always requires.

3. And finally, innovation is an effect in economy and society: A change in the behavior of customers, of teachers, of famers, of eye surgeons – of people in general. Or it is a change in a process – that is, in how people work and produce something. Innovation therefore always has to be close to the market, focused on the market, indeed market-driven.

**Incubation**

Meaning: Incubation means to maintain uniform condition of temperature and humidity to ensure development of entrepreneur. The incubation period designates the time from the creating idea in mind till the development of business. Incubation is the time where the business is not formed and under test or not formed into concrete idea of starting business. Which requires somebody’s help to concretize that idea. In innovation incubators are the one who give concrete shape to the business idea through his help & assistance.

**Incubation / Incubating Centres** (Getting money to fund small business)

Entrepreneurs, like most people, often are not highly skilled at obtaining, managing, and using money. Inadequate capitalization or poor financial management can destroy a business, even when the basic idea behind the business is good and the products are accepted in the marketplace. One of the secrets of finding the money to start your business is knowing where to look for it.

An entrepreneur has several potential sources of capital: personal savings, relatives, former employers, banks, finance companies, venture capitalists, government agencies such as the   
  
  
Small Business Administration (SBA), the Farmers Home Administration, the Economic Development Authority, and more. You may even want to consider borrowing from a potential supplier to your future business. Helping you get started may be in the supplier’s interest if there is a chance you will be a big customer later.

States are becoming stronger supporters of entrepreneurs as they create programs that invest directly in new businesses. Often, state commerce departments serve as clearing houses for such investment programs. States are also creating incubators and technology centers to reduce start-up capital needs. **Incubators** are centers that offer new businesses low-cost offices with basic business services such as accounting, legal advice, and secretarial help. The number of incubators in the United States now exceeds 800.

Technology-minded entrepreneurs often have the best shot at attracting start-up capital. Not only are such potential businesses more attractive to venture capitalists and state governments, but also the federal government has several grant programs that provide funds for computer-related ventures.

Other than personal savings, individual investors are the primary source of capital for most entrepreneurs. Such investors provide 6 of every 10 dollars for firms with fewer than four employees and sales of under $ 150,000 a year. About $ 56 billion in risk capital comes from these “business angels” each year. Computer networks are now available that link entrepreneurs with such potential investors.

1. **Venture Capitalist Centres**

Meaning: Individuals or Companies that invest in new businesses in exchange for partial ownership of those businesses.

Investors known as **venture capitalists** may finance your project – for a price. Venture capitalists may ask for a hefty stake (as much as 60 percent) in your company in exchange for the cash to start your business. If the venture capitalist demands too large a stake, you could lose control of the business. Small companies raised a record $ 10.1 billion in venture capital in 1996. Experts recommend that you talk with at least five investment firms and their clients in order to find the right venture capitalist. You can get a list of venture capitalists from the Small Business Administration. Ask for the

“Directory of Operating Small Business Investment Companies.” You can also follow the ups and downs of venture capital availability in Inc. magazine.

Two good books about finding venture capital are Robert J. Gaston’s Finding Private venture Capital for Your Firm (New York: John Wiley & Sons, 1989) and G. Steven Barrill and Craig T. Norback’s The Arthur Young Guide to Raising Venture capital (Blue Ridge Summit, Pa.: Liberty House, 17294).

2. **The Small Business Administration (SBA)**

The Small Business Administration (SBA) is a valuable source of expertise on starting a new business. The SBA may provide the following types of financial assistance:

* **Direct Loans**: - Loans made directly to selected small-business owners who have difficulty securing conventional loans (e.g., disabled owners, veterans, and other special cases).
* **Guaranteed Loans**: - Loans made by a financial institution that the government will repay if the borrower stops making payments. The maximum individual loan guarantee is capped at $ 750,000.
* **Participation Loans**: - Combination direct and guaranteed loans. The SBA will guarantee part of the loan and will lend the balance directly.
* **Loans from Minority Enterprise Small Business Investment Companies (MESBICs):** - Finance companies that make loans to minority-owned businesses.
* **Loans from the Women’s Financing** **Section**: - Guaranteed loans to qualified women for less than $ 50,000, created by the Women’s Business Ownership Act of 1988.
* **Loans from the Women’s Prequalification Pilot Loan Program**: - Loans to business that are at least 51 percent owned and operated by women; loan size is limited to $ 250,000.

3. **Small Business Investment Companies (SBICs)**

Meaning: Private investment companies licensed by the Small Business Administration to lend money to small businesses.

You may also want to consider requesting funds from **Small business Investment companies (SBICs)**. SBICs are private investment companies licensed by the Small

Business Administration to lend money to small businesses. An SBIC must have a minimum of $ 1 million in capital and can borrow up to four dollars from the SBA for each dollar of capital it has. IT lends to or invests in small businesses that meet its   
  
criteria. Often SBICs are able to keep defaults to a minimum by identifying a business’s trouble spots early; giving entrepreneurs advice; and, in some cases, rescheduling payments.

4. Perhaps the best place for young entrepreneurs to start shopping for an SBA loan is a Small Business Development Center (SBDC). SBDCs are funded jointly by the federal government and individual states and are usually associated with state universities. SBDCs can help you evaluate the feasibility of your idea, develop your business plan, and complete your funding application – all for free.