Business groups constitute one of the most prevalent and intriguing modes of organizing and managing economic activities through inter-firm coordination and cooperation. The extensive empirical literature on this phenomenon is focused primarily on presenting cross-sectional evidence, and much less on analyzing its developmental pattern. This paper provides an in-depth empirical examination of factors determining the evolutionary dynamics of business groups in a well-developed economy. Building on the unique data set, covering 13 years of business groups restructuring activity in Israel, I test the central theories in a literature on organizational boundaries in a dynamic setting. The results show that Israeli business groups' acquisition and divestiture activities, as observed between 1995 and 2008, are explained mostly by "unrelated"/conglomerate diversification motives and the potential for risk reduction. By contrast, I find a much weaker empirical support for classical transaction costs arguments, the resource-based view and the "missing institutions" approaches - broadly credited in cross-sectional studies.